Driving Factors in the Selection of a Bank: Stakeholder’s Perspective

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Abstract

Now days, there is radical evolution in banking sector which results into the emergence of numerous banks that keep the customers in a dilemma in preferring a bank over the other. In the present research work factors, which determine the customer’s choice of preference to a bank while opening an account is studied? As customers have their own sense of tastes, preferences towards products and services. This study analyzes what the customer is thinking that, which factor is most important to him/her while opening an account in a specific bank. The present study has surveyed more than 250 respondents. The results stresses on the various factors like Online banking, Mobile banking, Credit and debit card services, and Number of ATM booths available and many more other factors.

Keywords: Selecting of a Bank, factors, banking sector, Principle component analysis

I. Introduction

Implementation of globalization trend in business in many countries brought a drastic change in the business environment and also the economic environment. As a result, that change is also carried through the service industry too. Global economy is going through a phase of heightened emphasis placed on the service industry. In this massive growth banking sector has been playing a major role. Outcomes of this, in India the banking sector is growing with faster pace. In several developing nations such as India, the banking industry is contributing its big hand in GDP. In India the nationalization of banks was done in 1960. Since 1960,
the rapid growth of Indian economy was taken place. In addition to that, the Industrial policy 1991 i.e., Liberalization, Globalization and Privatization (LPG) contributes more in the development of the banking sector. Globalization and liberalization on rules resulted to the entry of several foreign banks into India. India stood in the second place in high populous countries list followed by China. India’s growing huge population is a boon to the increase in the banking sector i.e., the need of a greater number of banks to the growing population to save their money is also growing. As the number of banks is growing in India, the customer demands are also on rise. Hence, it is a critical moment for the banking industry to know which factors or determinants or services attract the customers more. Present research is an attempt to understand the most important determinants influencing bank selection from the perspective of the customer.

Banks’ management teams need to detect and improve the issues that limit the customer defection. Customer defection for any bank may cause decrease in the profitableness. Customer defection may happen because of lack of information and knowledge about the bank, poor service utilized offer by the bank. Due to the increased competition bank managements need to obtain more knowledge about what their customers are concerning about and what variables are influencing them to prefer a particular bank. The present research helps to find which factors that customers like most while opening a bank account and which services those customers feels which is important while opening a bank account.

In this paper we study the factors effacing the customers for selection of bank while opening an account. The variables considered in this study are image of the bank, speed and quality of the service provided by the bank, effective and efficient customer service, ease of opening account, low interest on loans, ease of obtaining loan, convenient branch location, knowledge and skill of bank employees, longer working hours of bank, respect and consideration shown by employees to the customers, number of ATM booths available, credit and debit cards available.

II. Literature review of the study

In the field of banking, several extensive studies have been carried out. The studies covered some broad as well as specific segments of customers. Also, some studies focused on particular variables in the banking. In the ensuing section, a review of some studies is presented. Much of the literature has overlooked the customers’ preference for bank selection. Still, there are a considerable amount of studies that focused on critical factors that are given preference by customers while selecting a bank. For instance, Jamal and Naser(1999) have found in their study that service quality and service features were playing significant role in customer satisfaction.
Boyd et al. (1994) researched the preference placed on bank in the context of age group of the head of the household. Their findings indicated that bank’s reputation was given more priority by age groups below 21 years while giving preference to a bank. Other factors such as location, working hours, interest rates and speed and accessibility of services also played role. Friendly nature of banking staff and presence of modern facilities was given least importance.

Thornton and White (2001) analyzed consumers' attitude towards utilization of various channels of financial services. Their study found that banks follow multiple distribution channels to reach the customers of different kinds. The study advocated banks to focus on improving bank branch-based services in case of more revenues being generated by customers who give preference to services. Similarly, banks should focus on improving electronic and mobile applications to stay appealing to customers who have preference towards technology and ease of facilitation. In addition, offering best services to customers, utilizing sophisticated technology, and offering customer friendly products emerged as critical factors along with marketing communication (Andrew, 1990).

Nielsen et al (1998) carried out a nationwide survey in Australia covering 25 banks and 2,500 business customers to identify the preference given by customers to various factors while selecting a bank. The study found that business firms were giving high priority to the banks’ readiness to fulfill credit requirements and the efficient way of handling everyday activities of the bank. On the other hand, banks were concentrating more on offering services at lower prices, and breadth of products and services to endure the relationships with the customers.

