ST.MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES

DETERMINANT ANALYSIS OF CUSTOMERS SWITCHING BEHAVIOUR IN PRIVATE COMMERCIAL BANKING SECTOR OF ETHIOPIA

BY
WORKU FENTA

DECEMBER, 2014
ADDIS ABABA, ETHIOPIA

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ID.No SGS/0280/2005B

A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

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Worku Fenta

Addis Ababa

Ethiopia

Table of Contents

CHAPTER ONE

CHAPTER TWO

CHAPTER THREE

RESEARCH METHODOLOGY

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSIONS

CHAPTER FIVE

APPENDICES

Appendix A: Survey Questionnaire (Amharic Version)

Appendix B: Survey Questionnaire (English Version)

Appendix C: Statistical Results of Factor Analysis

LIST OF TABLES

LIST OF FIGURES

Abstract

The primary objective of this study is to identify the factors that influence customers switching and determine the most important and least important factor that influence customers switching behavior. This study investigates the five factors (Price, Reputation, Service Quality, Effective Advertising Competition, and Availability of ATM) of customer switching which effects retail banking operations in Ethiopia. To conduct the research, both quantitative and qualitative research methodologies are employed, as employing the mixed approach help to converge or confirm finding from different data sources. Due to the nature of the study, multiple regression and correlation analysis techniques applied. Total 345 responses was recorded and show that all considered factors have significant effect on customer switching, however, advertising competition and automated teller machine identified as most important and least important influential factors respectively on customer switching. In this competitive retail commercial private banking market of Ethiopia, customer switching is detrimental for every bank. Banking sector reforms and domestic private banks with vast range of banking products change the banking perspective in Ethiopia. This diversity could make a positive or negative impact on banks customers' loyalty and switching.

CHAPTER ONE

INTRODUCTION

1.1   Background of the Study

A financial system is a network of markets and institutions to bring savers and borrowers together. The financial system transfers savers' funds to borrowers and provides savers with payments for the asset of their funds.

In most countries, financial institutions are part and parcel of economic development. Banks, specifically, plays the dominant role in speeding up the growth process by involving in every aspect of business activities. Banks are an important constitutes of money market, and their demand deposits serve as money in the modern community. Thus they have control over a considerable part of the stock of money; in fact their lending and investing activities cause change in the quantity of money in circulation which in turn influence the nature and character of production in any country. Industrial innovations and business expansions become possible through finance provided by banks. Banks mobilize the dormant capital of the country for productive purposes. Banks are profit-seeking institutions that must provide acceptable returns to shareholders (Agyapong & Darfor, 2011).

Customers are the heart of every successful business and therefore businesses need to more concentrate on customers more than ever. Except those who donate blood voluntarily, one is either selling a service or a product for a living. Politicians, bankers, clerks, messengers, bus conductors, mortuary attendant, ticket agents, market women and everyone who provides a trade or service has a customer. According to Scott (2002), Customer service is a series of activities designed to enhance the level of customer satisfaction, that is, the feeling that a product or service has met the customer expectation. The level of satisfaction can also vary depending on other options the customer may have and other products against which the customer can compare the organization's products.

The increasing competition in the national and international banking markets, and the new technological innovations herald major changes in banking environment, and challenge all banks to make timely preparations in order to enter into new competitive financial environment and maintain their loyal customers.

The termination of a relationship with a specific service provider by the customer and beginning a relationship with another service provider is a phenomenon known as 'customer switching behavior' (Malallah, 2011). According to Zhang (2009) finding; Price, Reputation, Service Quality, Effective Advertising, Involuntary Switching, Distance and Switching Costs have an impact on customers' bank switching behavior. Among the numerous reasons identified, factors influencing customer switching behaviors are: service quality, product quality, prices, reputation, convenience, effective advertising competition, involuntary switching and switching costs (Malallah, 2011).

Several researchers have investigated the reasons why customers switch service providers for example; Zhang (2009) indicates that price, service failures, and denied services are the most important factors that influence customers to switch banks in Chinese retail banking industry.

On the other hand, Pull forces draw the customers towards the bank. For example, effective bank media, public relations and promotional campaigns pull customers towards them. Likewise, effective bank customer service, a market oriented culture, product innovation programs and strong relational bonds or ties pull the customer towards them through enhanced customer satisfaction and customer loyalty.

The reverse is also true that push forces such as, poor customer services or better competitive offers push customers away from their existing bank (Gray, 2011). To date, there have been little published studies on the push and pull factors dictating customers' switching behavior especially in Private Commercial Banks Of Ethiopia.

Banks, insurance companies and microfinance institutions are the main financial institutions operating in the Ethiopian formal financial system. Given the fact that customers have many options to choose from, it is important for service providers to not only attract customers but also to retain them. It is true that companies can replace 'lost' customers with a new set of customers but the costs of acquisition are much higher than the cost of retention. Doing business with existing customers results in a lot of savings for a company. The companies can save on costs of advertising which they would otherwise have to spend to attract new customers; they can save on cost of setting up accounts for the newly acquired customers; they can save on costs of getting the new customers acquainted with the procedures of the company; they can also save on costs of inefficient dealings that may occur initially until the new customer fully learns the procedures of the company (Mittal and Lassar, 1998). Besides these savings, those customers who remain loyal to a company generate profits at an increasing rate each year they stay with a company as they usually spend more, would be willing to pay higher prices, would refer new clients and would be less costly for the companies to do business with (Reichheld and Sasser, 1990). When continuing customers stop purchasing from a company, they take along with them that very crucial profit generating potential of the company.

Modern banking in Ethiopia was introduced in 1905. The number of banks that are operating in the country reached 19 on 2014 fiscal year, of which 16 are privately owned and 3 of them are government owned. From these 19 banks 18 of them are commercial banks. Ethiopian banks that have been operating in 2014 fiscal year in the order of their establishment year are: Development Bank of Ethiopia (the only non commercial bank),

Commercial Bank of Ethiopia, Construction and Business Bank, Awash International Bank, Dashen Bank, Bank of Abyssinia, Wegagen Bank, United Bank, Nib International Bank, Cooperative Bank of Oromia, Lion International Bank, Zemen Bank, Oromia International Bank, Bunna International Bank, Berhan International Bank, Abay Bank, Addis International Bank, Debub Global Bank and Enat Bank. Banks operating in Ethiopia is consequently put into lot of pressures due towards increase in competition. Various strategies are formulated to retain the customer and the key of it is to increase the service quality level.

Even though there is a huge and incessantly expanding potential market for banking service in Ethiopia, the expansion in size of commercial and private banks has resulted in fierce competition in the industry. To establish and ensure long term share in the financial market and success in the banking sector, a full understanding of customers' switching behavior and customer satisfaction is crucial. Hence the purpose of this study is to identify and analyze the push and pull factors dictating customers' switching behavior in private commercial banks of Addis Ababa.

United Bank was incorporated as a Share Company on 10 September 1998 in accordance with the Commercial Code of Ethiopia of 1960 and the Licensing and Supervision of Banking Business Proclamation No. 84/1994.

The Bank obtained a banking services license from the National Bank of Ethiopia and is registered with the Trade, Industry and Tourism Bureau of the Addis Ababa City Administration. Over the years united Bank built itself into a progressive and modern banking institution, endowed with a strong financial structure and strong management, as well as a large and ever-increasing customers and correspondent base.

At the end of June 2013, United Bank reported a net profit with earning per share of 47.7%. Today, United Bank is a full service Bank that offers its customers a wide range of commercial banking services with a network of 84 branches, and a number of additional outlets on the pipeline.

United Bank's priority in the coming years is to strengthen its capital base, maximizing its return on equity and benefiting from the latest technology in order to keep abreast with the latest developments in the local and international financial services industry.

Oromia International Bank S.C. (OIB) was established in accordance with the pertinent laws, regulations and the 1960 Commercial Code of Ethiopia, by the Monetary and Banking Proclamation No. 83/1994 and by the Licensing and Supervision of Banking Proclamation No. 592/2008. Accordingly, on September 18, 2008, OIB obtained a banking business license. At the time of its establishment, OIB's authorized capital was Birr 1.5 billion, whereas its subscribed capital was Birr 279.2 million, and its paid-up capital Birr 91.2 million. Oromya international bank sc began operation on October 25, 2008 by opening its first branch at the Dembel City Center. More specifically, its branch was named Bole Branch.

Oromya international bank sc is undertaking a universal commercial banking service such as deposit mobilization, lending of money, remittance service, and international banking services and interest free banking. Preparations are already underway to start Internet and mobile banking services. The bank currently has 86 branches and purchased a 13 storey building in Addis Ababa at Bole area near the Getu Commercial Center. It has also exceeded the new directive passed by NBE requiring a minimum capital of 500 million birr.

Bunna International Bank S.C. has joined the Banking industry of Ethiopia following the favorable economic developments witnessed in the country during the last decade and the incessantly growing needs for Financial Services.

The Bank has obtained its license from the National Bank of Ethiopia (NBE) on June 25, 2009 in accordance with Licensing & Supervision of Banking Business Proclamation No. 592/2008 and the 1960's Commercial Code of Ethiopia.

The Bank officially commenced its operation on October 10, 2009 with subscribed & paid up capital of Birr 308 million and Birr 156 million, respectively. Moreover, the Bank has more than 11,200 shareholders, which makes it one of the strong and public based private Banks in Ethiopia.

1.2 STATEMENT OF THE PROBLEM

Retaining customers and building customer relationship is one main focus areas and has been shown to be crucial in marketing strategy. Scholars have shown that attracting more customers is not the only issue rather retaining them for longer period of time is more important. Gronroos (1990) suggests that customer retention leads to reduced sales and marketing costs compared to selling to new customers, and customer relationship has also been shown to be significantly associated with a firm's long term profitability (Reichheld, 1996). Specially, in industries where there is stiff competition and where there is a very high volatility in the switching behavior of the customers, identifying, examining and predicting the detrimental factors and the magnitude of the switching behavior of customers a multifold importance.

