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THE EFFECT OF SERVICE QUALITY AND RELATIONSHIP MARKETING ON SWITCHING COSTS, CUSTOMER SATISFACTION, AND CUSTOMER RETENTION: A STUDY ON THE CUSTOMERS OF BANK PERKREDITAN RAKYAT IN EAST NUSA TENGGARA

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ABSTRACT
Customer retention is one of the most crucial banking strategies due to the tight competition and the slow growth of new customers. The present study examines the effect of service quality, relationship marketing, switching costs, and customer satisfaction on customer retention in *Bank Perkreditan Rakyat* (BPR)[1] of East Nusa Tenggara, Indonesia. Using an accidental sampling technique, we chose 180 customers from three BPRs operating in three regencies of East Nusa Tenggara. The Generalized Structured Component Analysis (GSCA) was used to test the effect of service quality, relationship marketing, switching costs, and customer satisfaction on customer retention. Findings confirm that service quality, relationship marketing, switching costs, and customer satisfaction significantly affect customer retention. Relationship marketing does not significantly affect switching costs. Customer satisfaction does not significantly affect switching costs. From the four exogenous variables, relationship marketing shows the most dominant effect on customer retention. We recommend that BPR management chooses relationship marketing as its best strategy to improve customer retention. Switching costs can also be managed as customer satisfaction to retain customers.

KEYWORDS
Customer retention, service quality, relationship marketing, customer satisfaction, switching costs.

Almost all companies, including those engaged in the banking industry, compete to improve their service quality and service value to satisfy customers amid the tight competition. However, the strategy will not be effective if they do not practice relationship marketing and do not increase switching costs to retain existing customers. If appropriately managed, switching costs are drivers of repetitive behavior, reducing customers' desire to leave their current service provider (Burnham *et al*., 2003).

Relationship marketing is a philosophy of doing business and a strategic orientation focused more on maintaining and improving relationships with existing customers rather than getting new customers. The philosophy assumes that customers prefer to have long-term relationships with one particular organization rather than constantly moving from one organization to another in looking for the value they need. Therefore, a company must satisfy customers on an ongoing basis. Having satisfied customers is not enough; there must be very satisfied customers—because satisfaction leads to loyalty as the core of marketing purpose (Bowen and Chen, 2001). Fornel (1992) asserted a similar finding that high customer satisfaction would result in high loyalty.

In contrast, other researchers, such as Burnham, Frels, and Mahajan (2003), stated that satisfaction explained only a quarter of behavioral intentions. They also mentioned that

[1] The Indonesian People's Credit Banks carry out business activities conventionally or based on sharia principles. They take savings and depositos, and they give out loans. However, they cannot engage in any money transfer activities. This means no inter-bank transfers, no bill payment, and so forth. They cannot engage in foreign currency exchange. Furthermore, being rather small operations, most of them do not have any online presence or even ATM cards. Even though they are sometimes referred to as "Rural Banks" in English, they are available in cities as well as rural areas. In fact, most of them will only have one branch. Their main purpose is to serve their local community's savings and loan needs. (https://www.expatindo.org/bpr-banks-rural-banking-indonesia)

satisfaction influenced repurchase intention but typically explained only one-quarter of behavioral intentions. The relationship between satisfaction and loyalty was recognized as more complex than previously thought. Reichheld (1996) argued that companies seemed to be caught in what he called as 'satisfaction trap', a myopic belief that customer satisfaction and service quality were the only tools for maintaining customer retention. Thus, Burnham *et al.* (2003) suggested that marketers had to understand thoroughly various drivers of customer retention to break out of the trap. One of the influential driving factors for customer retention is increasing switching costs.

In the context of customer retention, the present study was essential to do. *First*, amid the increasingly sharp market competition level, coupled with saturated market demand and the slower growth of new customer numbers, companies start to see customer retention as a critical managerial issue. The implication is the growing research on customer retention. For BPRs, the problems are even more complex and challenging. BPRs compete with 20 general banks across East Nusa Tenggara, with almost 430 branches spread evenly in all regencies and cities, and compete with other Micro Financial Institutions, especially Credit Cooperatives multiplying in the province.

Second, many researchers still equate customer retention with loyalty. As a concept or as a variable, customer retention is different from customer loyalty. Nguyen and Leblanc (2001) and Edward and Sahadev (2011) equate the two concepts. Meanwhile, Boohene *et al.* (2013), Cohen *et al.* (2007), and Gerpott *et al.* (2001) clearly distinguish customer loyalty from retention. The present study followed the last view that customer retention was different from customer loyalty. *Third*, loyalty is not enough to retain customers—it must be followed by increasing customer commitment to continue the business with the company in the long term. *Fourth*, studies on customer retention factors result in several variables, including service quality, customer satisfaction, switching costs, and customer value. However, research that links relationship marketing with switching costs and relationship marketing with customer retention is relatively limited.

LITERATURE REVIEW

Customer retention is a strategic goal to strive to maintain long-term relationships with customers. The customer retention rate depends on the company's efforts manifested through various customer service programs. Meanwhile, from the customer side, the intention to stay or leave the company is highly dependent on various factors, including service quality, satisfaction, customer value, switching costs or switching barrier, customer experience, commitment, trust, company image, company reputation, and others (Moenardy, 2016; Boohene *et al*., 2013; Danesh *et al*., 2012; Jeng and Bailey, 2012; Adward and Sahadev, 2011; Kassim and Souiden, 2007; Cohen *et al*., 2007; Nguyen and Leblance, 2001).

Morgan and Hunt (1994) defined customer retention as a customer's intention to repurchase a service from a service provider. Kassim and Souiden (2007) defined customer retention as the future tendency of customers to stay with their service providers. Meanwhile, Keiningham *et al.* (2007) defined customer retention as a decision of customers to keep a business relationship with a company. Zineldin (2000) viewed retention as a commitment to continue business or an exchange with a particular company on an ongoing basis. A more comprehensive definition of customer retention is proposed by Strauss and Friege (2001). They said that customer retention referred to customer preferences, customer identification, customer commitment, customer trust, customer desire to recommend, and customer intention to repurchase—with the first four constructs being referred to as emotional-cognitive retention and the last two represented behavioral intentions. Customer retention is associated with repeated subscriptions, closely related to repurchasing and brand loyalty (Buttle, 2004).