Rehman and Ahmed (2008) investigate the customer’s bank selection factors in Pakistan. The survey included 358 customers in Pakistan, and gathered the responses from various customers of private, privatized and nationalized banks in Lahore of Pakistan. The study founds this the most influence factors for selection of the bank are convenience, online banking facilities and bank environment.

Almossawi (2001) studied the strategies attracting the new customers in their bank selection decision. In Bahrain, his study focused on verifying banks’ selection strategy of college students in Bahrain. The major determinants of preference to bank by the students are, the place for parking vehicles, friendliness of bank staff, and availability and location of automatic teller machines.

Katircioglu et al (2011) investigates bank selection criteria of customers in Romanian. They surveyed 248 customers in city of Romania. The major findings of their study are wide spread of ATM services, facility of tele banking and internet banking, personal focus towards customers, bank’s image, staff behavior and the presence of number of branch offices around the country. Finally, the bank selection criterion’s also different from cities and income levels.
II.i. Purpose of the study

In INDIA banking sector is significantly growing regardless of its social and economic status of the people. A few studies are focused on the important factors that influences in the selection of the bank. In this regard a study is carried out. In this study we determine the important factors influencing selection of opening a bank account.

III. Methodology

This study was conducted in selected cities in Andhra Pradesh. A well structure questionnaire was prepared to get the data from the targeted population. The questionnaire contains the questions related to demographic features of the respondents and also contains some factors which were gathered from several studies and the respondent need to rate those factors on a 5-point scale of importance ranging from 1= “Not at all important” to 5= “Mandatory”. The questionnaires are dispensed to 307 respondents of which 186 are online and 121 are self-administrated. For collecting the sample from the respondents, we use combination of convenience sampling and snowball sampling technique.

III.i. Analysis and Interpretation

After administrating the questionnaire and collecting the data with the help of the survey, the results were recorded in Micro Soft Excel and the data was coded which was further analyzed using SPSS. In Table 1 we presented the demographic and socio-economic characteristics of the customers like age groups, gender, marital status, area, educational qualification, occupation and income per month.

| Variable       | Frequency | Percentage |
|----------------|-----------|------------|
| **Age groups** |           |            |
| <24            | 200       | 65.1%      |
| 25 - 34        | 60        | 19.5%      |
| 35 - 44        | 19        | 6.2%       |
| 45 - 54        | 20        | 6.5%       |
| 55 - 65        | 8         | 2.6%       |
| **Total**      | 307       | 100.0%     |
| **Gender**     |           |            |
| Male           | 183       | 59.6%      |
| Female         | 124       | 40.4%      |
| **Total**      | 307       | 100.0%     |
| **Marital status** |       |            |
| Married        | 71        | 23.1%      |
| Unmarried      | 236       | 76.9%      |
| **Total**      | 307       | 100.0%     |
| **Area**       |           |            |
| Rural          | 76        | 24.8%      |
Table 1. Demographic profile of the respondents

| Educational Qualification | | |
|---------------------------|--|--|
| semi Urban | 76 | 24.8% |
| Urban | 155 | 50.5% |
| Total | 307 | 100.0% |

| Occupation | | |
|-------------|--|--|
| Student | 176 | 57.3% |
| Job holder | 86 | 28.0% |
| Business | 18 | 5.9% |
| Home maker | 18 | 5.9% |
| Others | 9 | 2.9% |
| Total | 307 | 100.0% |

| Income per month | | |
|------------------|--|--|
| No income | 172 | 56.0% |
| Below 10000 | 22 | 7.2% |
| 10001 to 20000 | 26 | 8.5% |
| 20001 to 30000 | 37 | 12.1% |
| 30001 to 40000 | 17 | 5.5% |
| Above 40000 | 33 | 10.7% |
| Total | 307 | 100.0% |

IV. Interpretation

IV.i. Age groups

It is observed from Table 1, most of the respondents are from the age group which is less than 24 years of age accounted to 200 respondents whooping to 65.1% of the total respondents which is counted as 307. As per the analysis, we can conclude that most of the respondents are youngsters who area below the age of 24 and followed by 19.5% of respondents which scaled as 60 respondents belongs to the age group between 25-34 years.