One of the industries that are characterized by these factors is the banking industry. With the intense competition and increasing globalization in the financial markets, bank management must develop customer-oriented strategies in order to compete successfully in the competitive banking environment. The longer a bank can retain a customer, the greater revenue and cost savings from that customer. However, customers are also more prone to changing their banking behavior when they can purchase nearly identical financial products provided by the commercial banks. In order to stay competitive, bank managers need to understand the factors that influence and determine consumer's bank switching behavior.

Increasing customer switching behavior has negative effects on the profitability and market share as the costs increases and the revenue decreases. Customer satisfaction is the base on which the bank build its success through decreasing its costs and increasing profits and market share.

Nowadays customers move from one bank to another in search for something that satisfies their needs and young banks snatch customers from existing banks and get many customers switch from old banks. Several researchers have investigated the reasons why customers switch service provider's example, Zhang (2009) and (Jones and Sasser, 1995) within the context of their own country customer behaviors.

The Ethiopian banking industry in its recent history has witnessed competition. The industry is also more prone to customers switching from one bank to another. Increasing customer switching behavior has negative effects on the profitability and market share as the costs increases and the revenue decreases in banks. Customer satisfaction is the base on which the bank build its success through decreasing its costs and increasing profits and market share.

Due to the growing globalization and fast growing ICT environment, sooner or later, the opening up of the local financial market for potentially new entrants will be formidable and unavoidable. Hence, the existing local banks are likely to face fierce competition. Identifying the factors of customers' switching behavior of the current banks in the industry thus gives important indications and valuable inputs for stakeholders in ensuring security, profitability, and future plans and prospects.

In this respect, to the best of the researcher's knowledge, despite its importance, no previous empirical research work is found that considers, explore and examine factors of customers' switching behavior in the banking industry of Ethiopia. However, few related studies have been undertaken that affect customers loyalty in the Ethiopian banking industry.

Among these studies include Goitom (2011) who examined factors influencing the choice of banking service in Ethiopia and Mesay (2012) has attempted to analyze bank service quality, customer satisfaction and loyalty in Ethiopian banking sector. Both empirical studies had reviewed customer loyalty considering different variables which is quite different from the researcher's intention in analyzing the problem statement. Therefore, this study has examinend the potential determinants and assesses the strength of influence of customer switching behavior in the banking industry in the country.

The study is expected to fill the gap in literature and contributes to the bankers and other stakeholders in the industry in designing and implementing appropriate strategies that benefit bank customers, banks, the regulatory bodies and the country at large. The result of the study is expected to serve as a road map and provide an insight by which the stakeholders can base their decisions in improving the sustainability of the banking industry in Ethiopia.

1.3 RESEARCH QUESTIONS

➢ What are the pull factors that influence customers' switching behavior in some selected private commercial banks of Addis Ababa?

➢ What are the push factors that influence customers' switching behavior in some selected commercial banks of Addis Ababa?

➢ How the strength of push and pull factors affect bank customer switching behavior? Which pull or push factor has significantly affect customers to switch away from private banks.

1.4 OBJECTIVES OF THE STUDY

The overall objective of the study is to investigate the determinant factors of customer's switching behavior in selected private banking sector of Ethiopia.

Specific Objectives:

1. To identify the pull factors that influence customers' switching behavior in private commercial banks of Addis Ababa.

2. To identify the push factors that influence customers' switching behavior in private commercial banks of Addis Ababa.

3. To identify the most and least important factors that affect customers to switch away from private banks.

1.5 HYPOTHESES

This research has drawn the following 5 hypotheses:

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

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

H3: There is a positive relationship between bad service quality and customers' switching behavior.

H4: There is a negative relationship between ineffective advertising competition and customers' switching behavior.

H5: There is negative relationship between availability of ATM service and customers switching behavior.

1.6 SIGNIFICANCE OF THE STUDY

The increased competition of retail banking coupled with increasing customers demand, has prompted Ethiopian banks to recognize that the key to sustained profitability and growth is to build long-term relationship with customers and to reduce the risk of customers switching to competing banks. This study is expected to have some importance in that:

- Playing its role to bring to the attention of private commercial bank of Ethiopia what are the pulls and push factors dictating customers' switching behavior. Having a thorough understanding of the factors which influence a customer's decision to switch can help avoid the harmful consequences of switching behavior and will enable them to consider those factors.

- It is important to management bodies of commercial banks to take corrective action if necessary to be competent in the industry and retain their customers. It also serves as an input in crafting their strategic plan. The effect of various factors on switching help banks to understand how much of the switching are due to factors within the bank's influence and to what extent banks must invest in service initiatives to improve customer retention rates.

- It gives a way for future researchers to make further investigation in the area.

1.7   SCOPE OF THE STUDY

The study conducted on customers' of three selected private commercial banks operating in Addis Ababa, Ethiopia namely United Bank, Oromiya International Bank and Bunna International Bank. The scope of the study limited to the city branches of these selected private commercial banks. Banks are selected based on stratified sampling method using National Bank of Ethiopia asset classification guide line.

Due to time and financial constraints the study excludes fifteen commercial banks of which two are state owned and the remaining thirteen are private owned commercial banks. The research also excludes outlying branches of the study banks namely Oromia, United and Bunna International bank and the study mainly focus on checking account holders of banks under study. Although this study provides contributions from both a theoretical and practical perspective, there are a few limitations.

1.8 LIMITATION OF THE STUDY

First, this research conducted in Addis Ababa, people's belief and attitudes can be significantly different across different sub cities. Furthermore, the sample respondents were limited to customers in the selected three private commercial banks who were willing to be surveyed. Therefore, a more extended geographic sample may reveal differences in customers' attitudes towards bank switching behavior, which would also have managerial implications.

Secondly, this study empirically examined five factors that may influence customers' switching bank behavior. However, there may be some other factors that can have an impact on customers' switching behavior but the researcher not examined in this study. Further empirical research is required to examine the other factors that can impact or influence customers' switching decisions.

1.9 ORGANIZATION OF THE STUDY

The paper is organized in five chapters. The first chapter contains brief introduction and background of the study subject, statement of the problem, research questions, objective of the study, and significance of the study, limitation and scope of the study. The second chapter briefly presents literature review. The third chapter contains research methodology and forth chapter contains data presentation, analysis and findings of the study. And finally, the fifth chapters incorporate conclusions and recommendations of the finding.

CHAPTER TWO

LITERATURE REVIEW

2.1 Switching Behavior and its Effect

Customer behavior is the process individuals or groups go through to select, purchase, use and dispose of goods, services, ideas or experiences to satisfy their needs and desires (Sells, n.d.). Consumer behavior is not only influenced by external factors, but also by their attitudes and expectations. These attitudes and expectations are constantly changing in response to a continuous flow of events, information and personal experiences (Peer, 2009).

Customer switching refers to a customer's decision to stop purchasing certain products or services from a company or to stop purchasing or shopping from the company completely (Bolton and Bronkhurst, 1995; Boote, 1998). Customer switching or churn is the opposite of customer loyalty and is also referred to as customer defection or customer exit (Hirschman, 1970; Stewart, 1994). Switching may be complete or partial, depending on whether the customer's decision results in total loss of the customer's business for the company or the loss of any portion of the customer's business. When customers transfer all their businesses to another firm or close their accounts with a firm, it results in total switching. Partial switching happens when a customer shifts some part of his purchase to another firm (Roos, Edvardsson and Gustafsson, 2004). Switching, whether total or partial, results in a reduction in the customer base of a bank.

Switching behavior define is defection or customer exit (Stewart, 1994). According to Boote (1998); Bolton and Bronkhurst (1995) switching behavior imitates the decision that a customer makes to stop purchasing/ business with a particular service or patronizing the service firm completely.

According to Garland (2002), from the context of banking industry, customers switching behavior means that customers shift from one bank to another or customer choose other bank to take its services. Levesque and McDougall (1996) conclude that service problems and the bank s service recovery ability have a major impact on customer satisfaction and intentions to switch. Reichheld (1996) finds that customers switching behavior reduces firms earnings and profits. Old customers generally generate more business than new ones. According to Matthews and Murray (2007), long term relationship with customers can minimize the negative effects of defection.

Most early researches into switching focused on a few variables like service quality, satisfaction, service encounters, alternative attractiveness and social influences as antecedents of service switching (Bitner, 1990; Mittal and Lassar, 1998). The earliest efforts to build a generalzable model of customer switching behavior in the service industry were undertaken by Susan Keaveney (1995). The study covered forty five different services and the researcher categorized the various problems identified into eight factors, of which six related to service problems and the remaining two to non-service problems.

The decision to switch a service provider is most often not a clear cut and planned decision made by a customer as a consequence of a single critical incident. On the other hand, combinations of causal factors which customers encounter during multiple critical incidents interact over time to cause customer switching (Keaveney, 1995; Rust and Zahorik, 1996). Identifying and classifying the causal factors that influence a customer's final decision to switch is an important step in understanding the process of customer switching, although it will not completely explain the process of switching.

There have been many studies conducted in the various service sectors. The type of bond that exists between the service provider and the customer is different in different service sectors and so the effect of various factors on customer switching need not be the same. Retail banking is an industry where contractual and relational bonds exist between a customer and the retail bank and the existence of these bonds make the process of switching difficult and complex (Rust and Zahorik, 1996). Stewart (1998) identified bank charges and their implementation, bank facilities and their availability, information availability and confidentiality and treatment of customers by the bank as four switching incidents in the banking context. Levesque and McDougall (1996) identified is takes on account, employee willingness to help and location of the bank as important factors that influence customers to switch from a bank.