Boohene *et al.* (2013) showed a significant relationship between service quality and customer retention in Ghana's banking industry. If service quality improves, customer retention will also increase. Conversely, if service quality decreases, customer retention also declined. This finding is consistent with Reichelds (1996) empirical studies and Ranaweera and Neely (2003). Their findings indicated a positive association between perceived service quality and customer repurchase or retention. These findings also support Sharma and Patterson (2000) that the better the perceived service quality, the stronger the existing relationship commitment will be.

Berry (1983), Gronroos (1990), Gummesson (1994), Little and Marandi (2003), and other experts stated that relationship marketing was about building long-term relationships with customers and retaining customers by maintaining trust and commitment. Thus, companies must maintain integrity by fulfilling promises, showing empathy, prioritizing contributions, and adjusting to customer demands. Customer retention refers to customer intention to repurchase a product or service from a provider (Morgan and Hunt, 1994) and the future tendency of customers to stay with their provider (Kasimm and Souiden, 2007). Zineldin (2000) and Tjiptono and Candra (2013) viewed customer retention as a commitment of customers to continue business or exchange with a particular company continuously. Based on the definition of these two constructs, Moenardy (2016) researched customers of common banks in East Nusa Tenggara. His findings confirmed that customer retention was the impact of relationship marketing—a successful relationship marketing program would increase customer retention.

Oliver (1993) and Zetthaml (1996) found a positive impact of customer satisfaction on customer retention. Oliver (1980) and Yi (1990) argued that customer satisfaction was traditionally considered the most critical characteristic of long-term customer behavior. The more satisfied the customer, the greater the customer retention rate will be. Several other findings indicated that customer satisfaction positively impacted customer repurchases in a specific service classification (Danesh *et al*., 2012). Day *et al*. (1988) stated that customer satisfaction is an indisputable way of determining the customer retention rate for professional service buyers. Kotler and Keller (2009) also argued that customer satisfaction was a significant factor for customer retention.

Many studies have highlighted the relationship between switching costs and customer retention (Jones *et al*., 2000; Ranaweere and Prabu, 2003). Burnham *et al.* (2003) found that switching costs had a significant effect on customer retention. Switching costs encourage consumers' intention to stay with their (current) provider. Edward and Sahadev (2011) also found a significant relationship between switching costs and customer retention. Customers will remain with the current company if their perception of the risk of moving increases (or the perception of the safety of staying increases). Customers will also stay if they find it challenging to evaluate alternatives (or find it easy not to evaluate alternatives). The complexity of setting up a new relationship and the learning required to use a new product will increase customers' likelihood to stay with the existing relationship. In addition, the increasing potential for loss of profit or money or the reducing costs to stay with the current service provider (Cannon and Homburg, 2001) will increase the likelihood of customers to stay, even without the existence of physical assets. Increasing customers' psychological bond with a brand will increase their likelihood to stay, even in an industry with very little or no face-to-face contact. The impact of switching costs on customer retention is relatively different across industries, such as contact, interconnected physical assets, application methods, and various other products and market factors.

Service quality has a decisive role for all business organizations, especially those engaged in the service sector because it contributes significantly to the creation of differentiation, positioning, and competitive strategy for companies. Studies concluded that profitability, market share, Return On Investment (ROI), asset turnover, efficiency, cost, customer satisfaction, loyalty, repurchase interest, and Word-of-Mouth (WoM) was positively related to perceptions of service quality of an organization (Tjiptono and Candra, 2011). Several studies conducted in the banking sector also showed a significant relationship between service quality and satisfaction, customer loyalty, and customer retention (Kassim and Souiden, 2007; Susanta, 2013; Djajanto, 2014).

Quality is something relative—it depends on the perspective to determine characteristics and specifications. Three quality orientations exist. They should be consistent with each other, namely (1) consumer perceptions, (2) products (services), and (3) processes. These three orientations are almost always distinguishable for tangible products or goods, but not for services. For services, products and processes may not be differentiated, and even the product is the process itself (Lupiyoadi, 2013). This difference is due to the different characteristics of services from tangible products (goods). Goods can be described as physical objects or equipment, while services are actions or performance.

Referring to the differences, Parasuraman *et al*. (1985; 1988), in a series of studies conducted since 1985, have identified five dimensions of service quality. Almost all researchers refer to these dimensions, including reliability, responsiveness, assurance, and empathy, tangible (Tjiptono *et al*., 2011). If examined closely, these five dimensions are highly dependent on human resources' performance in the company. Although some aspects of each dimension can be replaced by equipment or technology, human resources' role is still dominant, especially in building relationships between companies and customers.

The extent to which customers perceive service quality is highly dependent on the interaction and performance of internal marketing and external marketing of service providers. Both of these frameworks are also relevant to the definition of service quality put forward by Lewis and Booms (1983), which states that service quality is a measure of how well the service provided can match customer expectations. Lovelock, Wirtz, and Mussry (2011) also argued that the perceived service quality resulted from an evaluation process in which customers compared their perceptions and expectations of service with the actual service.

During the process, customers compare what they expect to receive with what they receive during the post-purchase stage of the service purchase process. Customers decide whether or not they are satisfied with service delivery and results, and they also make judgments about service quality. According to Lovelock and Wright (1999), although service quality and customer satisfaction are related concepts, the two concepts are not the same. Many researchers believe that customer perceptions of service quality are based on long-term cognitive evaluations of its service delivery. In contrast, customer satisfaction is a short-term emotional reaction to a particular service experience.

