Factors Determining Bank's Selection and Preference in Nigerian Retail Banking

Ahmed Audu Maiyaki

Department of Business Administration, Bayero University, Kano, Nigeria

PMB 3011, Kano, Nigeria

Tel: 234-601-9555-4831 E-mail: aamaiyaki@yahoo.com

Abstract

The study investigates the relative importance of the factors determining the selection and preference of banks by retail customers. Using multi-stage sampling procedure, a total of 417 retail bank customers were selected and subsequently participated in the survey. The mean, standard deviation, Z-scores and weighted scores were computed using both SPSS software and Microsoft office excel. It was found that some factors highly influence the customers' choice of banks. Similarly, it was also revealed that customers show high preference for some banks as against others. Managerial implications were discussed and finally, recommendations were proffered.

Keywords: Bank choice, Retail banking, Service marketing, Nigeria

1. Introduction

For firms to survive in contemporary highly competitive business environment, they should be able to attract and retain customers. Service organisations might be able to effectively attract and retain customers without satisfying their needs and/or wants. And to meet customers' needs, there is need to understand what is valuable to them and how they make decisions. To be profitable in a competitive industry, companies need to offer customers more value or be able to produce products and/or services more cheaply (Leibert, 2004). Sometimes marketing planning of organisations do fail due to improperly identifying the factors or determinants that consumer consider in bank selection (Khazeh & Decker, 1992). Hence, there is need for service organisation to effectively differentiate their offerings from those of competitors in order to attract customers' attention and choice.

The business environment in contemporary times is practically undergoing a major revolution in the way customers buy, shop, and eventually decide to either come back or take their business elsewhere. Thus, companies are increasingly realising that the balance of power is shifting from sellers to buyers. For example, customers need exactly what they want, at the right time and place that they want it, with a high specification and at the lowest possible price. In addition, businesses must make customers feel special or else they will take their money to another business that can provide all what they want (LeBoeuf, 1987).

Although several studies investigate the issue of factors affecting selection of retail banks (e.g. Devlin & Gerrard, 2005; Edris & Almahmeed, 1997; Erol, Kaynak & El-Bdour, 1990; Gerrard & Cunningham, 2001; Joy, Kim & Laroche, 1991; Owusu-Frimpong, 1999; Khazeh & Decker, 1992; Maiyaki & Mokhtar, 2010); however, there was no attempt to directly link the factors to preference of specific banks. Hence, this study investigates the factors that influence bank selection and the preference towards particular bank in the Nigerian banking sector. To this end, this research is an attempt to bridge the observed gap in the body of knowledge.

2. Literature Review

Generally, customer employ a number of process for product/service evaluation which will eventually leads to the choice and/or preference of a particular product or service provider. Thus, Zeithalm et al. (1993) categorise the factor into three groups of quality characteristics. Search qualities are the features that customer can see, feel or touch and might be evaluated in advance of purchase. Secondly, experience qualities are those qualities that may be evaluated during or after consumption. And finally, credence attributes are the features that customer find difficult to evaluate after purchase or consumption such as medical services provided by a doctor. Financial services are characterised by high levels of credence and experiential features, therefore, making them difficult to be evaluated before consumption (Owusu-Frimpong, 1999). Therefore, to minimized the risk and uncertainty that is related to the purchase of service, customer more or less rely on the tangible cues such as place, equipments, people, symbols among others as the evidence of service quality (Morley, 2004). When customers choose and prefer a service provider based on the tangible cues, they are more likely to become loyal to the service provider.

Customer retention and true loyalty as Griffin, (see Bove and Johnson 2000) notes, “is defined by a high customer relative attitude in addition to high repeat purchase behaviour”. Given the understanding that customer retention is economically more advantageous than constantly seeking new customers; Reichheld and Sasser, (1990) observe that customer loyalty is a primary goal for most businesses today. This leads to an explosion in the use of different types of bonds (i.e. economic or structural) which bind the customer to the firm through high switching costs.

As Kotler and Keller (2006) observe, customers are becoming harder to please; they are smarter, more price conscious, more demanding, less forgiving, and they are approached by many more with equal or better offers. Hence, the challenge is beyond producing satisfied customers as competitors can do it too; the challenge is to produce delighted and loyal customers. This challenge is perhaps brought about by the increasing financial sophistication of customers which is facilitated by efficient use of information technology, and the entry of new aggressive competitors in the marketplace (Owusu-Frimpong, 1999).