Ennew and Binks (1996) studied the impact of service quality and service characteristics on customer retention in small business and their banks in the UK. Colgate and Hedge (2001) studied the retail bank switching behavior of customers in Australia and New Zealand and identified pricing, service failures, and denied services as the major factors that influence bank switching behavior. Service failures, which were the second most influential factor in switching according to the study, comprised of service encounter failures, core service failures and inconvenience issues.

Customer switching is defined as an act of being loyal to one service categories (e.g. banking services), but switch from one service provider to another as a result of dissatisfaction or any other related problems (Keaveney & Parthasarathy, 2001; Sathish, Kumar, Naveen & Jeevanantham, 2011).

Previous studies have examined various antecedents of customer switching including pricing (Antón, Camarero & Carrero, 2007; Gerrard & Cunningham, 2004), switching cost (Maiyaki & Mokhtar, 2011), customer satisfaction (Moutinho & Smith, 2000) and ethical problems (Keaveney, 1995), among others. However, despite the large number of studies that examined various antecedents of customer switching, yet, few studies examined these antecedents in banking industry, especially among the customers of deposit money banks.

2.2 Switching Factors

2.2.1 Price and its Importance

Price is an attribute that must be given up or sacrificed to obtain certain kinds of products or services (Zeithaml, 1998). In this inflationary period people of Pakistan are quite sensitive for price as Khan and Amine (2004) stated that low-price and very low-margin strategy represents a key opportunity for bankers of Pakistan. In the financial service industry, price has wider implications than in other services industries because money is matter in money issues (Gerrard and Cunningham, 2004). Customer satisfaction is recognized as being highly associated with product price (Mavri and Ioannou, 2008). Several studies show that price has an important impact on customers switching decisions (Stewart, 1998) these loyalty behaviors include an increase in a decrease in price sensitivity (Neira et al., 2010). In Keaveny's research (1995), the "pricing" factor included all critical switching behaviors' that involved prices, rates, fees, charges, surcharges, service charges, penalties, price deals, coupons, and/or price promotions. Since price has a wider implication to bank customers, Gerrard & Cunningham (2004) show that pricing seems to influence switching behavior among bank customers more than customers of other services.

The loyalty-switching transition can be affected by changing price perceptions (Varki & Colgate, 2001). Keaveney (1995) finds that approximately thirty percent of the customers surveyed had switched firms due in part to poor service price perceptions.

According to Martins & Monroe (1994), customers tend to focus on the fairness of price, especially on price increases. Any price increases that are perceived as unfair by customers may result in switching actions (Camplbell, 1999). In general, it can be concluded that unfavorable price perceptions can affect customers' intention to switch (Campbell, 1999).

In the banking industry, Gerrard & Cunningham (2004) suggest that price plays a more influential role in influencing customers' switching behaviour compared with service failures and inconvenience. The authors reveal that imposing higher charges on customers, or increasing fees, can have opposite effects, such as encouraging outward switching and discouraging inward switching. In addition, Dawes (2004) shows that there is a positive relationship between price increases and defection rates in the banking industry.

In the financial services industry, price has a wider implication than in several other service industries (Clemes, Gan and Zhang, 2010). Customers consider price while they make a purchase (Levesque and McDougall, 1996). The pricing factor includes all fees which are implemented, any charges that are involved and the interest rates charged and paid. Customers look at the fairness of price and any perception of unfavourable price can influence customers to switch banks (Campbell, 1999). Colgate and Hedge (2001) identified price as the most important factor that influenced bank customers to switch in Australia and New Zealand. In Keaveney's study (1995), the pricing factor included prices, rates, fees, charges, surcharges, service charges, penalties, price deals, coupons and/or price promotions.

Customers in general are price conscious in their purchasing behavior (Beckett et al. 2000; Levesque & McDougall, 1996a). Price is an important factor in choice situations as a consumer's choices typically relies heavily on the price of alternatives (Engel, Blackwell & Miniard, 1995).

Similarly, Varki & Colgate (2001) identify that the role of price, as an attribute of performance, can have a direct effect on customer satisfaction and behavioral intentions. Several studies show that price has an important impact on customers' switching decisions (Stewart, 1998; Colgate et al., 1996; Keaveny, 1995).

 Almossawi (2001) empirically identifies price as a critical factor in bank selection for college students. Since price has a wider implication to bank customers, Gerrard & Cunningham (2004) show that pricing seems to influence switching behaviour among bank customers more than customers of other services. In Colgate & Hedge's (2001) study of bank customers' switching behaviour in Australia and New Zealand, the authors identify price as the top switching determinant, followed by service failures and denial of services. Similar results are found in Javalgi, Armaco & Hoseini's (1989) study investigating the factors influencing customers' bank selection decisions in the United States.

2.2.2 Reputation and its Importance

 Reputation has been described as a social identity, and an important and intangible resource that can significantly contribute to a firm's performance and its survival (Rao, 1994). Reputation is a key asset to firms as it is valuable, distinctive, difficult to duplicate, non-substitutable, and provides the firm with a sustainable competitive advantage (Wang et al., 2003).   Reputation is identified as key ingredient to retain customers in the services sector. According to Muffato and Panizzolo (1995), the reputation plays a key part in measuring customer satisfaction. Product quality and services produce benefits not only by lowering costs, but also by increasing competitiveness through the establishment of a good reputation and the attraction and retention of customers (Wang et al., 2003). Bloemer et. al. (1998) study results reveal that image is indirectly related to bank loyalty via perceived quality.

Reputation has been described as a social identity, and an important and intangible resource that can significantly contribute to a firm's performance and its survival (Rao, 1994; Hall, 1993; Formbrun & Shanley, 1990). Rust, Zeithaml & Lemon (2001) and Aaker (1996) define reputation as brand equity or customer equity, and combine it with the credibility and faithfulness of the firm. Reputation is a key asset to firms as it is valuable, distinctive, difficult to duplicate, non-substitutable, and provides the firm with a sustainable competitive advantage (Wang et al., 2003; Hall, 1993). Furthermore, Gerrard & Cunningham (2004) identify bank reputation as one of the factors that cause customers to switch banks in the Asian market and refer to reputation as the integrity of a bank and the bank's perceived financial stability.

Intensive competition offers customers greater varieties and choices in the market. Thus, reputation is identified by firms in the services sector as an essential part of their competitive strategies. The intangible characteristic of reputation forces researchers to analysis reputation with other elements. For example, reputation has been analyzed by economists relating to product quality and price (Shapiro, 1983). Product quality and services produce benefits not only by lowering costs, but also by increasing competitiveness through the establishment of a good reputation and the attraction and retention of customers (Wang et al., 2003).

In addition, reputation can enhance customer loyalty, especially in the retail banking industry where quality cannot be evaluated accurately before purchase (Nguyen & Leblanc, 2001; Andreassen & Lindestad, 1998; Barich & Kotler, 1991) Nguyen & Leblanc (2001) conclude that reputation may be regarded as a critical strategic tool to predict the outcome of the service-production process, and as the most reliable indicator of the ability of a service firm to satisfy a customer's desires.

Barr (2009) states that a bank's reputation has a strong effect on customer choice after investigating 7,500 customers in 25 national and regional banks in the United States. Barr's (2009) results show thirty percent of customer deliberately excluded a bank if the bank had perceived financial instability or practiced questionable ethics. Weigelt &

Camerer, (1988), note that a positive reputation is a strategic tool that can be used by banks to earn additional profits. A positive reputation can provide a halo effect for the firm as it positively influences customer evaluations, increases future profits, acts as a barrier to imitation, links to intention to purchases a service, and strengthens the competitive capability of firms (Anderson et al., 1994; Yoon, Guffey & Kijewski, 1993; Barney, 1991; Formbrun & Shanley, 1990).

2.2.3 Service Quality and its Importance

Intangibility is the main characteristic of Service. It cannot transfer and store. Services are typically produced in the presence of the customer, and customers often participate in the production process (Tornow and Wiley 1991). Service is largely intangible and is normally experienced simultaneously with the occurrence of production and consumption, and it is the interaction between the buyer and the seller that renders the service to customers (Gronroos, 1988). Service organizations generate value through the delivery of an intangible, and intangible services are difficult to describe to new customers. It is like-wise difficult for customers to express precisely what they expect from the service. Because there is no agreed objective standard about the service to be delivered, the only criteria available to evaluate service quality are subjective comparisons of customers' expectations to their perception of the actual service delivered (Zeithaml et al. 1990). It has been reported that more than 70% of the defection of customers in the financial services sector is due to dissatisfaction with the quality of services delivered (Bowen and Hedges 1993).

Today s customer is quite typical when he or she on receiving end According to Oliva and Sterman (2001), customers do not evaluate service quality solely in terms of the outcome of the interaction; they also consider the process of service delivery and in the absence of accurate assessments of service quality and customer satisfaction.

To judge service quality SERVQUAL scale used widely by researchers in academic and applied research settings. SERVQUAL scale have five components, according to Zhang (2009), *tangibles* are physical facilities and amenities, equipment, and appearance of staff/ personnel, *reliability* is the ability to perform the promised service dependably and accurately, r*esponsiveness* is the willingness to help customers and promote service, *assurance* is knowledge and courtesy of employees and their ability to inspire trust and confidence, and *empathy* is caring such as individualized attention which the employees provide for its customers. It depends on researcher and research requirement that what service aspects are going to be tested. Ennew and Bink (1996) study bank customers in the United Kingdom and develop three banking service quality dimensions in SERVEQUAL scale. Avkiran (1994) examines service quality in the Australia retail banking industry and identifies four dimensions containing 17 items based on the SERVQUAL model.