Theoretically, the relationship between service quality and customer satisfaction is also reflected by Kotler *et al.* (2000), that satisfaction is the level of a person's feelings after comparing the product's perceived performance (or results) with expectations. Furthermore, Kotler explained that satisfaction is a function representing the difference between perceived performance and expectation. Customers can experience one of three typical levels of satisfaction. If the performance is below expectations, the customer will be dissatisfied. If performance is as expected, customers will be satisfied. When performance exceeds expectations, customers will be very satisfied or happy.

Some research results show that the higher the perceived service quality, the higher the customer satisfaction (Parasuraman *et al*., 1985; 1988; 1990; 1994). The argument behind this finding is that the company's high-quality service will lead to customer satisfaction. The relationship between service quality and satisfaction is seen as linear, indicating that the higher the level of service quality, the higher the satisfaction level. Shin and Kim (2008) argued that service quality was a customer's overall impression of a service provider's relative efficiency. They also added that service quality was significantly related to customer satisfaction. Several other empirical studies, including Djajanto (2014), Alfin (2013), Shah *et al*. (2013), Edward and Sahadev (2011), Ryu *et al*. (2011), and Berne *et al*. (2001), also confirmed that a higher level of service quality was associated with a higher level of customer satisfaction.

Bowen and Chen (2001) stated that having satisfied customers was not enough; there must be very satisfied customers—because satisfaction leads to loyalty as the core of marketing purpose. Fornel (1992) also found that high customer satisfaction would result in high loyalty. Gerpott, Rams, and Schildler (2001) affirmed that customer satisfaction was a direct determinant of customer loyalty, which in turn became a major determinant of customer retention. Gerpott *et al.* (2001) and Cohen *et al.* (2007) showed that loyalty significantly affected customer retention. Then, Danesh, Ling, and Nasab (2012), Booheme *et al*. (2013), Edward and Sahadev (2011), Kassim and Souidan (2007), and Guo, Tang, and Xiao (2009) revealed that customer satisfaction had a significant effect on customer retention. Meanwhile, Edward and Sahadev (2011) found a significant influence between satisfaction and switching costs.

Although several studies have proven that customer satisfaction has a significant effect on customer retention, satisfaction alone is not enough to retain customers on an ongoing basis. Burnham, Frels, and Mahajan (2003), for example, explicitly stated that satisfaction only explained a quarter of behavioral intentions. They also mentioned that satisfaction influenced repurchase intention but typically explained only one-quarter of behavioral intentions. The relationship between satisfaction and loyalty was recognized as more complex than previously thought. Reichheld (1996) argued that companies seemed to be caught in what he called as "satisfaction trap", a myopic belief that customer satisfaction and service quality were the only tools for maintaining customer retention. Thus, Burnham *et al.* (2003) suggested that to break out of the trap, marketers had to understand various drivers of customer retention thoroughly. One of the influential driving factors for customer retention is increasing switching costs.

One appropriate strategy to retain customers is switching costs. According to Weiss and Haeide (1993), the switching cost strategy is proven to have a significant impact on repetitive behaviors. Therefore, Karakaya and Stahl (1989) suggested managers adopt this strategy. According to Burnham *et al.* (2003), given the importance of switching costs, it is understandable that companies want to manage their customer perceptions on switching costs.

In general, switching costs are costs to prevent consumers from moving from their existing supplier or company to a competitor. In other words, when a relationship is established, one party will become more dependent on the other, which means higher costs to move. It can also be said that consumers sometimes become attached to current service providers due to high switching costs (Lee and Cunningham, 2001). Heide and Weiss (1995) defined switching costs as costs (both monetary and non-monetary) borne by customers when changing from one supplier to another (Edward and Sahadev, 2011). Burnham *et al.* (2003) defined switching cost as an expense incurred only once during the switching process from one service provider to another. Dick and Basu (1994) described switching costs as the cost of changing services related to time, monetary values, and psychological factors (Lee, 2013). Several previous studies have also proven that switching costs significantly affect customer retention (Moenardy, 2016; Edward and Sahadev, 2011; Boohene *et al*., 2013; Danesh *et al*., 2012).

Berry and Payne (2000) defined relationship marketing as an effort to attract, retain, and, in a multi-service organization, improve customer relationships. The marketing mindset is that attracting new customers is only the first step in the marketing process. Zethaml and Bitner (2003) viewed relationship marketing as a paradigm shift in marketing, from acquisitions or transactions to retention or relationships. Relationship marketing is a philosophy of doing business, a strategic orientation that focused on maintaining and improving relationships with existing customers rather than getting new customers. This philosophy assumes that customers prefer to have long-term relationships with an organization rather than constantly moving from one organization to another in looking for the value they need.

Alnsour (2013) conducted qualitative research on nine key employees from nine different banks in Jordan. Findings showed some essential factors to increase customer retention: trust, satisfaction, commitment, loyalty, closeness, communication transparency, privacy, cost, reputation, and organizational culture. Djajanto (2014) and Alvin (2013) showed that relationship marketing significantly affected customer satisfaction and customer satisfaction significantly affected customer loyalty. Meanwhile, Moenardy (2016) revealed that relationship marketing and switching costs significantly affected customer retention, and relationship marketing affected switching costs.

Based on the theoretical and empirical studies, the present study's research model is presented in Figure 1.