Kotler and Keller (2006) hold that companies recognize the importance of satisfying and retaining customers. Satisfied customers constitute the company’s customer relationship capital. According to them, the following are interesting facts about customer retention: acquiring new customers can cost five times more than the cost involved in satisfying and retaining current customers; the average company loses 10 percent of its customers each year; and the customer profit rate tends to increase over the life of retained customers. Again, Kotler and Keller (2006) argue that the critical factor to attaining customer loyalty is customer satisfaction because a customer who is highly satisfied will most likely exhibit the following characteristics:

a) Stays loyal longer

b) Buys more as the company introduces new products and upgrades existing ones.

c) Talks favourably about the company and its products

d) Pays less attention to competing brands and advertising, and is less sensitive to price, and

e) It will cost less to serve than new customer because transactions are routinised.

3. Methodology

Descriptive survey design was adopted with a view to provide explanations with regard to the factors influencing the choice and preference of retail banks in Nigeria. The study is conducted in Kano metropolitan city because of the concentration of commercial activities. Data was collected at a point in time, and thus, the research is cross-sectional in nature. The population of the survey comprises all the retail bank customers that are resident in Kano metropolis.

Due to the unvailability of sampling frame of banks’ customers, the respondents were selected using convenience sampling. However, measures we taken to make the sampling as more systematic as possible. This why multi-stage sampling procedure was employed and subsequently, 500 participants were selected across 33 both private and public organisations.

A Likert-type instrument with 5-point rating scale was used to measure the respondents’ perception with regards to the variable under investigation.

In order to assess to the level of importance of each factor determining bank choice, sample mean and standard deviation, population mean and standard deviation, and then the Z-score values were computed. Scores were assigned to the respondents’ choice of particular bank, consequently, weighted scores were calculated with respect to customers’ preference for banks and then, the aggregate scores were ranked accordingly. Both Microsoft office excel 2003 and Statistical Package for Social Science (version 12 for windows) were employed for the analysis.

4. Data analysis and results presentation

A sum of 417 copies of useable questionnaires duly completed and returned for analysis. Hence, a response rate of 81.4 percent was attained. However, ten questionnaires were found not to be correctly completed and therefore, excluded from the analysis.

From the descriptive analysis 69% of the respondents were male, while 31% were female. It was also revealed that 7.1% respondents were between the age bracket of 18 and 25; 37.1% were between the age range 26 to 35 years; 42.3% were young adults aged between 36 and 45 years; and only 1 respondent was at least 56 years old.

Statistics on the basis of marital status indicated that 25.1% of the respondents were single; 72.7% married; 0.7% divorced; 0.7% respondents widowed; while 0.7% were separated.

It was considered necessary for the achievement of the goal of this research to ascertain the extent of the influence of some specific factors on customer choice of banks. Hence data collected on a set of 18 different factors that are presumed to have influence on customer choice of banks were analysed. The sample mean, standard deviation and Z-score for each of the factors were calculated (see table 1). The results show that "size of bank total asset" with Z-score of 3.442 has the greatest influence on customer choice of banks, followed by "availability of large branch network across the country" (Z = 3.254), then "reputation of the bank" (Z = 3.089), "personal security of customer" (Z = 2.811), and then "convenient access to bank location" (Z = 2.299). On the other hand, "recommendations of friends/relatives" (Z = -4.280), "attractiveness of bank's physical structure" (Z = -4.195), "opportunity of telephone banking" (Z = - 3.121), "availability of assorted retail bank services" (Z = -2.814) and "reasonable terms of credit/loans repayment" (Z = -2.252) were the factors that have the least influence on customer choice of banks.

Furthermore, this study also attempted to establish the general level of customer preference for the various commercial banks. To this end, the respondents were asked to mention any four banks they often do business with. Their responses were summarised and analysed using weighted scores. The banks in the first choice were given 4 scores, those that were mentioned in the second choice were given 3 scores, those in the third choice were assigned 2 scores and those in the last choice were assigned 1 score. The bank with the highest aggregate score was considered to be the most preferred by the respondents. The overall results are presented in table 2.