The five SERVQUAL dimensions that identified by Parasurman et al. (1985, 1988, 1991) have been widely used in assessing banking service quality. For example, Levesque & McDougall (1996) select a series of service quality items based on SERVQUAL measurement in order to find the determinants of customer satisfaction from the bank customer's perspective. Avkiran (1994) examines service quality in the Australia retail banking industry and identifies four dimensions containing 17 items based on the SERVQUAL model. The four dimensions are: staff conduct, credibility, communication, and access to teller services. Based on Gronroos (1984a) service quality framework, Aldlaigan & Buttle (2002) propose four dimensions to measure customer service quality perceptions in the retail banking industry.

These dimensions are: service system quality, behavioural service quality, service transactional accuracy, and machine service quality. Ennew and Bink (1996) study bank customers in the United Kingdom and develop three banking service quality dimensions. These are knowledge, advice offered, personalisation in the service delivery, and general product characteristics.

With the popularity of internet banking services, Jun & Cai (2001) summarise internet banking service quality from three perspectives: banking service product quality, customer service quality, and online systems quality. Product variety and the diverse features of the service products are categorised into bank service product quality. Customer service quality focuses on the difference between customers' expectations of banks' performance and their evaluation of the services they perceived. Online system quality relates to the quality that the customer perceived when they use the internet. Jun & Cai (2001) develop seventeen service quality dimensions base on these perspectives.

2.2.4 Advertising and Importance of Effective Advertising Competition

This is the era of advertising, human, sports equipment even install machines in plant working as the advertising channel for firms. Any paid form non personal presentation and promotion of ideas, goods or services by an identified sponsor" (Kotler and Armstrong, 2003). According to Cengiz et. al, (2007), advertising are actions undertaken to enhance the image of a service or increase sales of firm or business, and the main purpose of advertising is to inform the potential customer of the characteristics of products or services. Firm can struggle alone because of lack or ineffectiveness of advertising. Becker and Murphy (1993) developed the model and treated advertising as a complementary good, and proved that consumers may simply derive more utility from consuming a more advertised good. Jamal and Naser (2002) pointed out that, a satisfied customer is expected to be more likely to form future purchase intention, engage in positive word of mouth advertising.

Davies (1996) states that advertising make strengthen the communication between organizations and customers, it reduces consumers' perceived risks. Cengiz et al. (2007) study on banks customers' behavior of Turkey and find that efficient advertising could enhance and increase the bank s customer loyalty and help in retaining customers.

Electronic banking is the newest delivery channel in many developed countries and there is a wide agreement that the new channel will have a significant impact on the bank market (Daniel, 1999; Jayawardhena and Foley, 2000). According to Nehmzow (1997) Internet banking offers the traditional players in the financial services sector the opportunity to add a low cost distribution channel to their numerous different services. He continues that Internet banking also creates a threat to traditional banks' market share, because it neutralizes so many of their competitive advantages in having a traditional branch bank network. In an era of mature and intense competitive pressures, effective advertising can broaden the communication channel between customers and institutions which enhances the chance of success. According to Cengiz, Ayyildiz & Er (2007), advertising 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.

Dunn (1995) states that adverting plays an important role in attracting customer's to the business in the beginning stage, and maintaining customer traffic levels during slow periods. Rust & Zahorik (1996) show similar results where advertising can improve utilization during slow periods as it may offer opportunities to educate customers about businesses' service characteristics and operation process which can increase productivity from existing technical capacity. Davies (1996) explains that advertising can strength the communication between organizations and customers, and effectively reduces consumers' perceived risks. Furthermore, advertising can affect customers' behavior because it can provide information to guide customers' purchasing decisions.

According to Hite & Faster (1988), professional services advertising including bank advertising can change customers' attitudes and perceptions toward the service provided. Similarly, Cengiz et al. (2007) study bank customer behavior in Turkey and find that efficient advertising could enhance a bank's customer loyalty and help retain customers. However, Blanchard & Galloway (1994) argue that advertising could produce a sterile image.

Advertising may reinforce similarity of financial service providers rather than the differences (Balmer & Stotvig, 1997; Blanchard & Galloway, 1994). Effective advertising competition may stimulate switching because bank customers have been informed about more opportunities for their purchasing choices (Balmer & Stotvig, 1997).

2.2.5 Automated Teller Machine (ATM) and its importance

Service quality is determined by the difference between service providers and customer's expectation about the performance and evaluation of service received by customers (Parasuraman, Zeithaml and Berry, 1985; Parasuraman et al., 1988). Electronic service quality is a key determinant in differentiating service offers and building competitive advantage because the cost of comparing alternatives are relatively low in online environments (Santos, 2003; Bauer et al., 2005). Service quality was a multidimensional variable. It has 22attributes (Parasuraman, Zeithaml and Berry, 1985; Parasuraman et al., 1988). The seven dimensions of ATM service quality were used in the study Narteh (2013).

Automated service quality is defined as the customer's overall evaluation of the excellence of the provision of services through electronic networks such as the internet, Automated Teller Machine (ATM), and telephone banking (Santos, 2003).

ATM as an electronic device which help customers to deposit, withdraw, transfer money, pay bills and perform other financial transactions outside the branch. From the prior, it is argued that ATM is the electronic versions of the brick-and-mortar banking halls and customers visit the ATM to perform financial transactions.

The ability of the ATM to perform these functions to the satisfaction of customers will measure ATM service quality. Electronic banking service quality have followed the view that customers use electronic banking channels in a complementary way and therefore, their service quality dimensions were jointly determined in a single study (Joseph and Stone, 2003; Al-Hawari and Ward, 2006) Mols (2000) argued that customer acceptance of the new automated channels of service delivery in banks may bring a dramatic change in the way that retail banks build and maintain a close relationship with their customers.

2.3 Conceptual Framework

Five factors taking into consideration to analyze their individual effect on customers switching in banking industry of private commercial banking in Ethiopia, which were examined in Zhang (2009) study. Factors examined from most significant to least significant the research give brief detail about the factors that influence customers switching behavior and most important and least important factor that could have been influence customers switching behavior in the retail banking industry of Ethiopia

Conceptual Framework

Unfavorable
Price (+)

Unfavorable
Reputation
(+)

Bad Service
Quality (+)

Switching Behavior

Effective
Advertising
Competition
(-)

Dependant variable

Binary Variable

1=Switch bank
0= Did not switch bank

Availability
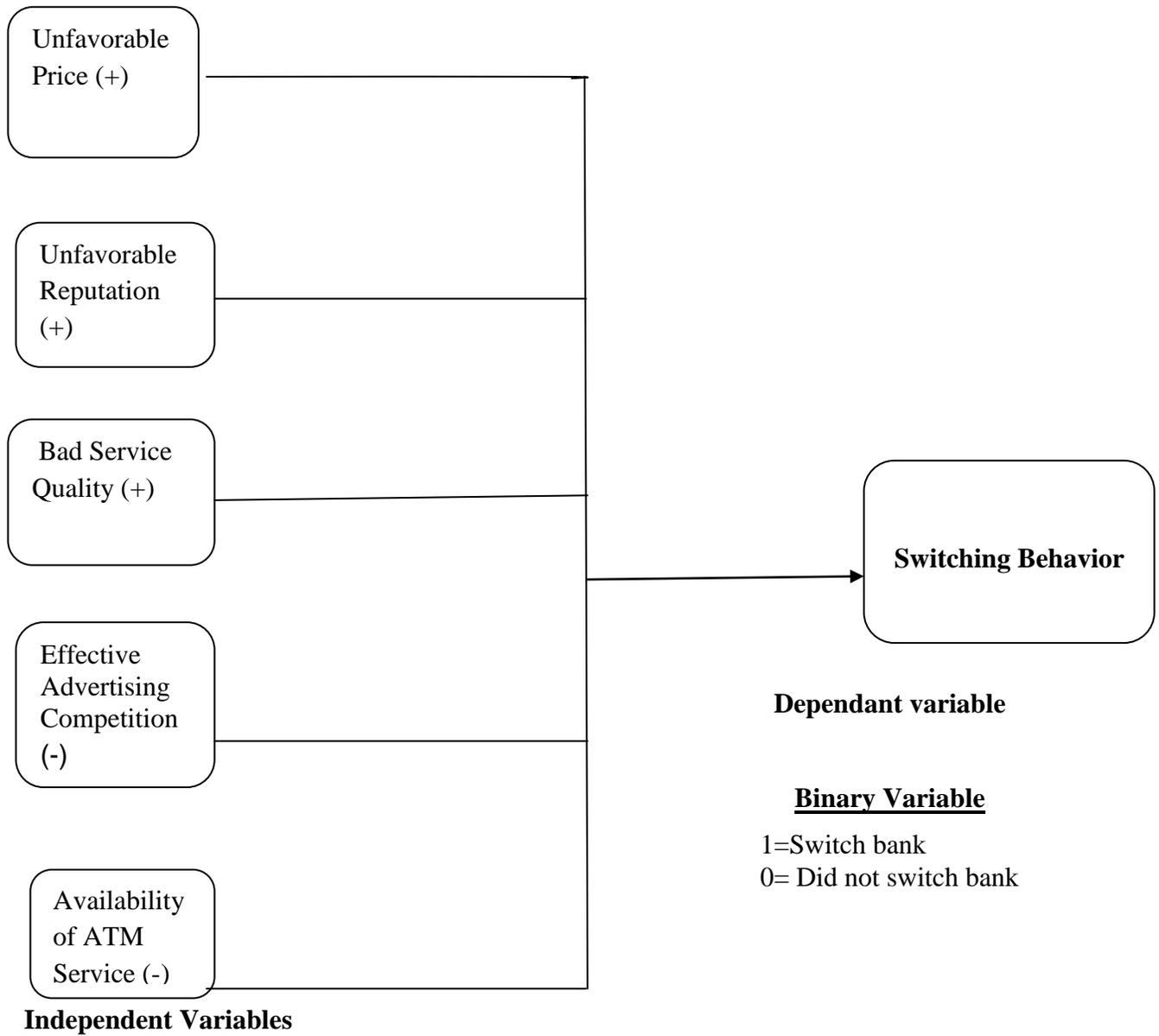of ATM
Service (-)

Independent Variables

Figure. 1

CHAPTER THREE
RESEARCH METHODOLOGY

3.1. Research Design

The primary objective of this study is to identify the factors that influence customers switching behavior and determine the most important and least important factors that influence customers switching behavior in some selected Ethiopian private commercial banks. To conduct the research, both quantitative and qualitative research methodologies are employed, as employing the mixed approach help to converge or confirm finding from different data sources. Due to the nature of the study, binary regression and correlation analysis techniques was applied. The collected data is analyzed using descriptive statistics analysis methods such as graphs, tables and ratios.

