

A STUDY ON DETERMINANTS OF PREFERENCE AND SELECTION OF BANK

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ABSTRACT

The development and increasing use of information and technology has changed in every facets of the life. The banking industry has changed its functioning from traditional banking system to modern banking due as per changes in the economic system. In this context, knowledge of bank selection criteria is very important for a bank in order to make right strategy to attract the customers. This paper is study on determinants of preference and selection criteria of bank in Surat city. A total of 200 customers from different banks are survey using 23 variables. The factor analysis is used for reduction in variables and six factors found important for selection of bank. The reliability test is also used to measure reliability of six factors and that also found good in first four factors.

KEYWORDS: Factor Analysis, Selection Criteria, Reliability Test

INTRODUCTION

A today most important of any business is to attract new and retain the existing customer in a highly competitive environment. Service organization might be able to effectively attract and retain customer. It is also crucial to understand what is valuable for them and how the customer make decisions. The business environment is totally changed in the way customer buy, shop and decides to come back or not. Thus companies have ultimately realized that the balance of power is shifted from sellers to buyers. For instance, customers need exactly what they want, at the right time and right place with every specification and at the least possible price.

The health of every economy is closely depends on soundness of their financial system. Banking sector is play an important role or act as important players in financial system. The bank is having effective role in economic development of country. In a modern and competitive atmosphere also affect the banks to adopt new technologies and improve their service quality. Each type of banks is providing varied services to attract the customers as it is considered as important assets.

The economy of developing countries is bank driven in terms of transactions are basically made through exchanges of bank note for goods and services. Now a day, the trend is to use modern and sophisticated payment system where the currency and notes are converted to data through technological instrument which shows progress and development of financial market. Thus, the technology has change the banking service face into faster delivery of information and services. This is paradise shift of banking sector from tradition branch operation to innovative use of information technology in terms of providing best products and services.

This is a very much challenging issue for the banks to attract new customers and retain existing one in a highly competitive environment. Every bank is competing with each other in terms of providing best product with quick and

efficient services. It is very crucial for the banks to identify the factors which are considered by customers while selecting a particular bank in competition among them. The knowledge of determinants considered by customers allows banks to focus on products and services that are most valued by clients and increase customer satisfaction.

LITERATURE REVIEWS

Riggall (1980) surveyed about when why newcomers choose a particular bank and found that location appears most important factor than low service charge, influence of friends, availability of automated teller machines (ATM), and employer uses the same bank for selection of bank. Laroche et al. (1986) has also found that friendliness of bank personnel, speed of services and convenience of location were the major factors which consumers perceived as important in their selection of a bank. Buerger and Ulrich (1986) have found that Price of service was crucial factor for bank selection.

Schlesinger et al. (1987) found that there were three most important factors namely lending rates, accessibility of borrowing, and the number of services offered for selecting a bank for small business customers. Erol et al. (1990) has concluded that customers give high score to fast and efficient services, bank's reputation and image, friendliness of bank personnel, and confidentiality of bank. Kayanak and Kucukemiroglu (1992) surveyed in Hong Kong to determine the importance of selection factors used in choosing domestic and foreign banks. Convenient location, available counseling, vault location, and loans and mortgages found to be major factors.

The most weighted determinant attributes found were service charges, reputation, interest charged on loans, quick loan approval, and friendly tellers in their studies in Maryland USA by Kazeh and Decker (1993). Boyd et al. (1994) has studied the same in term of age of head of the house hold and found that age group under 21 years, a bank's reputation plays a major role in their bank selection, followed by location, hours of operation, interest on savings accounts and the provision of convenient and quick services. Haron et al. (1994) surveyed on Muslim and non-Muslim commercial bank customers in Malaysia to determine the selection criteria and found that Muslims and non Muslims valued almost the same factors.

Zineldin (1996) conducted a survey of bank customers using 19 potential factors which consider as important. The study revealed that friendliness and helpfulness of personnel, accuracy in account, availability of loans, and provision of services were the most important factors. Mylonakis et al., (1998) concluded that convenience, bank reputations, quality of products and services, interest rates and fees, education and personnel contacts, facilities, branch environment, services and after service satisfaction were the most important bank selections criteria. Ulengin (1998) concluded in his study that customer in Turkey was more interested in the functional quality of financial services rather than the technical quality dimension. Chen (1999) conducted four factors were important for business strategy namely the ability of the bank to manage operations, bank marketing, developing bank trademarks and financial market management. Shevlin and Graeber (2001) explored the same pointed out that ATM (Automatic Teller Machine), branch visit and referral from friends and relatives were most prevalent sources of influence.