IV.ii. Gender

On a total of 307 respondents, 59.6% of the respondents which is numbered as 183 are male and the rest of the respondents i.e., 40.4% of the respondents are female respondents which is recorded as 124 in numerical count.
IV.iii. Marital Status:
Of all the respondents, 23.1 % were married which was recorded as 71 respondents in numeric and the remaining 76.9 % were unmarried which was a count of 236 of the total respondents. From that we can make a note that most of the respondents in the survey were unmarried as a result they can be from youth population.

IV.iv. Area of the respondents:
From the above tabular and graphical presentation, we can note that, of all the respondents’ major part were from the urban area with 50.5 % which means 155 respondents from the total respondents, whereas the count of respondents from both rural and semi urban were recorded as 24.8 % of the respondents i.e., 76 respondents from the total respondent count.

IV.v. Educational Qualification of the respondents:
From this survey we can observe that the more of the respondents are post graduates that is noted as 43.6 % i.e., 134 of respondents of the total count, followed by under raduated of 42 % and the respondents with the qualification of intermediate are 11.4% followed by 1.3 % of Ph.D. candidates. 1 % of the respondents are having other qualifications like ITI and many other and 0.7 % of the respondents were holding SSC as their educational qualification.

IV.vi. Occupation of respondents:
We can interpret from the above tabular and graphical presentations that most of the students have taken the survey and they are the major share in holding an account with the share of 57.3 % i.e., 176 of the total respondents followed by the job holders which share its part with 28 % which counted as 86 from the total respondents. Both business people and home makers contributing the same share by contributing 5.9 % each which was noted as 18 for the total respondents.

IV.vii. Income of the respondent per month:
As mentioned from earlier graphs most of the respondents are students and youth as a result the income of them is nil. The no income group stood at first place with 56 % which was recorded as 172 respondents of the total respondents followed by the income group which ranges between 20001 and 30000 with the count of 37 respondents whooping about 12.1 % followed by the range above 40000 with 10.7 % of the respondents. It was followed by the range between 10001 and 20000 with 8.5 %. Next to that the income group of below 10000 with 7.2 %.
IV.viii. Factor analysis
The results of the factor analysis so obtained by using the extraction method is principle component analysis (PCA) and stating the rotation as Varimax with Kaiser Normalization. To measure the sampling adequacy and the significance of correlation matrices was tested using KMO (Kaiser-Meyer-Olkin) and Barlett’s Test of Sphericity. From table 1, it is found that the KMO statistic is measured as 0.834, it indicates the data is appropriate for factor analysis. The results of Barlett’s test was significant, it means there exist a relationship between among the variables, considered for factor analysis.

|                      | Convenience & technology enablement | Support from bank staff | Ease of using core services | Service reputation of the bank | Communalities |
|----------------------|-------------------------------------|-------------------------|-----------------------------|-------------------------------|---------------|
| 1) Online banking    | .864                                | .129                    | .143                        | .093                          | 0.792         |
| 2) Mobile banking    | .864                                | .120                    | .046                        | .157                          | 0.787         |
| 3) Credit and debit card services | .834                  | .091                    | .239                        | .125                          | 0.777         |
| 4) Number of ATM booths available | .719                  | .152                    | .232                        | .154                          | 0.617         |
| 5) Respect and consideration shown by employees | .212                  | .888                    | .240                        | .188                          | 0.926         |
| 6) Appearance of staff | .120                               | .838                    | .099                        | .166                          | 0.754         |
| 7) Longer working hours | .106                               | .759                    | .249                        | .129                          | 0.666         |
| 8) Convenient branch location | .095                               | .248                    | .799                        | .104                          | 0.719         |
| 9) Ease of opening an account | .231                               | .117                    | .725                        | .212                          | 0.637         |
| 10) Low interest on loans | .224                               | .197                    | .687                        | .174                          | 0.519         |
| 11) Image of the bank | .037                               | .185                    | .058                        | .781                          | 0.649         |
| 12) Speed and quality of service | .266                               | .131                    | .169                        | .761                          | 0.695         |
Table 2: Results of Exploratory factor analysis (EFA) (N = 307)

From table 2 states, using PCA four factors are extracted, all together they explain 71.56% of the total explained variance. Here we reduce the number of variables 17 to 4 underlying factors and their eigen values with 1 or more than 1. The communalities are presented in the last column of the table 2.