3.2. Sample size and Sampling Technique

There are eighteen commercial banks in Ethiopia of which two are government owned and remaining sixteen are private owned. The Population of the study was customers of three different commercial private banks operating in Addis Ababa. Stratified sampling technique is used to select subgroups within the population and useful in such researches because it insures the presence of the key subgroups within the sample as it is appropriate to subdivide members of the population in to homogeneous sub groups. The researcher used the total asset of selected banks for classification. According to the NBE, banks are classified as large, mid-size and small for assets of: greater than Birr 9 billion, between Birr 3 billion and Birr 9 billion and less than Birr 3 billion respectively.

The classification of National Bank of Ethiopia for the period 2012/13 as per the aforementioned trait is tabulated   below:

Table. 1 National Bank of Ethiopia Banks Asset Classification

Total Asset	Private Commercial banks	Classification
Greater than Birr 9 Billion	• Abyssinia Bank • Awash International Bank S.C • Dashen Bank • Nib International Bank S.C • United Bank S.C • Wegagen Bank sc	Large_ Size
Between Birr 3 billion and 9 billion	• Cooperative Bank of Oromiya • Oromiya International Bank • Zemen Bank	Medium _Size
Less than Birr 3 billion	• Abay Bank • Addis International Bank • Berhan International Bank S.C • Bunna International Bank S.C • Debub Global Bank S.C • Enat Bank • Lion International Bank S.C	Small_ Size

Source: National Bank Ethiopia, Asset classification guide line

Simple random method applied within each stratum which offers equal chance of selection and subjects are randomized, it is the best way to ensure that the research unbiased. Using stratified simple random technique, the researcher selected three private commercial banks namely United Bank S.C (UB), Oromiya International Bank S.C (OIB) and Bunna International Bank S.C (BIB), i.e. one from each classification.

The total number of branches of the selected banks, the entire population in this case, is 79 in Addis Ababa as of June 30/2013, of which United Bank has 43 branches, Oromiya International Bank has 22 branches and the remaining 14 branches are accounted for Bunna International Bank SC. The researcher has applied a 10% Absolute sample size sample frame to a population as it is often used by many researchers using this statistical tool as indicated by Sue Green (2002) in his book of business research methods page 51. Hence, eight branches are supposed to represent the entire population.

Branches from each bank are selected proportionately with respect to their branch distribution at Addis Ababa. Accordingly four branches selected from United Bank and two branches also selected from each of Oromyia International Bank and Bunna International Bank SC. Branch areas of each bank was selected on lottery sampling methods where such methods are popular and simplest method with homogenous population and found reliable for the researcher as branches selected from the population without any restriction. Sample branches drawn from: United Bank include, Mesalemia, Misrak, Arada and Lideta branches selected nominees from Oromiya International Bank are main branch and Bole branch and from Bunna International Bank, 22 mazoria branches and Merkato branch are selected. Hence, the total population of the study was checking account holders of customers of the above mentioned eight branches of three banks.

Hence, to determine the sample size from this amount, the Yamen's formula is taken and calculated as follows:

$$n* = \frac{N}{1+N(e)}2$$: where, n* = the sample size, N= the entire population and e= error coefficient

Hence, our sample size determined as,

The sample size= n*= $\dfrac{3{,}370}{1+3{,}370(0.05)}2 = \underline{358}$

The sample size 358 distributed to each of the mentioned eight branches in proportion to the number of account holders as shown in the forthcoming table:

Table 2: Branches taken for the study

Bank	Branch	Number of checking account holders	Proportionate sample size taken
UB	Mesalemia	402	43
	Misrak	330	35
	Arada	450	48
	Lideta	468	50
OIB	Main	594	63
	Bole	426	45
BIB	Merkato	387	41
	22 Mazoria	313	33
Total		3,370	358

Source: By Interviewing Branch Managers

3.3 Sources and Instruments of Data Collection

The researcher has collected the necessary data from primary and secondary sources. The primary data has collected through a survey questionnaire from 358 customers of three different banks and interview with selected bank branch managers and secondary data has collected from textbooks, journals, articles, thesis papers, and documents.

3.4 Data Collection Procedure

In order to collect the primary data, questionnaire has distributed randomly to the customers while they are in the respective branch counter. Before distributing the final questionnaire to the sample of the study, pilot is made by 50 customers.

3.5 Data Analysis Technique

The researcher used both quantitative and qualitative data analysis techniques. In order to show the relationship between the dependant variable (customer switching behaviors) and independent variables (perception of price, unfavorable bank reputation, service quality, and inefficient advertisement and Availability of ATM service), the researcher used correlation technique. After identifying the relationship between these two variables, the researcher used binary logistic regressions so as to show the marginal effect of each explanatory variable on the dependant variable. In line with this the researcher also used qualitative data analysis tools such as tables and graphs in order to explain descriptive data such as age group, income group, gender and others.

3.6 Model Specification

The primary objective of this study is to identify the factors that influence customers switching and determine the most important and least important factors that influence customers switching behavior in the Ethiopian banking industry. For this, the estimating model that emerges to be preferable is binary logistic regression model. As the dependant variable is discrete the model is fit to analyzed data. The model enables to determine /estimate the probability that a bank customer shifts from one bank to another bank as a function of the explanatory variables identified in the literature. Five factors/explanatory variables have taken into consideration to analyze their individual and marginal effect on customers switching in banking industry of Ethiopia. The factors has examined for their significance in influencing the bank customers switching behavior. Where, $Y = 1$ if a bank customer switch from one bank to another and $Y = 0$ if the customer does not switch. The binary Logistic regression model employed in this study is specified as follows.

$$Yt = \beta o + \Sigma \beta t\, Xt + \varepsilon t$$

Where;

Yt = the dependent variable at time t

βo = the intercept of the equation

βt = coefficient of X variables

Xt = the independent variables at time t

εt = the error term

Based on this general model the following regression equation is developed for this study.

$$CSB_t = \beta_0 + \beta_1 (Z1) + \beta_2 (Z2) + \beta_3 (Z3) + \beta_4 (Z4) + \beta_5 (Z5) + \varepsilon_t.$$ Where,

CSB_t = Customers Switching Behavior (the dependant Variable)

Z1= Perception of price

Z2=Bank reputation

Z3=Service quality

Z4=Advertising competition.

Z5= Availability of ATM facility

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSIONS

A descriptive statistical analysis is used to present and interpret the data collected on various variables which used to determine the factors that contributed to customers switching behavior in selected private commercial banks. Subsequently, binary logistic regression analysis was used to test the conceptual model and the 5 hypotheses. Sensitivity analysis was performed to satisfy Research Objective Two and three. The marginal effect method ranked the factors that influenced customers' switching behavior from the most important to least important. The researcher has used SPSS software to analyze the data.

From a total of 365 questionnaires distributed, 350 are returned. The returned questionnaires are carefully checked, and those with excessive missing data were discarded, resulting in 345 usable as most items are sufficiently responded. The response rate is 94 percent. Such a response rate is considered sufficient for statistical reliability and generalizability (Mokhlis, 2009) and most satisfactory especially when compared with earlier research works on bank switching decisions (Khazeh & Decker, 1992-93 and Gerrard & Cunningham, 2001). This relatively high response rate was attributed to the self-administered approach undertaken in distributing questionnaires.

4.1 Descriptive Results

The overall profile of the participating respondents' demographic characteristics is presented in Table1. According to the table 138 (37.5%) of the respondents switched banks from where they originally opened their checking account first while 207 (56.2%) of the respondents did not switch their original banks.

Table 3: Respondent's Background

Switched from bank first account was opened	Frequency	percentage
Yes	207	56.2
no	138	37.5
Gender		
Male	182	49.5
Female	163	44.3
Age		
Less than 27	8	2.2
Between 27-35	130	35.3
Between 36-45	159	43.2
More than 45	48	13
Marital status		
Single	144	39.1
Married	201	54.6
Education		
Illiterate	13	3.5
Elementary school	35	9.5
Secondary school	100	27.2
Diploma	81	22
Degree and above	116	31.5
Occupation		
Merchant	100	
Income		
Below 2,000	9	2.4
Between 2,001-4,000	77	20.9
Between 4,001-7,000	60	16.3
Above 7,000	199	54.1

Source: Survey Result 2014

4.2 Demographic Characteristics of the Respondent

The results of Table 3 provide data on demographic characteristics of the respondents. It includes variables like age, gender, educational qualifications, and occupation. The sample includes 345 customers of Ethiopian private commercial banks. Females make 44.3% of the customers on the other hand males respondents represented (49.5%) of the survey population. The largest group of respondents (43.2%) is aged between 36 and 45.

The next largest group (35.3%) is aged between 27 and 35. Smaller groups of respondents are aged above 48 (13%). With regard to educational level; respondents with illiterate make 3.5% respondents who have complete primary and secondary makes 9.5 % and 27.2%, diploma makes 22% While first degree holders and above 31.5% are the largest group of respondents comprising 69% of the respondents.