Almossawi (2001) surveyed college students for selection of bank and their results revealed that banks reputation, availability of parking space near the bank, friendliness of bank personnel, availability and location of automated teller machines (ATM) were important factors. Devlin (2002) analyzed intrinsic and extrinsic criteria of customer while selecting a bank based on financial knowledge. He concluded that higher knowledgeable groups were found more likely to take

account of intrinsic attributes such as service features, rate of return and low fees in their choice. Noman et al. (2007) studied in Bangladesh on banking behavior of Islamic customers and found that Islamic principles, convenient location, recommendation of friends and family, and rates of return were the important bank selection criteria.

Kamakodi and Khan (2008) surveyed 292 banks customers on the factors that determine the bank selection decisions. They found importance factors as Safety of Funds, secured ATMs, ATMs availability, reputation, personal attention, pleasing manners, confidentiality, closeness to work, timely service and friendly staff willing to work. Hafeezur and Saima (2008) have also surveyed 358 customers of private, privatized and nationalized banks in Pakistan. They cited that the most important variables influencing customer choice were customer services, convenience, online banking facilities and overall bank environment. Blankson et al. (2009) identified four key factors - convenience, competence, recommendation by parents, and free banking to be consistent across the two economies.

Awan and Bukhari, (2011) have conducted research in Pakistan on criteria for selecting an Islamic bank. They cited that customers give importance to quality services than religious beliefs. Nayyab, et al. (2011) also conducted the study on Islamic bank selection criterion in Pakistan. They stated that customers choose the Islamic bank by giving first preference to convenience and second to cost and benefit. There were six crucial factors identified by Fatoki (2011) that influence in selecting commercial banks, including easy of opening an account, availability of ATM in several locations, availability of ATM 24 hours, provision of fast and efficient service, convenient branch location, and appropriate range of service offered.

Maiyaki (2011) states that customers consider size of bank total assets, nearness of the bank to your office or house (residence), convenient access to bank location, personal security of customer, and ease of procedures of account opening as most important in bank selection. Krisnanto (2011) has concluded that customers were selecting the bank based on recommendations of friends and family members. When selecting a bank, it is not only the price of the services or how fast a transaction can be done, but also friendliness of tellers (Loukas, 2012; Channon, 1986; Krisnanto, 2011; Frangos, 2012; Aregbeyen, 2011; Mokhlis 2009; Fulcher, & Anderson, 1976; and Goiteom, 2011). Sayani and Miniaoui (2013) used multiple discriminate analyses to identify the important factors of bank selection criteria for Islamic and conventional banks. Their study suggests religious preferences are considered the most important attributes when choosing between Islamic and conventional banks.

Dabone et al. (2013) analyzed different selection criteria for bank. The important factor considered by both Muslims and Non-Muslims were fast and efficient services, speed of transactions, friendliness of bank personnel, confidentiality of banks, reputation and image of bank, knowledgeable about their business, lower interest charges on loans, and parking facilities and accessibilities. According to Caratelli (2013), customers look at the reputation of a bank before other attributes such as technology and prices. Customers consider the opinion of their families and friends as important when selecting a bank (Caratelli, 2013; Channon 1986; Aregbeyen, 2011; Fulcher and Anderson, 1976; and Goiteom, 2011).

Mokhlis (2009) has suggested that customers were more emphasis on electronic services (ATM) which gives them quick and convenient access to the bank service. A convenient ATM services can save customers time (Saleh, 2013; Channon 1986; Mokhlis, Hazima, & Safrah, 2008; Marimuthu, Jing, & Ping, 2010; Hinson Osarenkhoe and Okoe 2013; Sayuti, & Rahimiu, 2013; Frangos, 2012 and Aregbeyen, 2011). A number of studies have argued that friendliness of staff,

hours of operations, convenience of location, low service charges and efficiency of banking services are the main selection criteria of a specific bank (e.g., Holstius and Kayank, 1995; Yue and Tom, 1995; Mylonakis et. al., 1998; Coyle, 1999; Driscoll, 1999; and Moosawi, 2001).

OBJECTIVE AND SIGNIFICANCE

The purpose of this paper is to identify the factors that customers consider important to select a bank. This study can help bankers to identify the factors that their customers perceive important in a bank selection and provide some guidelines to the banks for designing their future strategies in a competitive environment. This study also produces an assist to the policy makers, researchers, governments, and those who are concern for developing the varied aspects of banking business.

