

Customers Retail Bank Selection Criteria in South Africa

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ABSTRACT

This study analysed the distinct factors that determine customers' bank selection criteria in the South African retail banking sector. A sample of one hundred and thirty five respondents was used in the survey using simple random sampling technique. A structured questionnaire was used to collect data on customers' perceptions on the magnitude to which numerous distinct factors significantly determine their choice of retail bank selection. The data collected using the instrument was processed and analysed using SPSS statistical package. The Cronbach's alpha of 0.788 and the Keiser-Meyer-Olkin of 0.797 confirmed reliability of data and sampling adequacy; respectively. Using the Principal Component Analysis (PCA) technique, a total declared variance of 53.756 percent was accounted for by one component extracted from the analysis.

KEY WORDS: retail bank, selection criteria, customers

1. INTRODUCTION

The criteria upon which customers select a retail bank based on the bank's reputation has received considerable attention by numerous researchers in different countries (Metawa & Almosawi, 1998). According to Edris & Almahmeed (1997), the growing competitiveness in the retail banking industry has made it increasingly important that retail banking institutions need to consistently review principal factors that influence customers' choice of selection of a retail banking services provider. Moreover, meeting the needs of the customers in respect of retail banking service provision has emerged as a significant element of bank reputation that attracts customers to select a bank (Leibert, 2004). According to Khazeh & Decker (1993), most retail banking institutions do not achieve remarkable growth due to failure to identify and effectively manage factors that determine customers' choice of bank selection. In the recent global community, the power in business has drifted from sellers to buyers; and as such, numerous studies indicate that banks need to offer services which customers are in real need of in order to sustain the ever increasing market competition (David & Gerrard, 2005).

Numerous previous studies which have investigated factors that determine customers' bank selection criteria include Maiyaki & Mokhtar (2010); Gerrard & Cunningham (2001) and Owusu-Frimpong (1999). These studies demonstrate the importance of consistent review of factors that influence customers' choice of bank selection for retail banking service provision. Amongst some, the major factors explored to be demonstrating high influence on customers' bank selection criteria include secured electronic banking, ATM security, effective handling of customers' queries and complains, reliable service provision, functional ATMs, availability of innovative financial products, bank networking, nearness to home, school or workplace, account maintenance, service fees and related transactional costs.

This paper is structured as follows: Section 2 reviews the literature on factors determining students' choice of bank selection. Section 3 specifies the methodology and estimation. Section 4 presents, analyses and interprets the findings; while Section 5 provides concluding remarks.

2. LITERATURE REVIEW

Substantial research studies on the theme of factors that influence customers' bank selection criteria have been widely undertaken to enlighten bank marketing professionals on the best marketing strategies to develop and implement from time to time (Rehman & Ahmed, 2008). his A study on customers' bank selection criteria in the United States of America by Kaufman (1967) found that the requirements needed when opening an account with a bank, the widely perceived relationship between the customer and the bank, quality of services offered and proximity of bank to home, school or workplace are the most significant factors reported by households as primary determinants of their choice of bank selection. Laroche et al. (1986) also found that the speed of service, competence and friendliness of bank personnel; and convenience of location are significant factors perceived by customers as important in bank selection criteria.

Zineldin (1996) also conducted a similar study in Sweden and explored numerous factors which customers considered as important in their bank selection criteria. The study revealed that bank service hours, bank reputation, availability of technological products, transaction alertness, convenience of location, helpfulness of bank employees, security of customers' bank accounts, availability of loans and provision of excellent services are the significant dimensions determining customers' bank selection criteria. Elementarily, the research study

concluded that considered customer loyalty, consistent flow of information from the bank to the customers, availability of off-site secured ATMs, minimum waiting time in queues are the important factors in the customers' choice of bank selection.

