**DO PERCEIVED SWITCHING COSTS INFLUENCE CUSTOMER DYSFUNCTIONAL BEHAVIOR?**

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**INTRODUCTION**

Switching costs are regularly used by service firms to retain customers. The literature advises managers to be careful when using these constraint-based retention strategies as customers may feel locked into the relationship with the firm and engage in dysfunctional behaviors and negative word of mouth (WOM). To better understand the underlying mechanisms, this research uses survey data from 241 banking customers to test the mediating role of customers’ self-determination perceptions between perceived switching costs and dysfunctional customer behavior and negative WOM. The study finds that different switching costs impact not only customer repurchase intentions, but they also lower the customers’ level of self-determination, which in turn increases the likelihood of dysfunctional behavior and negative WOM.

**BACKGROUND INFORMATION**

Investments in customer experience has been an imperative in determining the success of a bank’s offering. The intense competition in banking services has compelled banks to offer products and services that enhance the customer experience. However, many banks also try to lock customers into the relationship with the firm through the establishment of switching costs. Perceived switching costs are “the onetime costs that customers associate with the process of switching from one provider to another” (Burnham et al., 2003, *p.*110). They are regularly used by service firms to increase customer retention. At the same time, perceived switching costs are discussed to increase the likelihood of dysfunctional customer behavior. Jones et al. (2007, *p*. 336) remind service firms to be careful when establishing switching costs since “customers who find themselves locked into relationships that they would prefer to not be in may become resigned, belligerent, or even hostile, and may engage in behaviors that have serious negative long-term consequences for the firm, such as negative WOM or sabotage”. Thus, the present study develops and tests a research model integrating research on perceived switching costs with insights from self-determination theory and dysfunctional customer behavior literature to better understand the process of how switching costs lead to such outcomes. Specifically, our research model considers the mediating role of customers’ self-determination perceptions between perceived switching costs and dysfunctional customer behavior.

Self-determination theory (SDT) focuses on human beings’ “nature”. SDT means that behavioral initiation and regulation are determined by one’s own choice (Deci, Connell, and Ryan 1989). The underlying assumption of this theory is that “human beings are active, growth-oriented organisms who are naturally inclined toward integration of their psychic elements into a unified sense of self and integration of themselves into larger social structures” (Deci and Ryan 2000, *p.* 229). SDT differentiates between five types of extrinsic motivations, including non-self-determined and self-determined regulations (Ryan and Connell, 1989; Deci and Ryan, 1985). The two non-self-determined regulations consist of *external* regulation (e.g., behaviors are performed to satisfy an external demand and to obtain an externally imposed reward, or due to external constraints) and *introjected* regulation (e.g., individual’s replacement of the external source of control by an internal one, making individuals to impose pressure on themselves to ensure that the behavior will be emitted). The two self-determined regulations include *identified* (e.g., when individuals identify with a specific behavior, it is highly valued and judged as important for the individual) and *integrated* behavioral regulation (e.g., engagement in the behavior willingly because the self-regulation is consistent with the individual’s self-concept). The last type of motivation is called *amotivation* (e.g., the state of lacking an intention to act) which is classified as neither self-determined nor non-self-determined regulation. When people perceive a lack of contingency between their behavior and the associated outcomes, they are amotivated.

Six types of perceived switching costs are proposed to differentially affect the different motivational regulations. Perceived switching costs are usually classified into three groups: Procedural, relational, and financial switching costs (Burnham et al., 2003). *Procedural* switching costs (e.g., economic risk and information costs) and *relational* switching costs (e.g., brand relationship and personal relationship loss costs) are rooted in two opposite sources of constraints. The former utilizes the time, complicated informational procedures, and hassle as a basis to explain the negative source of constraint generated. The latter creates a positive source of constraint providing customers with additional benefits of personal relationships or brand bonds through external rewards. Independent of the underlying source of constraint, switching behavior is in both cases regulated through external regulations which are either the loss of rewards, effort, or time associated with switching providers (Blut et al., 2014, 2015). *Financial* switching costs, which include benefit loss costs and monetary loss costs, may also influence external regulations.

**RESEARCH APPROACH**

In total, 241 usable questionnaires were collected in our survey among banking customers. The average age in the sample was 32.9 years. Regarding other socio-demographics, 49.8 percent of the study participants were female with an annual income of 46,366 US-Dollars. Measurements of latent constructs were adapted from the literature. Our measurement model suggests a good fit to the data: Comparative Fit Index=.91; Tucker Lewis Index=.90; Root Mean Square Error of Approximation=.05; Standardized Root Mean Square Residual=.08 (Hair et al. 2006). We have also tested the extent of common method bias and did not find it to be problematic.

**DISCUSSION**

Results of our study suggest that amotivation increases dysfunctional behavior and negative word of mouth behavior. Introjected regulations also positively impact dysfunctional behavior, but not WOM. In comparison, identified regulation is found to lower the likelihood of dysfunctional behavior. Surprisingly, integrated regulations increase the likelihood of dysfunctional behavior which is contrary to our predictions. Several of the examined switching costs increase the likelihood of dysfunctional customer behavior and negative WOM through these mediators. While most of the examined switching costs were found to display some negative effects, the strongest effects were observed for information switching costs, monetary loss costs, and personal relationship loss costs.

**IMPLICATIONS**

The impact of COVID-19 has profound and long-term structural and transformational changes for the banking industry. The data of our study was collected prior to the pandemic. Moreover, future studies are encouraged to investigate generational customer differences which may impact the relationships in our model. For instance, Gen Y customers (e.g., 25-40 years old) had the highest switching rates among all generations during the COVID period. It is unclear whether switching costs display the same effectiveness for these customers.

SDT provides the literature new insights into perceived switching costs effects. Customers being unable to switch providers are discussed to engage in dysfunctional behaviors which have serious long-term consequences for the firm, such as malicious WOM or sabotage. The present study, therefore, examines the impact of various types of switching costs on these negative outcomes. SDT provides insights into the underlying mechanisms of these effects.

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