4.3 Reliability Analysis

Reliability can be used to assess the degree of consistency between multiple measurements of variables. Examining the internal consistency or homogeneity among the items is the common measurement of reliability (Cooper & Schindler, 2006). Churchill (1979) also notes that for the purpose of consistency, the coefficient alpha should be calculated prior to any further data analysis. The internal consistency reliability coefficients (Cronbach's alpha) for the scales used in this Study were all well above the level of 0.7, acceptable for the analysis purpose (Sekaran, 2003). In Table- 4, alpha scores of all variables with completed response of 345 respondents.

Table 4. Reliability Coefficients of the Constructs (n = 345)

Variables	No of items	Cronbach Alpha
Price	3	.679
Reputation	5	.710
Service quality	9	.856
Advertisement	4	.865
Automated teller Machine	2	.852
Over all reliability	23	.893

Source: Survey Result, 2014

4.4 Results for Pearson Correlation Coefficient

Table 4 depicts the Pearson Correlation for the variables used in the regression model. This analysis is performed to find the relationship between customer switching behaviors and the independent variables (price, bank image, service quality, ATM and advertisement).

Table 5- Correlation Matrix

		Customer Switching Behaviors	Price	Reputation	Service quality	ATM	Advertisement
Person correlation	Customer Switching Behaviors	1	-.277	-.238	-.094	-.072	.237
	Price	-.277	1	.347	.080	.111	-.279
	Reputation	-.238	.347	1	.504	-.023	.364
	Service quality	-.094	.080	.504	1	.090	.370
	Advertisement	.037	.111	-.023	.090	1	.422
	Automated Teller Machine	-.072	.279	.364	.370	.422	1
Sig. (2-tailed)	Customer Switching Behaviors		.000	.000	.080	.185	.500
	Price	.000		.000	.137	.039	.390
	Reputation	.000	.000		.000	.673	.000
	Service quality	.080	.137	.000		.096	.235
	Automated Teller Machine	.000	.039	.673	.096		.000
	Advertisement	.037	.000	.000	.000	.000	
	No	345	345	345	345	345	345

Source: Survey Result, 2014

Pearson Correlation between satisfaction with particular service and intention to switch for that service to other bank was measured. Results in Table 5 revealed that all independent variables except banks advertisement had negative relation with intention to switch. In other words customer's satisfaction with all services is negatively related with their intention to switch. In the matrix above the correlation coefficient between the dependent and Independent variables shows price, reputation , service quality and ATM, are negatively correlated with the dependant variable with value of -.277,-.238 -.094, and -072 respectively . On the other hand advertisement is positively correlated with customer switching behavior with value of .037. All relations were significant ($p<0.05$) and presenting strong association with dependent variables.

4.5. Analysis for Testing the Assumptions of Classical Regression Model (CLRM):

Four tests for CLRM assumptions namely normality, linearity, homoscedasticity, and Multi co-linearity are conducted and discussed as follows:

4.5.1. Analysis for Test of Normality

Many classical statistical tests and intervals depend on normality assumptions. Significant skewness and kurtosis clearly indicate that data are not normal. Skewness involves the symmetry of the distribution. Skewness that is normal involves a perfectly symmetric distribution. A positively skewed distribution has scores clustered to the left, with the tail extending to the right. A negatively skewed distribution has scores clustered to the right, with the tail extending to the left.

Kurtosis involves the peakedness of the distribution. Kurtosis that is normal involves a distribution that is bell-shaped and not too peaked or flat. Positive kurtosis is indicated by a peak Negative kurtosis is indicated by a flat distribution.

Both Skewness and Kurtosis are 0 in a normal distribution, so the farther away from 0, the more non-normal the distribution. Bulmer, M. G., *Principles of Statistics* (Dover, 1979) a classic suggests if skewness is between -2 and 2, the distribution is approximately symmetric.

Kurtosis is actually more influenced by scores in the tails of the distribution than scores in the center of a distribution (De Carlo, 1967). Accordingly, it is often appropriate to describe a leptokurtic distribution as "fat in the tails" and a platykurtic distribution as "thin in the tails." Kurtosis is usually of interest only when dealing with approximately symmetric distributions. Skewed distributions are always leptokurtic (Hopkins & Weeks, 1990).

The distributions fall in to the bell shaped boundary of the histogram. In addition table 4 shows normality test through Skewness and Kurtosis and the assumption of normality is fulfilled for all variables. I.e. all the variables are normally distributed since the test result both Skewness and Kurtosis is between -2 and 2.

Table 6: Descriptive Statistics

|	N	Mean	Standard Deviation	Skwines		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Customer Switching Behavior	345	.60	.491	-.410	.131	-1.843	.262
Price	345	2.7	.812	-.273	.131	-.357	.262
Reputation	345	2.8	.698	-.781	.131	.929	.262
Service quality	345	2.65	.691	-.851	.131	2.060	.262
Automated Teller Machine	345	3.46	.828	-1.754	.131	2.623	.262
Advertisement	345	2.85	.909	-.751	.131	-.094	.262

Source: Survey Result, 2014

4.5.2. Analysis for Test of Linearity:

Linearity refers to the relationship between the dependent and the independent variable that is usually represented by a straight line (Cohen, Cohen, West and Aiken, 2003). If the form of the relationship between the dependent and the independent variable is not properly specified, the estimates of both the regression coefficients and the standard errors may be biased. The concept of correlation is based on a linear relationship (Hair et al, 2006) and the relationship can be examined through residual plots (Dielman, 2001). Cohen et al. (2003) summaries that examination of graphical displays can be used to test a linear relationship adequately characterize the data as they can detect a wide range of misspecifications of the form of the relationship.

To fulfill the assumption of linearity the residuals should have a straight line relationship with predicted dependent variable scores. This assumption can be checked by inspecting the normal probability plot (PP) of the regression standardized residuals. In the plot if the points lie in a reasonably straight diagonal line from bottom left to top right the assumption of linearity is not violated. The following figure and the histograms in appendix showed that this assumption is not violated.

Figure.   2 Normal P-P Plot of Regression Standardized Residual
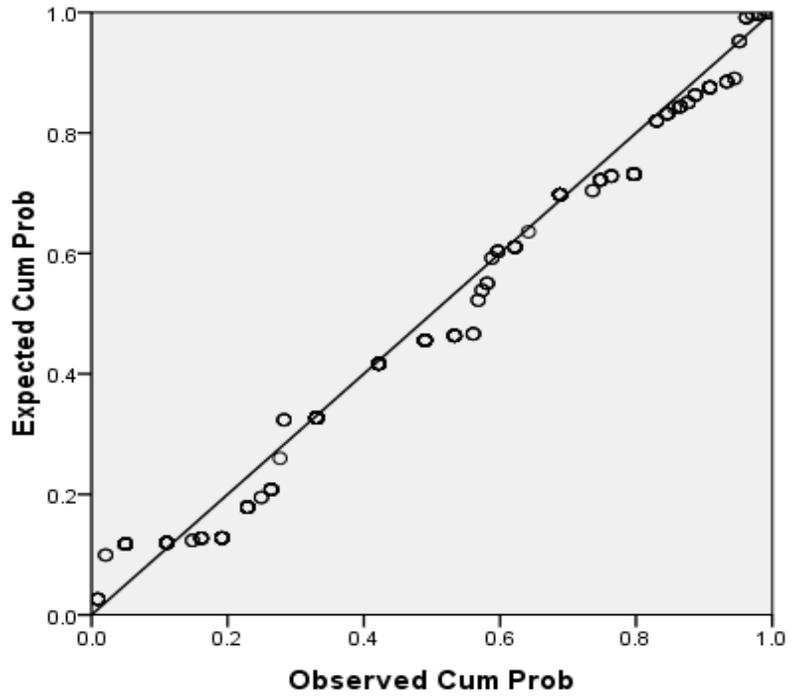
Source: Survey Result, 2014

4.5.3. Analysis for Test of Multicollinearity

Multicollinearity can have harmful effects on multiple regression and normally increases when the explanatory variables are highly inter-correlated, making the separate effects of each of the explanatory variables on the explained variable difficult to disentangle (Maddala, 2001). Hair et al. (2006) suggest the simple way to identify the collinearity between variables is to use the correlation matrix for the independent variables.

Multicollinearity occurs when independent variables are highly correlated with each other than with the dependent variable. The result in the correlation matrix in Table 5 shows that the independent variables correlate with the dependent variable. The result also revealed that the correlation between each independent variable is not too high. According to Kennedy (2008) if the correlation coefficient is above 0.7 this could cause Multicollinearity problem and the results may not be reliable. Hair et al (2006) on the other hand argue that correlation coefficient below 0.9 may not cause Multicollinearity problem. Since there is no clearly defined value, to solve this collinearity diagnostics is performed using the tolerance and Variance Inflation Factor (VIF) in the following table.

Table 7. Collinearity Statistics

Model	Collinearity Statistics		
	Part	Tolerance	Variance Inflation Factor
Constant			
Price	-.280	.827	1.209
Reputation	-.201	.613	1.631
Service Quality	-.097	.686	1.457
Automated Teller Machine	.401	.637	1.571
Advertisement	-.090	.783	1.277

Source: Survey Result, 2014

The result in the above table shows that tolerance and VIF value for all variables is less than.10 and below 10, respectively. Thus, the Multicollinearity assumption is not violated.

4.5.4. Analysis for Test of Homoscedasticity

Homoscedasticity refers to the assumption that the dependent variable exhibits similar amount of variance across the range of value for an independent variable. The assumption of homoscedasticity is not violated since the residuals are randomly scattered around 0 (the horizontal line) in figure indicated below.