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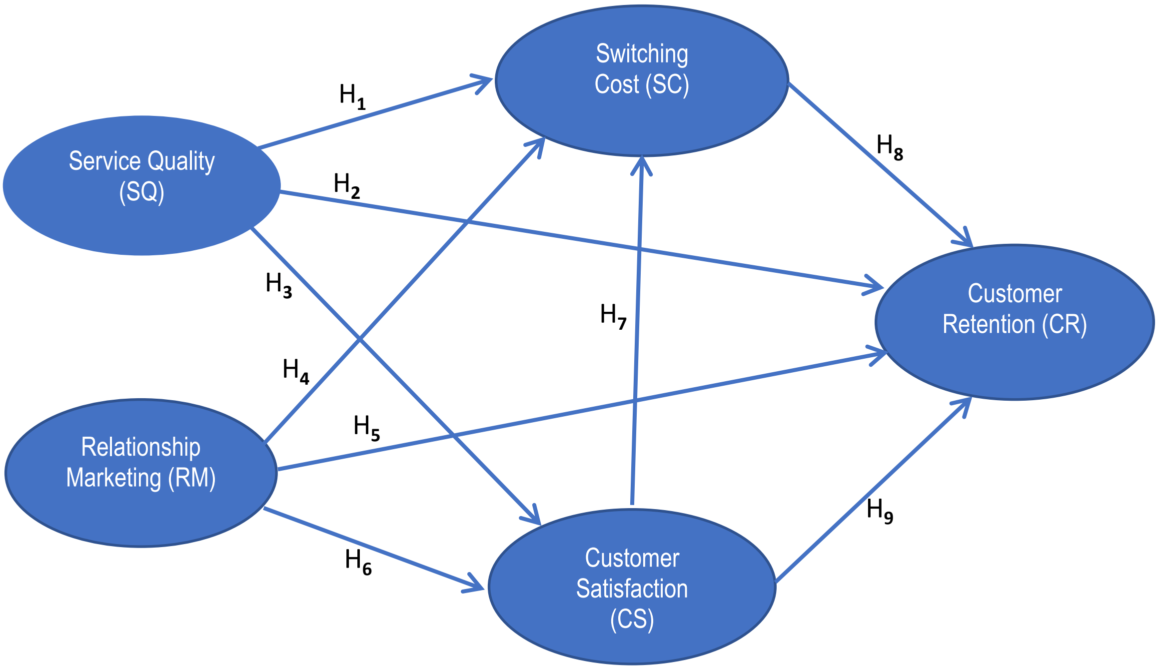

Figure 1 – Research Framework:

H_1: Service quality (SQ) affects switching costs (SC).
H_2: Service quality (SQ) affects customer retention (CR).
H_3: Service quality (SQ) affects customer satisfaction (CS).
H_4: Relationship marketing (RM) affects switching costs (SC).
H_5: Relationship marketing (RM) affects customer retention (CR).
H_6: Relationship marketing (RM) affects customer satisfaction (CS).
H_7: Customer satisfaction (CS) affects switching costs (SC).
H_8: Switching cost (SC) affects customer retention (CR).
H_9: Customer satisfaction (CS) affects customer retention (CR).

METHODS OF RESEARCH

Primary data were collected from 180 customers from three BPRs from three capitals of the regencies and cities in East Nusa Tenggara (out of 22 regencies and cities in the province). The three capitals are located in three different islands: Timor Island (west part), Flores Island, and Sumba Island. Samples were chosen based on their legal entity form, operational areas, competitive levels, and asset values. Respondents were chosen through accidental sampling under the following criteria: having a minimum IDR 2 million deposit and a minimum IDR 5 million loan. Data were collected through face-to-face meetings using questionnaires. Before data collection, the questionnaire had been tested for its validity and reliability. The questionnaire had five alternatives based on the Likert Scale (1 for completely disagree and 5 for completely agree). Hypotheses were tested using Generalized Structured Component Analysis (GSCA). The steps in the GSCA included (a) making a structural model to illustrate the relationship between variables, (b) making a measurement model, (c) making a path diagram, (d) converting the path diagram into an equation, (d) estimating weight, loading, and path, (e) evaluating goodness of fit, and (f) hypothesis testing (Solimun, 2013).

Most respondents (63.33%) aged 30 to 45 years old, and most of them graduated from elementary and high schools (70.60%). Most of them worked as retailers (66.70%), while the rest were farmers (3.90%), breeders (0.60%), fishermen (2.20%), and government officers (13.30%). Their monthly income was around IDR 2 to 5 million (67.20%). Most of the respondents had been customers of BPRs for 5 to 10 years (93.90%).

All items used in this study were valid based on the convergent validity test. The measurement model test (Appendix 1) showed that all indicators had an Average Variance

Extracted (AVE) value of more than 0.60. All items for the reflective variables, customer satisfaction (CS) and customer retention (RP), had positive loading values, which were bigger than 0.6. All items for the formative variables, service quality (SQ), relationship marketing (RM), and service quality (SC), had a Critical Ratio (CR) > 2.00.

All the latent variables were declared reliable based on Cronbach's Alpha (CA) and AVE's values. The reliability criteria were as follows: if the CA value is bigger than or equal to 0.6 and the AVE value is bigger than or equal to 0.50, then the variable is declared reliable. Table 1 depicts that the AVE values or discriminant reliability of all latent variables' indicators are bigger than 0.60, and the CA values are bigger than 0.50.

The next step was evaluating the structural model to know the measure of fit or the relationship between variables. The Goodness of Fit of the structural model is measured using FIT and AFIT. FIT represents the total variance of all variables that can be explained by the structural model. The FIT value ranges from 0 to 1. The greater the FIT value (close to 1), the greater the proportion of variable variance explained by the model. Because the FIT value usually affects the model's complexity, it is necessary to have an adjusted FIT or AFIT (Solimun, 2013).

Table 1 – Reliability Test Results

Variable	Indicators	AVE	Alpha
Service Quality (X_1)	Reliability ($X_{1.1}$)	0.841	0.904
	Responsiveness ($X_{1.2}$)	0.850	0.912
	Assurance ($X_{1.3}$)	0.885	0.935
	Empathy ($X_{1.4}$)	0.803	0.874
	Tangibles ($X_{1.5}$)	0.641	0.812
Relationship Marketing (X_2)	Commitment ($X_{2.1}$)	0.881	0.930
	Trust ($X_{2.2}$)	0.848	0.910
	Communication ($X_{2.3}$)	0.832	0.898
	Conflict Handling ($X_{2.4}$)	0.946	0.943
Switching Costs (Y_1)	Financial Cost ($Y_{1.1}$)	0.852	0.910
	Relational Cost ($Y_{1.2}$)	0.969	0.968
	Procedral Cost ($Y_{1.3}$)	0.832	0.892
Customer Satisfaction (Y_2)	Satisfaction with the Process ($Y_{2.1}$)	0.843	0.814
	Satisfaction with the Product ($Y_{2.2}$)	0.948	0.945
	Overall Satisfaction ($Y_{2.3}$)	0.848	0.908
Customer Retention (Y_3)	Intention to Maintain the Relationship ($Y_{3.1}$)	0.808	0.761
	High Involvement Rate ($Y_{3.2}$)	0.837	0.802
	Sense of Belonging ($Y_{3.3}$)	0.875	0.928
	Strong Intention to Stay ($Y_{3.4}$)	0.700	0.777

Source: Data Analysis.