Likewise, Rehman & Ahmed (2008) conducted a similar study in the Pakistan banking industry and found that convenience, bank environment, online banking efficiency and customer services are essential factors determining the customers' choices of bank selection. In another cross country study in both developed and developing countries conducted by Blankson et.al. (2009), free banking, convenience, reasonable bank charges, parental, friends and family influence and helpfulness of banks' employees were observed as primary factors influencing customers' bank selection criteria. In light of this background, the study recommended that retail bank marketing strategies need to be standardized based on development in the marketing environment. The study therefore concluded it is imperative for the retail bank personnel to provide consistent and good customer care from time to time.

Phuong & Har (2000) also conducted a study on customers' bank selection criteria in Singapore. The findings from the study indicated that the most important factors influencing customers' bank selection decisions include convenient location of the bank, transactional costs, service quality, availability of self-bank facilities, monthly bank charges, interest rates on loans, banks' service hours and recommendations by parents, friends and relatives. Omar & Orakwue (2006) also found similar results in their study which evaluated the importance of bank selection criteria adopted by customers in Nigeria. The results indicate that security of customers' bank accounts, transaction alertness and services quality were the imperative factors customers considered when selecting retail banks.

3. METHODOLOGY AND ESTIMATION

3.1 INTRODUCTION

This section describes the research design used in the research survey, sample size used, sampling procedure applied, validity and reliability of the instrument; overview of data and the statistical analytical techniques used in the study.

3.2 RESEARCH DESIGN

The research survey was undertaken based on both descriptive survey and factor exploratory study designs. The survey design was chosen to ensure gathering of data which accurately describes the nature of existing conditions at an explicit point in time.

3.3 SAMPLE SIZE AND SAMPLING TECHNIQUE

The population for the research study was households residing in Gauteng province, across Pretoria and Johannesburg regions. Using simple random sampling technique, one hundred and sixty five (n = 165) households were surveyed, out of which 135 were fully completed; with 55.1 percent female (n=73) and 45.9 percent male (n=62) respondents; thus yielding an 81.8 percent response rate. The response rate was considered sufficient for statistical reliability and generalizability. The sampling technique applied followed the formula specified below:

$$n = \frac{\chi^2 N \hat{p} (1 - \hat{p})}{d^2 (N - 1) + \chi^2 \hat{p} (1 - \hat{p})} \quad (1)$$

where :

n = required sample size

N = the given population

\hat{p} = population proportion; assumed to be 0.5

d = the degree of accuracy set at 0.05

χ^2 = table value of chi - square (= 3.841 for 0.95 confidence interval)

3.4 DATA COLLECTION

The source of data for the study was the survey respondents from whom primary data were collected through use of a structured questionnaire. The questionnaire gathered data on households' level of agreement regarding the extent to which they regard distinct factors as significant in determining their bank selection criteria. Based on a

five point Likert scale questionnaire, research participants indicated their level of agreement in the range extremely unimportant to extremely important.

3.5 STATISTICAL ANALYSIS

The results of the survey were analyzed using descriptive statistics and exploratory factor analysis technique. The data gathered was processed and analyzed using SPSS version 21 statistical package for windows. Before conducting exploratory factor analysis, the Cronbach's alpha and KMO tests were computed to determine scale reliability and adequacy of the sampling size; respectively. Exploratory factor analysis was further performed undertaken to identify constructs and investigate relationships among major interval scaled questions regarding reasons for choosing a bank services from the 135 households.

4. RESULTS AND ANALYSIS

4.1 DESCRIPTIVE STATISTICS

The mean score statistics of the factors determining customers' bank selection criteria were computed to reflect each distinct factor's level of importance to survey respondents. The individual factors for which mean statistics are given in Table 1 below.

Table 1: Mean Scores of Dimensions

Dimension	Variables	Mean	SD	Eigenvalue	Percentage of variance
Security	Secured electronic banking ATMs security	3.78	0.863	1.519	75.927
Service quality	Effective complains handling Reliable service	3.70	0.756	1.201	60.042
Technology and products	Functional ATMs Innovative products	3.75	0.735	1.337	66.842
Location	Networking Nearness	3.75	0.844	1.314	65.698
Affordability	Account maintenance fees Transactional costs	3.64	0.926	1.345	67.255

Based on the individual factor mean scores presented in Table 2 above, security (secured electronic banking and ATMs security) has the highest score (= 3.78) and affordability has the lowest score (= 3.64). The other factors, ranked based on their level of importance, both location and technology and technology (= 3.75) and service quality (= 3.70).