Figure 3: Test of Homoscedasticity
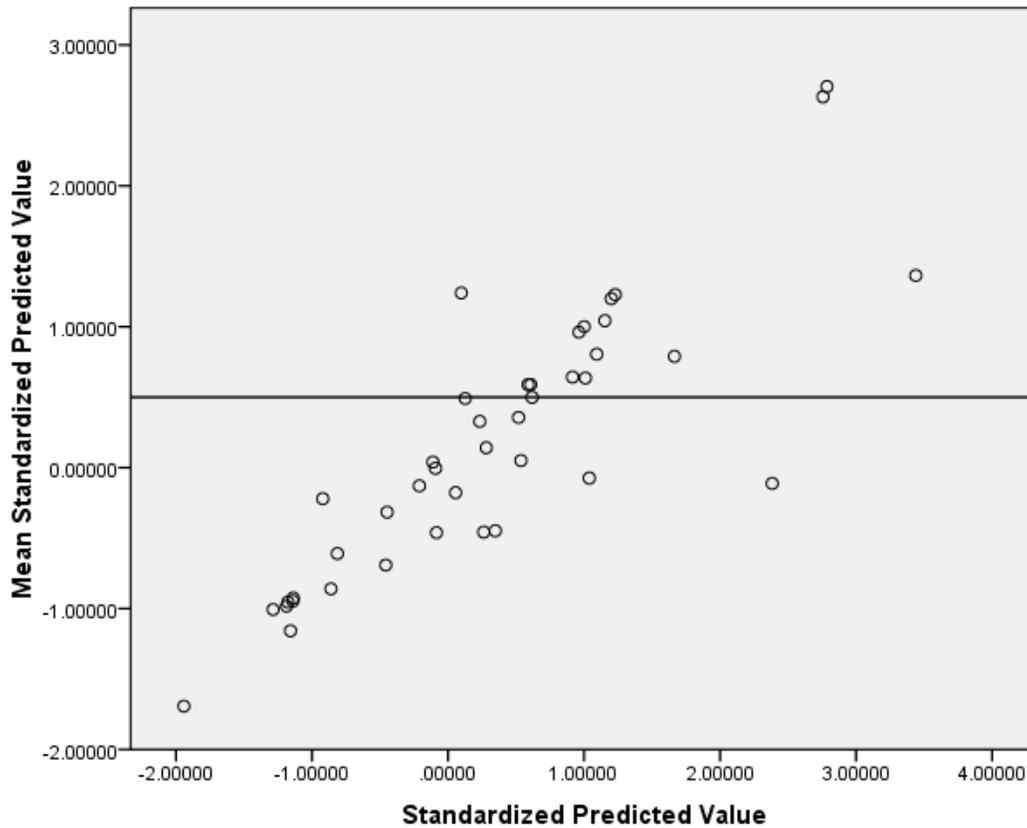
Source: Survey Result, 2014

4.6. Results of the Regression Analysis

The preliminary analysis made in previous section showed that the assumptions were not violated. In addition when evaluating the significance of the model in ANOVA and Model Summery tables in the annex part, the result in the ANOVA for binary regression predicts the outcome variable significant with P-value of 0.000 showing the model applied was significant enough in predicting the outcome variable.

The model summery table also shows that the dependent variable CSB R^2 is 81.8 percent explained by the independent variables. Thus, the regression model used for the study confirmed that very important variables that affect the result of the study are included in the model.

Table 8: Logistic Regression Result

Factor	B	SE	Sig
PRICE	-1.352	.225	.000*
REP	-1.211	.278	.000
SERVQ	-.871	.296	.003*
ATM	-.398	.197	.044**
ADVERT	1.821	.237	.000

Source: Survey Result, 2014

Consequently, hypotheses 1 to 5 are summarized below:

4.7 Hypotheses Testing

Summary of Hypotheses Testing Results Hypotheses Result

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

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

H3: There is a positive relationship between bad service quality and customers switching banks. Reject

H4: There is a positive relationship between effective advertising competition and customers' switching behavior. Accept

H5: There is negative relationship between availability of ATM service and customers switching behavior. Accept

As shown in table the coefficient value for all factors except ATM e.g. Price, Reputation, Service Quality and Effective Advertising Competition are significant at 1% level of significance. So its prove that all influencing factors on customer switching, Price, Reputation, Service Quality, Effective Advertising Competition and availability of ATM are all significant. In H1, H2 and H3 price, reputation and service quality factor negatively influences customer switching behavior, and positive relationship also exists for the effective advertising competition factor.

4.8 Research Pertaining to Research Objective Two & Three

Table 9 shows the results of research objective two and three with the help of Marginal effect of Sensitivity analysis. The five influencing factors are rank from the logistic regression model is ranked as follows:

Table 9: Marginal Effects of Variables

Ranking	Factor Name	Marginal effect
1	Advertisement	0.503
2	Price	-.307
3	Bank reputation	-.257
4	Service quality	-.117
5	Automated Teller Machine	-.102

Source: Survey Result, 2014

The marginal effects table illustrates that advertisement factor making the maximum impact on customer's bank switching behavior in retail private banking of Ethiopia. The results show that a unit increase in advertisement results 50.3% probability that a customer will switch banks. Price has the second highest impact maker on customers bank switching behavior. A unit increases in price results 30.7% probability that customers switch away from banks. Bank reputation holds the third place that bank customers make preferred to continue their relationship, 25.7 % of customers switched when the repetition of the not comfortable. Service quality holds the fourth position and 11.7% customers switch away their original bank if the service delivery is poor. Last item is ATM, factor results in10.2% probability of customers switching banks if banks failed to propagate their branches in ideal locations.

4.9. Discussion

The researcher in this paper found out that unfavorable price had a negative relationship with customer switching behavior. This was in congruent with the findings of Ghouri et.al (2010) who found out that unfavorable perception of price had a positive relationship with customer switching behavior in Pakistan private commercial banks.

It was revealed that bad bank reputation had a negative relationship with customer switching behavior in Ethiopian private commercial banks. This was similar to the findings of Zhang (2009) who revealed that there is a positive relationship between favorable bank reputation and customers' switching banks in Chinese commercial banks. Whereas, this finding was contradictory with Ghouri et.al (2010) that showed there is a positive relationship between unfavorable bank reputation and customers' switching behavior.

It was revealed that bad service quality had a negative relationship with customer switching behavior in Ethiopian private commercial banks. This finding was also similar to the findings of Zhang (2009) who revealed that there is a negative relationship between poor service quality and customers' switching behavior in Chinese commercial banks. Whereas, this finding was contradictory with Ghouri et.al (2010) that showed that there is a positive relationship between unfavorable bank reputation and customers' switching behavior.

Effective advertisement competition will have a positive effect on customer switching behavior in Ethiopian private commercial banks. This finding was similar to the study made by Malik et.al (2011) in Indian commercial banks, the researchers found out that there is a positive relationship between effective advertisement competition and customer switching behavior. In addition, this finding was additionally supported by Ghouri et.al (2010) study of the issue in Pakistan commercial banks.

Gouws (2012) has identified the factors that influence customer retention in a South African retail bank and identified ATM as one of the factor Abenet (2010) in his study on key determinants of internet banking and customer retention found out that ATM is one of the key determinant factors in Ethiopian commercial banks context.

Accordingly, it was discovered in this paper that there is a negative relationship between availability of ATM service and customers   switching behavior.

The marginal-effect results showed that advertisement had the maximum impact on switching behavior. Surprisingly price was the second important factor influencing customers switching behavior. Whereas service quality and good bank reputation holds the third and forth factor that influence customers to switch to other banks.

The least important factor in Ethiopians' environment for private retail banking industry is availability of ATM service and customers switching behavior. The result indicates that customers are not sensitive to obtain ATM service at their nearest locations.

Banks who try to attract new customers from their competitors will also benefit from an understanding of what factors cause customers to switch banks. Bank managers can make use of such information to develop appropriate strategies to attract new customers.

In general, the greater the knowledge the bank management has about the factors affecting their customers switching behavior, the greater their ability to develop appropriate strategies to reduce bank switching.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This research illustrates a range of factors that influence Ethiopian private commercial bank customers' switching behavior. This study also shows that some factors are more influential than others. In order to have profitability and growth, it is very important for banks to retain customers. When customers close their accounts or move their main accounts from a bank to another one, they carry away with them the revenue generating potential of the bank. It therefore becomes important for retail banks to understand the effect of various factors on customer switching behavior. An understanding of the effect of various factors can help banks to devise strategies to reduce customer switching and retain their customers.

5.2 Conclusion

In this competitive retail commercial private banking market of Ethiopia, customer switching is detrimental for every bank. Banking sector reforms and domestic private banks with vast range of banking products change the banking perspective in Ethiopia. This diversity could make a positive or negative impact on banks customers' loyalty and switching.

The primary objective of this study is to identify the factors that influence customers switching and determine the most important and least important factor that influence customers switching behavior. This study investigates the five factors (Price, Reputation, Service Quality, Effective Advertising Competition, and Availability of ATM) of customer switching which effects retail banking operations in Ethiopia

In research objective one was persuade the factors that influence customers switching behavior in the retail banking industry of Ethiopia were identified. Binary logistic regression analysis results showed that there is a significantly positive relationship between customers switching behavior and the influencing factors.

Hypothesis one regarding price was supported with hypothesis two and three reputation and service quality had negative relationship and the respective hypothesis are rejected. The results of hypotheses, four and five were supported that effective advertisement and availability of ATM service had positive relationship between customers switching behavior. Those factors which can neglect the customer switching (e.g., changing home, initial deposit at new account) also playing a part to put away the banks to lose customers. Hypotheses four and five about effective advertising competition and availability of ATM accepted.

In research objective two and three, the marginal-effect results showed that effective bank advertisement had the maximum impact on switching behavior. Surprisingly price was the second important factor influencing customers switching behavior; customers like to have compatible bank charges at their nearest place. The third, fourth and fifth most important factors were bank reputation, service quality and availability of ATM service respectively.

The least important factor in Ethiopain s environment for retail banking industry is availability of ATM service. This is surprising result for least important factor, because availability of ATM service   at ideal locations always attracts customer as it reduces time and costs but not here in the case of retail banking industry of Ethiopia.