In addition, the GFIT index and Standardized Root Mean Square Residual (SRMR) are used to measure the overall model, which involves an integrated structural model and measurement model. If the value of goodness of fit ≤ is 0.90 (cut-off value), then the model formed is feasible. If the SRMR ≤ cut-off value (equal to 0.08), then the model formed is appropriate (feasible or has a good fit). However, if one of the goodness of fit has been fulfilled, the model can be declared feasible. The results of the model feasibility test are presented in Table 2.

Table 2 – Test Results on the Research Model

Model FIT	Index Value
FIT	0.645
AFIT	0.640
GFI	0.964
SRMR	0.222

Source: Data Analysis.

Table 2 confirms that the FIT value is 0.645, meaning that the CR variable can be explained by the SQ, RM, CS, and SC variables by 64.50%. The AFIT value is 0.640, meaning that the variation of data from the CR variable can be explained by the SQ, RM, CS, and SC variables by 64%, while the rest is explained by other variables outside of the study. Meanwhile, the GFI value is 0.964, or close to 1 (the model is very good), and the SRMR value is 0.222, close to 0 (the model is quite appropriate).

GSCA results are shown in Figure 1. The analysis was done using a significance limit of 5% (0.05) with the following criteria. (a) If the Critical Ratio (CR) value is marked with an asterisk (*) ≥ t-table (t = 2.00), then the hypothesis had a significant effect or was accepted. (b) If the CR value < t-table, the hypothesis was not significant, or it was rejected. Table 3 presents the GSCA results of the hypothesized models. The path coefficients presented in Table 3 (and Figure 2) show the relationship between the variables studied and their impact on customer retention (RP).

Table 3 – Hypothesis Testing Results

Hypothesis	Path	Path Coefficients			Decision	
		Estimate	SE	CR	Accepted	Rejected
H_1	SQ → SC	0.320	0.144	2.22*	Accepted	
H_2	SQ → CR	0.253	0.071	3.57*	Accepted	
H_3	SQ → CS	0.374	0.085	4.41*	Accepted	
H_4	RM → SC	0.038	0.133	0.29		Rejected
H_5	RM →CR	0.325	0.094	3.46*	Accepted	
H_6	RM → CS	0.550	0.079	6.92*	Accepted	
H_7	CS → SC	0.233	0.128	1.82		Rejected
H_8	SC → CR	0.184	0.046	3.98*	Accepted	
H_9	CS → CR	0.190	0.079	2.39*	Accepted	

CR* = significant at .05 level

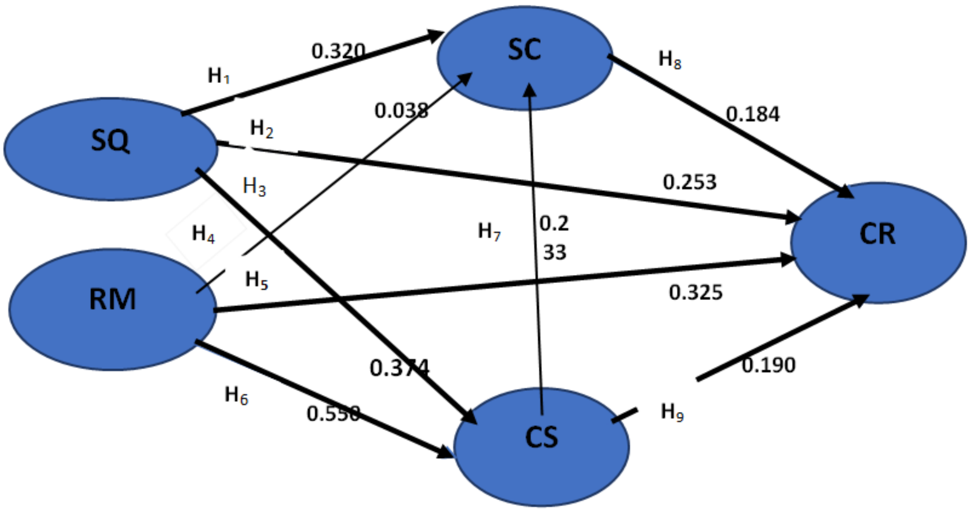

Figure 2 – The Research Model based on Hypothesis Testing

Among the direct relationship to CR, two relationships are not significant. They are H_4 (RM to SC) and H_7 (CS to SP). The other relationships support the hypotheses. SQ has a significant positive effect on SC (supporting H_1); SQ and RM have significant positive effects on CR (supporting H_2 and H_5); SQ and RM have significant positive effects on CS (supporting H_3 and H_6); and CS and SC have a significant positive effect on CR (supporting H_8 and H_9).

In addition, as an implication of the proposed hypothesis model, tests on the mediating variable were carried out to determine the mediating variable's role in the model. The results showed that only two indirect relationships (see Appendix 2) had a significant effect: (1) SQ to CR via CS, and (2) RM to CR through CS. The result of testing H_2 shows that SQ has a significant effect on CR, and results through the mediation variable show a significant effect of SQ on CR through CS (the t-count is 2.960 or greater than the t-table of 1.96). The same happens for H_6, where RM significantly affects CR, and while results through the mediation variable show a significant effect of RM on CR through CS (the t-count is 3.468 or greater than the t-table of 1.96).