Looking from the table 2 we observe the items Online banking, Mobile banking, Credit and debit card services, and Number of ATM booths available have loadings .864, 864, 834, and 719 on factor 1. This means factor 1 is combination of these four items, it was named as ‘Convenience & technology enablement’.

Now factor 2 (in table 2) we notice that the variables Respect, and consideration shown by employees, Appearance of staff, and Longer working hours have loadings 0.888, 0.838 and 0.759 respectively. This indicating that factor 2 as combination of these three variables, we named this factor as “Support from bank staff”.

As for factor 3 (as seen in table 2) we got the variables Convenient branch location, Ease of opening an account and Low interest on loans with loadings 0.799, 0.725 and 0.687 respectively, it represents as factor 3 is clubbed as these three variables. We name this factor 3 as “Ease of using core services”.

Finally, from table 2 the factor 4 has the items Image of the bank, Speed and quality of service, and Effective and efficient customer service with loadings 0.781, 0.761, and 0.725 respectively. This factor is named as “Service reputation of the bank”.

V. Confirmatory factor analysis (CFA)

First, so as to research whether the factor structure can be replicated with in the new data set from 307 respondents, confirmatory factor analysis (CFA) turned into conducted. The AMOS 22.0 applied for confirmatory factor analysis of 4 factors extracted from factor analysis. The model fit indices of CFA are offered as follows:

\[ \chi^2 = 103,1882 \text{, } DF= 59, \frac{\chi^2}{DF} = 1.7490, \text{ GFI } = 0.9517, \text{ AGFI } = 0.9256, \text{ NFI = } \]
0.9490, TLI = 0.9699, CFI = 0.9773, and RMSEA = 0.0495. All the fit indices are within the threshold limit.

Fig.1. Confirmatory Factor analysis model
Table 3. Variables extracted from Confirmatory factor analysis

| Code | Variable name                                | Factor name                                |
|------|-----------------------------------------------|--------------------------------------------|
| V1   | Image of the bank                             |                                            |
| V2   | Speed and quality of service                  | Service reputation                        |
|      |                                               | of the bank                                |
| V3   | Effective and efficient customer service      |                                            |
| V5   | Convenient branch location                    |                                            |
| V6   | Ease of opening an account                    | Ease of using core services                |
| V7   | Low interest on loans                         |                                            |
| V9   | Respect and consideration shown by employees  |                                            |
| V10  | Appearance of staff                           | Support from bank staff                    |
| V11  | Longer working hours                          |                                            |
| V14  | Online banking                               |                                            |
| V15  | Mobile banking                               | Convenience & technology enablement        |
| V16  | Credit and debit card services                |                                            |
| V17  | Number of ATM booths available                |                                            |

Table 4. Reliability Statistics

| Cronbach's Alpha | N of Items |
|------------------|------------|
| .877             | 13         |

The figure 3 represents the complete glimpse of Confirmatory factor analysis (CFA) and Table 3 shows loaded items after the Confirmatory factor analysis. We measure the internal consistency and Cronbach’s alpha is calculated as 0.877. It indicates high degree of internal consistency. To verify the convergent validity composite reliability, we evaluate the AVE (Average variance
extracted) and CR. The value of AVE = 0.669 (AVE should be more than 0.5) and CR = 0.788, (CR should be more than 0.7) these values achieved the threshold value.

V.i. Findings and conclusions of the study

An observation forms the study finds the important factors that are driving the customer to open an account in the particular bank. The most important factors that were derived from factor analysis are mentioned below:

- Online banking
- Mobile banking
- Credit and debit card services
- Number of ATM booths available. This factor is named as “Convenience & technology
- Enablement” it explains 23% of the total variance.

The above cited factors are considered as the most essential factors by the customers for deciding to open an account in a bank and the respondents fondles that these factors are obligatory.

The second factors that are considered the customer to open an account in a particular bank are mentioned below:

- Respect and consideration shown by employees
- Appearance of staff
- Longer working hours. This factor is considered as “Support from bank staff”, it explains the 17.08% of the total variance explained.

The third important factors that are considered as to open an account any bank with the following elements

- Convenient branch location
- Ease of opening an account
- Low interest on loans. This factor is considered as “Ease of using core services”, it explains 15.7% of the total variance.

The fourth important factors that are considered for to open an account in any having the elements

- Image of the bank
- Speed and quality of service
- Effective and efficient customer service. This factor is named as “Service reputation of the bank”, it explains the 15% of the total variance.
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