DATA AND METHODOLOGY

The data were collected from the bank customers in Surat city using structured questionnaire. The samples of 200 bank customers chosen for the inclusion were randomly selected. Respondents were asked to complete the variables as which criteria do you consider for opening a bank account. The questionnaire consisted of 23 Likert variables that the respondents to rate on five-point Likert scale as 1 = most unimportant to 5 = most important on their selection decision of banks.

Statistical Analysis: Factor Analysis was performed to identify the factors affecting selection of bank. Reliability test also measured to check the consistency of extracted factors.

The study will be limited to Surat city only. For further this topic can be extended to other cities or state level or considering other factors which may not be covered in this work.

DATA ANALYSIS

Factor Analysis

The KMO measure whether the distribution of values is adequate for conducting factor analysis. The result of KMO is greater than 0.8 shows it is admirable. The Bartlett's test measures the multivariate normality of data set. The significance value less than 0.05 indicates that these data do not produce an identity matrix and are thus approximately multivariate normal and acceptable for factor analysis.

Table 1: Total Variance Explained

Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	6.362	27.659	27.659	6.362	27.659	27.659	3.454	15.016	15.016
2	2.364	10.277	37.936	2.364	10.277	37.936	2.708	11.775	26.790
3	1.695	7.368	45.304	1.695	7.368	45.304	2.534	11.019	37.810
4	1.480	6.434	51.738	1.480	6.434	51.738	1.949	8.472	46.282
5	1.117	4.855	56.593	1.117	4.855	56.593	1.927	8.376	54.658
6	1.087	4.728	61.320	1.087	4.728	61.320	1.532	6.663	61.320

7	.981	4.266	65.586					
8	.926	4.025	69.611					
9	.818	3.556	73.167					
10	.757	3.292	76.459					
11	.674	2.928	79.388					
12	.648	2.819	82.206					
13	.618	2.688	84.894					
14	.531	2.307	87.201					
15	.519	2.256	89.457					
16	.430	1.870	91.327					
17	.411	1.786	93.113					
18	.336	1.461	94.574					
19	.327	1.422	95.996					
20	.314	1.364	97.360					
21	.241	1.048	98.408					
22	.209	.907	99.315					
23	.158	.685	100.000					

There are six factor extracted by using the method of principle component analysis and rotation method of varimax with Kaiser Normalization criteria Eigen value more than one. The results of factor analysis are shown in total variance explained and rotated component matrix table.

It can be concluded that these six factors extracted from the 23 variables are explaining about 61% of variance.

Table 2: Rotated Component Matrix

	Component					
	1	2	3	4	5	6
Number of ATM booths	.724					
Speed and efficiency of transactions	.712					
Fast & efficient counter services	.685					
Wide range of services offered	.664					
Financial advice	.487					
Credit card		.768				
Internet Banking		.475				
Mobile Banking		.633				
Debit/ATM card		.701				
SMS alerts		.632				
Account opening gift			.692			
Lucky draws			.591			
Festival gift			.574			
Location				.596		
Seating arrangement				.734		
Parking space				.665		
Number of branch offices				.835		
Willingness to sort-out the queries					.780	
Knowledge & Skill					.587	
Respect & Consideration					.642	
Friendliness					.536	
Recommended by friends & relative						.427
Bank's reputation & image						.676

The table of rotated matrix indicates that factor 1 has variable related to effectiveness of services, factor 2 has a variable related to value added services, factor 3 has a variable related to gift & coupons, factor 4 has a variable related to physical environment, factor 5 related to employee behavior, and factor 6 related to brand image.

Reliability Analysis

The reliability test is used to measure the reliability of factors extracted from factor analysis. The result shows in a table below. To measure the reliability of items loading into six factors, Cronbach's Alpha was calculated. The value of first four factors is more than 0.500, indicate that the factors are consistent and reliable where as factors fifth and sixth are less reliable.

Table 3: Reliability Test

Factors	Cronbach's Alpha	No. of Items
1	0.712	5
2	0.712	5
3	0.688	3
4	0.648	4
5	0.494	4
6	0.385	2

CONCLUSIONS

The study has found six factors consist of effectiveness of services, value added services, gift & coupons, physical environment, employee behavior, and brand image were important for selection of a bank from factor analysis. These six factors explained about 61% of variance. The four factors found reliable and consistent also where as others two were less.

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