Furthermore, the total effect, from the direct effect model in Table 3 and the indirect model in Appendix 3, shows how each variable's parameter value explains CR. Results show that SQ has a total effect of 0.397, RM has a total effect of 0.443, CS has a total effect of 0.233, and SC has a total effect of 0.184. Thus, RM is a variable that has a dominant influence on CR.

RESULTS AND DISCUSSION

The present study gave new insights and supported the previous studies by Moenardy (2016) that examined the relationship between relationship marketing and switching costs as well as relationship marketing and customer retention—this has been rarely done before. Findings showed that relationship marketing directly affected switching costs and customer retention. Relationship marketing had a direct and significant effect on switching costs—the findings supported Dwyer *et al.* (1987) that customers' high anticipation of switching costs raises their intention to maintain quality relationships. Monteiro *et al*. (2010) stated that creating and maintaining quality relationships is highly dependent on the company's ability to make complete and correct transactions all the time with its partners. Appropriately managed relationship marketing can be an alternative to releasing switching costs from its negative connotation as a customer trap. Thus, relationship marketing can be part of an ethical and moral perspective, as expected by Burnham *et al.* (2003), in managing switching costs.

Relationship marketing had a direct and positive effect on customer retention. Our findings supported Alnsour (2013). Alnsour (2003) examined nine key employees from nine different banks in Jordan through qualitative research. Findings showed some important factors to increase customer retention: trust, satisfaction, commitment, loyalty, closeness, communication transparency, privacy, cost, reputation, and organizational culture. Three of the factors became three of the four RM indicators used in this study: commitment, trust, and communication. The indicator that Alnsour (2013) did not explicitly identify but was used in this study was conflict handling.

Several previous studies provided limited empirical insight on the effect of trust on customer retention (Ranaweere and Prabu, 2003), but Alnsour (2013) confirmed the expected positive impact of trust on retention. The finding is consistent with Lee *et al.* (2011), stating that it is important for organizations to develop and maintain customer trust to build long-term relationships. Relationship marketing emphasizes efforts to maintain trust and commitment by keeping each other's integrity by fulfilling promises and showing empathy between the two parties (Little and Marandi, 2003). Commitment and trust are two very interrelated concepts, stimulating a bond between service providers and customers that facilitate collaboration to reduce uncertainty and increase values for both parties to stay (Moenardy, 2016).

Intense and transparent communication with existing and prospective customers plays an important role in maintaining relationships with customers. Technology allows customers to interact with each other and provides a means of communication and negotiation between service providers and customers. Such interactive technology will significantly improve the customer experience. Alnsour (2013) emphasized that sustainable two-way communication was important to retain customers and improve buyer-seller relationships. Conflict handling as the fourth indicator of relationship marketing can encourage customer retention. Customer retention will happen if the service provider can avoid potential conflicts, solve conflict causes before it becomes a problem, and discuss solutions openly when a problem arises (Dwyer *et al*., 1987).

The present study also supported other important relationships proven through previous studies in different contexts. The direct effect of service quality, customer satisfaction, and switching costs on customer retention showed the significant effect the three variables had on customer retention. The significant effect of the three variables, especially service quality and customer satisfaction, on relationship marketing has been highlighted in other studies. However, studies on the effect of switching costs on relationship marketing are limited, especially in Micro Financial Institutions. Thus, our findings strengthened and broadened findings of previous studies (Moenardy, 2016; Danesh *et al*., 2012; Edward and Sahadev, 2011; Burnham *et al*., 2003) that switching costs had a significant direct effect on customer retention.

We also expected that our findings would help many parties to escape 'the satisfaction trap', simply believing that customer satisfaction and service quality are the only means to improve retention (Reichheld, 1996). Thus, marketers must thoroughly understand various drivers of customer retention--one of the effective driving factors for customer retention is increasing switching costs (Burnham *et al*., 2003). Edward and Sahadev (2011) suggested that switching costs had to be managed, like customer satisfaction. By achieving customer satisfaction through better service features and good value provision, companies can create switching costs to increase customer retention.

Findings also confirmed that relationship marketing did not affect switching costs. The findings contradicted a previous study by Moenardy (2016) on 180 bank customers in East Nusa Tenggara, confirming that relationship marketing directly affected switching costs. Research on the relationship or influence of relationship marketing on switching costs is relatively new and is rare (Moenardy, 2016). Therefore, current studies, including this present one, aim to re-examine Moenardy's findings. The present study took BPR customers as the research subject, and the results were conflicting. Thus, further studies are needed to examine the relationship between relationship marketing and switching costs on different research subjects.

Our findings also showed that customer satisfaction did not affect switching costs. The finding strengthened previous studies conducted by Moenardy (2016) but contradicts the findings of Shah *et al*. (2013), Edward and Sahadev (2011), and Burnham *et al.* (2003).

Edward and Sahadev (2011) examined 220 respondents who used cellular phones in South India's major cities. They confirmed that customer satisfaction had a significant effect on switching costs. Burnham *et al.* (2003) on 158 credit card users and 144 long-distance call customers in the Southwestern United States showed that customer satisfaction significantly affected switching costs. The same findings were confirmed by Shah *et al.* (2013) on 200 mobile phone subscribers in Pakistan.

Unlike previous studies' findings, this study's findings indicated that customer satisfaction had no significant effect on switching costs. The difference was due to differences in the research object and customer perceptions of the two research variables. The object of Shah *et al.* (2013), Edward and Sahadev (2011), and Burnham *et al.* (2003) were cellular telephone subscribers. Burnham *et al.* (2003) also studied credit card customers. This study, on the other hand, employed BPR customers, or borrowers, as respondents. Burnham *et al*. (2003) also analyzed bank customers, especially credit card holders, as respondents. However, credit card holders are relatively different from borrowers in characteristics, in terms of service and interactions between banks and customers. Differences in research objects will affect respondents' perceptions of the two research variables (satisfaction and switching costs).