5.3 Recommendations

Based on the findings and the conclusions drawn above, the following recommendations have been forwarded.

- ➢ Effective advertisement and favorable price are the two most important factors to determine customer switching behavior's right advertisement for right people, this aspect of marketing plays major role for Ethiopian banking industry; bankers should consider both factors in their future strategic planning. Banks should use effective advertisement and charge competitive price to retain their customers.

- ➢ Banks should motivate their customers and employees to follow word of mouth strategy to their friends and relatives circles. Such schemes include but are not limited to providing incentives and rewards to customers and employees depending on the number of customers they bring and the level of referral marketing they gone through.

- ➢ Banks should make positive perceptions in customers mind that, what they are receiving at this place will not be served anywhere else. This can be achieved through providing delightful service, state of the art technology and maximizing the level of reputation and branding of the bank.

- ➢ To attract more customers and retain existing one, banks should use new and available services. Moreover, products should have detail & clear specifications and descriptions and should be simple and easily understandable at any level of clients' literacy.

- ➢ Banks should improve their online system and make it user-friendly to their customers as it was recognized in the findings of the study that customers' perception about online system is confusing due to the user-non friendly online system.

- ➢ Banks should celebrate special occasions with their customers e.g. birthday of customer, bank's anniversary and related occasions.

- ➢ Bank employees should be well trained and polite. Staffs that satisfy the specific need(s) of customer in quick times must be rewarded.

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Regression Out put

Descriptive Statistics

	Mean	Std. Deviation	N
CSB	.60	.491	345
Price	2.70	.812	345
Bank image	2.80	.698	345
Service Quality	2.65	.691	345
Advertisement	2.851	.9095	345
Automated Teller Machine	3.46	.828	345

Correlation table

		Customer Switching Behaviors	Price	Reputation	Service quality	Automated Teller Machine	Advertisement
Person correlation	Customer Switching Behaviors	1	-.277	-.238	-.094	-.072	.237
	Price	-.277	1	.347	.080	.111	-.279
	Reputation	-.238	.347	1	.504	-.023	.364
	Service quality	-.094	.080	.504	1	.090	.370
	Advertisement	.037	.111	-.023	.090	1	.422
	Automated Teller Machine	-.072	.279	.364	.370	.422	1
Sig. (2-tailed)	Customer Switching Behaviors		.000	.000	.080	.185	.500
	Price	.000		.000	.137	.039	.390
	Reputation	.000	.000		.000	.673	.000
	Service quality	.080	.137	.000		.096	.235
	Automated Teller Machine	.000	.039	.673	.096		.000
	Advertisement	.037	.000	.000	.000	.000	
	No	345	345	345	345	345	345

Variables Entered/Removed

Model	Variables Entered	Variables Removed	Method
1	Automated teller machine , Bank image, Price, Service Quality, Advertisement		.Enter

a. All requested variables entered.

b. Dependent Variable: CSB(customer Switching Behavior)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	. .904a	.818	.762	. 005305

ANOVAs

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.002	4	.000	14.577	.000b
	Residual	.000	13	.000		
	Total	0.02	17			

a. Predictors: (Constant), Automated teller machine , Bank image, Price, Service Quality, Advertisement

b. Dependent Variable: CSB(customer Switching Behavior)

65

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		Correlations			Collinearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1 (Constant)	1.263	.147		8.581	.000	.973	1.552					
Price	-.186	.031	-.307	-6.021	.000	-.246	-.125	-.277	-.311	-.280	.827	1.209
Bank Image	-.181	.042	-.257	-4.340	.000	-.263	-.099	-.238	-.229	-.201	.613	1.631
Service Quality	-.083	.040	-.117	-2.091	.037	-.161	-.005	-.094	-.113	-.097	.686	1.457
Advertisement	.271	.031	.503	8.643	.000	.210	.333	.237	.425	.401	.637	1.571
Automated Teller Machine	-.060	.031	-.102	-1.945	.053	-.122	.001	.072	-.105	-.090	.783	1.277

a. Dependent Variable:
CSB(customer
Switching Behavior)

Collinearity Diagnostics

Model	Dimen sion	Eigen value	Condition Index	Variance Proportions					
				(Constant)	Price	Bank image	Service quality	Advertise ment	Automated Teller Machine
1	1	5.767	1.000	.00	.00	.00	.00	.00	.00
	2	.072	8.924	.00	.59	.02	.03	.13	.08
	3	.068	9.209	.00	.10	.12	.23	.04	.17
	4	.051	10.654	.09	.02	.01	.01	.67	.16
	5	.026	15.035	.02	.26	.66	.69	.00	.01
	6	.017	18.667	.89	.03	.19	.05	.16	.58

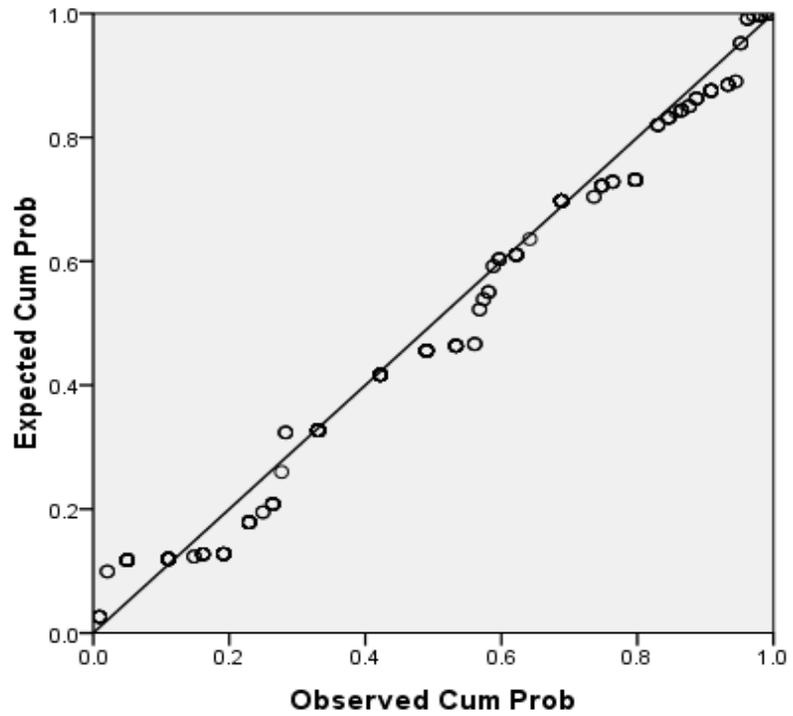a. Dependent Variable: CSB(customer Switching Behavior)

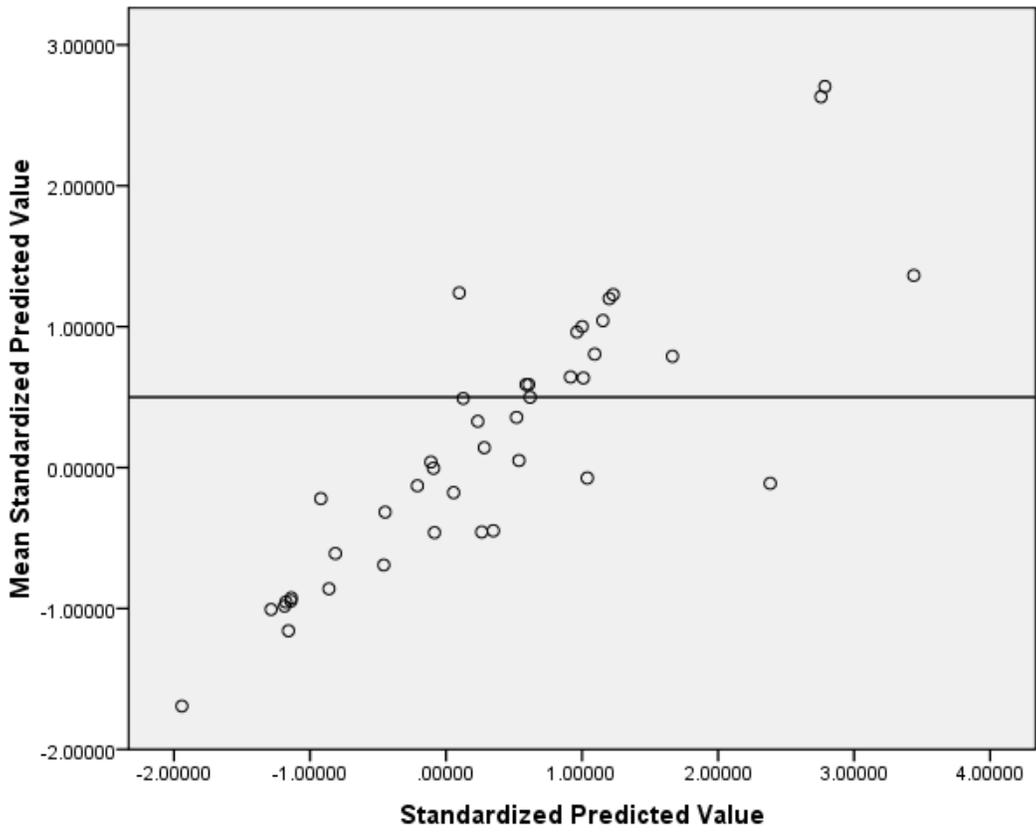**Figure.** **2 Normal P-P Plot of Regression Standardized Residual Dependant Variable CSB (customer Switching Behavior)**

Figure 3: Test of Homoscedasticity

Mean =2.7
Std. Dev. =.812
N =345

Mean =2.8
Std. Dev. =.698
N =345

Normal
Mean =2.65
Std. Dev. =.691
N =345

Mean =2.851
Std. Dev. =.9095
N =345

Normal
Mean =3.46
Std. Dev. =.828
N =345