4.2 SCALE RELIABILITY

The internal consistency of the instrument items was examined using the Cronbach's alpha to determine the degree to which the chosen set of items measured a single unidimensional latent construct based on the formula specified below:

$$\alpha = \frac{K}{K-1} \left(1 - \frac{\sum_{i=1}^K \sigma_{Y_i}^2}{\sigma^2_X} \right) \quad (2)$$

where:

K = number of items

σ^2_X = variance of observed totalscores

$\sigma^2_{Y_i}$ = variance of item i for the current sample

Table 2: Reliability of Total Items

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No. of Items
0.788	0.790	10

The value of the Cronbach's alpha (= 0.779) indicate that the survey instrument's items were statistically reliable; thus the items measured a single unidimensional latent construct.

Table 3: Reliability of Individual Items

Variable	Cronbach's Alpha	No. of Items
Security	0.734	2
Service quality	0.330	2
Technology and products	0.504	2
Location	0.477	2
Affordability	0.510	2

The reliability of individuals items are presented in Table 3 above.

4.3 VALIDITY OF INSTRUMENTS

The structural validity of the measurement tools was examined through factor analysis; in which the total correlation analysis of items was evaluated. Before performing factor analysis, the Keiser-Meyer-Olkin (KMO = 0.738) analysis was conducted to determine suitability of the sampling size.

Table 4: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.797
Approx. Chi-Square		173.156
Bartlett's Test of Sphericity	df	10
	Sig.	.000

The Bartlett's test of sphericity of the research items of 10 ($p < 0.05$) confirmed that factor analysis could be performed on the data. Moreover, the determinant of 0.268 also indicated that the scale observed was one dimensional; thus the items were not an identity matrix.

Table 5: Correlation Matrix^a

	Security	Service quality	Technology and products	Location	Affordability
Correlation	1.000	.543	.460	.349	.429
	.543	1.000	.545	.330	.383
	.460	.545	1.000	.371	.352
	.349	.330	.371	1.000	.441
	.429	.383	.352	.441	1.000

The correlation matrix above indicates high correlations between service quality and technology and products while low correlation exists between location and service quality.

Total Variance Explained

Presented in Table 6 below are the results on the components extracted from the analysis through Varimax Keiser Normalization rotation method.

Table 6: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.688	53.756	53.756	2.688	53.756	53.756
2	.795	15.907	69.663			
3	.599	11.982	81.645			
4	.495	9.901	91.546			
5	.423	8.454	100.000			

Extraction Method: Principal Component Analysis.

The results in Table 6 above revealed that there was only component with an Eigen value exceeding 1 from the analysis. The total declared variance computed for the single factor scale indicated that about 53.756 percent cumulative variance of factors under analysis could be explained by the items used.

Table 7: Component Matrix

	Component
	1
Security	.770
Service quality	.778
Technology product	.752
Location	.659
Affordability	.701

Extraction Method: Principal Component Analysis.

The principal component of the variables determining customers' choice of bank selection criteria was extracted via the Varimax Keiser Normalization rotation method. Varimax-rotation was performed on the constituent variables representing the different constructs to validate empirically the theoretical structure of the scale. Following convergence of the rotation in specific iterations, only one component comprising of five variables was extracted. Based on the Eigenvalue greater than one as a rule of thumb, five variables were identified; all of which had factor loadings that were above 0.5 as the minimum accepted value.

5. CONCLUSION AND RECOMMENDATIONS

The results from the research study suggested that banks need to provide customized services for their customers in light the differences in consumer preferences and customer expectations. In order to attract customers, banks should provide security to customers' transactions and products, quality services, technology and innovative products and affordable service charges.

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