Lovelock and Wright (1999) mentioned that customer satisfaction was a short-term emotional reaction to a certain service experience, while switching costs, in the context of credit loans, are long-term and incurred once when a customer moves from one bank to another. Because of that, customers tend to ignore the cost. Thus, customers find it difficult to relate the level of perceived satisfaction to switching costs that they have to incur. Cohen *et al.* (2007) agreed on this, stating that customers considered all banks' products and services to be almost the same. There is only a slight difference between banks, so the intention to move to other banks is also low. Thus, it is understandable that customer satisfaction does not affect the perceived level of switching costs by customers.

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CONCLUSION

Our findings are beneficial for BPR practitioners amid the low demand—almost falling into saturated demand of credits—and the tight competition between BPRs to get new customers. Overall, our findings will help service providers to use service quality, relationship marketing, customer satisfaction, and service quality to increase customer retention independently and simultaneously, depending on the market. For the banking industry, including Micro Financial Institutions, relationship marketing is a key to improve customer retention—it shows its dominant influence on customer retention. Moreover, as Burnham et al. (2003) and Edward and Sahadev (2011) suggested, switching costs must be managed like customer satisfaction. Good service features will help create customer satisfaction, and companies will create switching costs to increase customer retention. It becomes crucial for BPRs in East Nusa Tenggara, considering their situation now and the tight competition with conventional and sharia banks as well as with credit cooperatives and other micro-financial institutions with the same target market.

APPENDIX 1 – MEASUREMENT MODEL

Variable	Loading			Weight			SMC		
	Estimate	SE	CR	Estimate	SE	CR	Estimate	SE	CR
Service Quality (X_1) Reliability ($X_{1.1}$)									
X1.1	AVE = 0.841, Alpha =0.904								
X1.1.1	0.926	0.022	42.0*	0.367	0.011	33.94*	0.857	0.040	21.18*
X1.1.2	0.898	0.031	28.95*	0.356	0.008	45.83*	0.807	0.055	14.65*
X1.1.3	0.927	0.023	39.68*	0.367	0.012	30.91*	0.858	0.043	19.89*
Responsiveness ($X_{1.2}$)									
X1.2	AVE = 0.850, Alpha =0.912								
X1.2.1	0.925	0.015	62.18*	0.363	0.008	43.22*	0.855	0.027	31.14*
X1.2.2	0.944	0.012	80.58*	0.370	0.009	42.72*	0.891	0.022	40.23*
X1.2.3	0.896	0.027	33.41*	0.351	0.005	76.37*	0.803	0.048	16.81*
Assurance ($X_{1.3}$)									
X1.3	AVE = 0.885, Alpha =0.935								
X1.3.1	0.922	0.024	37.67*	0.347	0.005	70.53*	0.849	0.045	19.02*
X1.3.2	0.959	0.010	91.56*	0.361	0.008	47.96*	0.920	0.020	45.91*
X1.3.3	0.941	0.014	68.7*	0.354	0.007	51.58*	0.885	0.026	34.32*
Empathy ($X_{1.4}$)									
X1.4	AVE = 0.803, Alpha =0.874								
X1.4.1	0.873	0.029	30.42*	0.362	0.007	49.55*	0.761	0.050	15.17*
X1.4.2	0.945	0.012	81.8*	0.392	0.013	30.78*	0.893	0.022	40.92*
X1.4.3	0.869	0.025	35.49*	0.361	0.007	50.74*	0.756	0.043	17.71*
Tangibles ($X_{1.5}$)									
X1.5	AVE = 0.641, Alpha =0.812								
X1.5.1	0.773	0.043	18.01*	0.301	0.016	18.43*	0.597	0.065	9.14*
X1.5.2	0.898	0.019	46.68*	0.350	0.013	26.41*	0.807	0.035	23.39*
X1.5.3	0.858	0.023	37.83*	0.335	0.013	25.48*	0.736	0.039	18.92*
X1.5.4	0.651	0.059	10.96*	0.254	0.018	13.89*	0.424	0.077	5.51*
Relationship Marketing (X_2) Bank Commitment ($X_{2.1}$)									
X2.1	AVE = 0.881, Alpha =0.930								
X2.1.1	0.919	0.021	43.01*	0.348	0.004	78.27*	0.844	0.039	21.51*
X2.1.2	0.975	0.006	156.74*	0.369	0.010	35.52*	0.951	0.012	78.37*
X2.1.3	0.921	0.023	40.15*	0.348	0.004	83.52*	0.848	0.042	19.97*
Trust ($X_{2.2}$)									
X2.2	AVE = 0.848, Alpha =0.910								
X2.2.1	0.929	0.016	59.73*	0.365	0.007	54.92*	0.863	0.029	30.08*
X2.2.2	0.921	0.018	49.92*	0.362	0.007	49.78*	0.848	0.034	25.1*
X2.2.3	0.913	0.017	55.3*	0.359	0.006	59.46*	0.834	0.030	27.77*
Communication ($X_{2.3}$)									
X2.3	AVE = 0.832, Alpha =0.898								
X2.3.1	0.903	0.027	33.66*	0.362	0.006	55.8*	0.815	0.048	16.83*
X2.3.2	0.922	0.015	62.44*	0.370	0.009	39.61*	0.850	0.027	31.1*
X2.3.3	0.911	0.018	49.83*	0.365	0.009	42.46*	0.829	0.033	25.01*
Conflict Handling ($X_{2.4}$)									
X2.4	AVE = 0.946, Alpha =0.943								

X2.4.1	0.973	0.006	151.25*	0.514	0.003	151.02*	0.946	0.013	75.68*
X2.4.2	0.973	0.006	151.25*	0.514	0.003	151.02*	0.946	0.013	75.68*
Customer Satisfaction (Y_2) Satisfaction with the Process ($Y_{2.1}$)									
Y2.1	AVE = 0.852, Alpha =0.910								
Y2.1.1	0.892	0.018	48.36*	0.349	0.005	69.06*	0.796	0.033	24.04*
Y2.1.2	0.946	0.010	94.22*	0.370	0.007	53.29*	0.895	0.019	47.12*
Y2.1.3	0.930	0.015	62.43*	0.364	0.005	69.9*	0.865	0.028	31.41*
Satisfaction with the Product ($Y_{2.2}$)									
Y2.2	AVE = 0.969, Alpha =0.968								
Y2.2.1	0.984	0.006	153.42*	0.508	0.003	153.04*	0.969	0.013	76.8*
Y2.2.2	0.984	0.006	153.42*	0.508	0.003	153.04*	0.969	0.013	76.8*
Overall Satisfaction ($Y_{2.3}$)									
Y2.3	AVE = 0.832, Alpha =0.892								
Y2.3.1	0.917	0.023	39.24*	0.367	0.010	37.29*	0.841	0.043	19.69*
Y2.3.2	0.955	0.009	105.15*	0.383	0.013	29.98*	0.912	0.017	52.52*
Y2.3.3	0.862	0.036	23.84*	0.345	0.007	48.71*	0.743	0.062	11.99*
Switching Costs (Y_1) Financial Cost ($Y_{1.1}$)									
Y1.1	AVE = 0.843, Alpha =0.814								
Y1.1.1	0.918	0.024	38.26*	0.544	0.014	37.87*	0.843	0.044	19.2*
Y1.1.2	0.918	0.024	38.27*	0.545	0.014	37.88*	0.843	0.044	19.2*
Relational Cost ($Y_{1.2}$)									
Y1.2	AVE = 0.948, Alpha =0.945								
Y1.2.1	0.974	0.007	139.29*	0.513	0.004	138.98*	0.948	0.014	69.72*
Y1.2.2	0.974	0.007	139.29*	0.513	0.004	138.98*	0.948	0.014	69.72*
Procedural Cost ($Y_{1.3}$)									
Y1.3	AVE = 0.848, Alpha =0.908								
Y1.3.1	0.901	0.020	44.65*	0.354	0.005	68.33*	0.811	0.036	22.32*
Y1.3.2	0.926	0.017	54.01*	0.364	0.006	57.06*	0.857	0.032	27.15*
Y1.3.3	0.936	0.014	65.49*	0.368	0.009	43.18*	0.876	0.027	32.77*
Customer Retention (Y_3) Intention to Maintain the Relationship ($Y_{3.1}$)									
Y3.1	AVE = 0.808, Alpha =0.761								
Y3.1.1	0.899	0.025	35.86*	0.556	0.016	35.48*	0.807	0.045	17.99*
Y3.1.1	0.899	0.025	35.87*	0.556	0.016	35.49*	0.808	0.045	18.01*
High Involvement Rate ($Y_{3.2}$)									
Y3.2	AVE = 0.837, Alpha =0.802								
Y3.2.1	0.915	0.016	56.52*	0.546	0.010	55.88*	0.837	0.029	28.39*
Y3.2.1	0.915	0.016	56.53*	0.546	0.010	55.9*	0.838	0.029	28.41*
Sense of Belonging ($Y_{3.3}$)									
Y3.3	AVE = 0.875, Alpha =0.928								
Y3.3.1	0.914	0.028	33.22*	0.348	0.005	76.71*	0.835	0.050	16.71*
Y3.3.2	0.953	0.013	72.67*	0.363	0.008	45.55*	0.908	0.025	36.39*
Y3.3.3	0.940	0.013	70.22*	0.358	0.009	40.56*	0.883	0.025	35.16*
Strong Intention to Stay ($Y_{3.4}$)									
Y3.4	AVE = 0.700, Alpha =0.777								
Y3.4.1	0.868	0.026	33.52*	0.413	0.022	18.76*	0.753	0.045	16.87*
Y3.4.1	0.853	0.047	18.22*	0.406	0.020	20.66*	0.728	0.079	9.21*
Y3.4.1	0.787	0.052	15.21*	0.375	0.021	18.25*	0.619	0.079	7.84*

CR = Significant at 0.05.*

APPENDIX 2 – DIRECT EFFECT TESTS

Exogenous	Int 1	Int 2	Endogenous	Indirect	SE	***t*** Statistics
Service Quality	Customer Satisfaction		Switching Costx	0.087	0.052	1.682
Service Quality	Customer Satisfaction		Customer Retention	0.069	0.023	2.960
	Switching Costs			0.059	0.030	1.943
	Customer Satisfaction	Switching Costs		0.016	0.010	1.551
Relationship Marketing	Customer Satisfaction		Switching Costx	0.128	0.073	1.761
Relationship Marketing	Customer Satisfaction		Customer Retention	0.101	0.029	3.468
	Switching Costs			-0.007	0.025	-0.285
	Customer Satisfaction	Switching Costs		0.024	0.015	1.612
Customer Satisfaction	Switching Costs		Customer Retention	0.043	0.026	1.657

APPENDIX 3 – DIRECT AND INDIRECT EFFECT TESTS

Exogenous	Int 1	Int 2	Endogenous	Coefficient		
				Direct	Indirect	Total
Service Quality			Customer Satisfaction	0.374		0.374
Service Quality	Customer Satisfaction		Switching Costs	0.320	0.087	0.407
Service Quality	Customer Satisfaction		Customer Retention	0.253	0.069	0.397
	Switching Costs				0.059	
	Customer Satisfaction	Switching Costs			0.016	
Relationship Marketing			Customer Satisfaction	0.550		0.550
Relationship Marketing	Customer Satisfaction		Switching Cost	-0.038	0.128	0.090
Relationship Marketing	Customer Satisfaction		Customer Retention	0.325	0.101	0.443
	Switching Costs				-0.007	
	Customer Satisfaction	Switching Costs			0.024	
Customer Satisfaction			Switching Costs	0.233		0.233
Customer Satisfaction	Switching Costs		Customer Retention	0.19	0.043	0.233
Switching Costs			Customer Retention	0.184		0.184

**Significant at 0.05.*

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