From the table 2, it can be seen that respondents show high preference for banks; First Bank has the highest weighted score and hence the most preferred bank by the respondents. First Bank was followed by United Bank for Africa and Intercontinental Bank come third, followed by Oceanic, Union and GT Banks respectively. On the other extreme Nigeria International Bank and Standard Chartered Bank were the least mentioned on the weighted scores table. This is probably due to their lack of wide network coverage which was confirmed to be the second most influential factor in the customer choice of banks (see table 1).

5. Discussion, conclusion, recommendation

It was found that factors such as size of bank total asset and availability of large branch network have a great influence in customers' choice of banks. This is consistent with the findings of Edris and Almahmeed (1997). Similarly, in both studies, it was found that attractiveness of bank's branches and loan charges tend to be less influential among the determinants of bank selection. It is reasonable that customers of bank in Nigeria place most emphasis on the size of bank's asset due to the recent cases of banks failure. This is because the collapse of banks which was associated with their size resulted in dramatic loss of depositors' funds. Similarly, attractive loan charged by banks was found to be insignificant among the factors that are important in bank selection in Nigeria. This could perhaps be justified based on religious grounds. Generally, Muslim customers of bank do not care much about the loans offered by banks. According to Muslim belief, interest based loans are not allowed (Sedeghi, 2008).

Additionally, the investigation revealed that customers show high preference for some specific banks as against others. To this end it was discovered that First Bank was the most preferred bank by customers in the Nigerian banking sector then followed by United Bank for Africa and Intercontinental Bank. On the other extreme Nigeria International Bank and Standard Chartered Bank were the least preferred banks by customers in Nigeria. Size of total asset and network of branches are most likely the reason behind customers' high/low preference with regard to some banks. For instance, instance both First Bank of Nigeria and United Bank for Africa have large total asset and also large branch network. On the other hand both Nigeria International Bank and Standard Chartered Bank relatively small network of branches.

As customers generally prefer some banks for the reasons highlighted above, banks management should pay attention to factors that have significant effect on the choice of banks. Specifically, size of bank total assets should beef-up by banks; they should also increase the branch network by establishing more branches across the country, adopt appropriate strategic plan aimed at enhancing reputation of the bank, improve personal security of customers, and make bank location more convenient and easily accessible to customers.

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Table 1. The extent of influence of some specific factors on the choice of banks

Factors	Mean	Std. Deviation	Z Score
(a) Size of bank total assets	4.3931	.97139	3.442
(b) Nearness of the bank to your office or house (residence)	4.0639	1.08317	1.157
(c) Convenient access to bank location	4.2285	.93870	2.299
(d) Personal security of customer	4.3022	.92293	2.811
(e) Ease of procedures of account opening	3.9165	1.06808	0.135
(f) Attractiveness of bank's physical structure (building)	3.2924	1.25180	-4.195
(g) Availability of assorted retail bank services	3.4914	1.18874	-2.814
(h) Opportunity of telephone banking	3.4472	1.30612	-3.121
(i) Existence of online real time operation in banking services	4.0639	1.10567	1.157
(j) Availability of ATM facility	4.1897	1.08457	2.030
(k) Reputation of the bank	4.3424	.93678	3.089
(l) Reliability of online facilities (e.g. ATM)	4.1921	1.05762	2.047
(m) Availability of large branch network across the country	4.3661	.91841	3.254
(n) Availability of credit facilities/loan	3.6609	1.28578	-1.638
(o) Reasonable terms of credits/loans repayment	3.5725	1.34422	-2.252
(p) Recommendation of friends/relatives	3.2801	1.23183	-4.280
(q) The profile of members of bank management (e.g. integrity)	3.8010	1.21250	-0.666
(r) Ease of access to senior bank personnel for consultation/advice	3.5430	1.26237	-2.456
Population Parameter	**3.897**	**0.144**	

n = 407, survey (2008)

Table 2. Summary of the respondents' indication of preference for specific commercial banks

S/N	Banks	FIRST CHOICE (4)	SECOND CHOICE (3)	THIRD CHOICE (2)	FOUTH CHOICE (1)	Weighted Score	Ranking
1	Access	0	2	3	3	15	21
2	Afribank	21	12	23	12	178	**9**
3	Diamond bank	9	12	7	3	89	12
4	Ecobank	3	5	7	3	44	18
5	Equitorial Trust Bank	9	7	2	1	62	14
6	First City Monument bank	5	6	4	9	55	15
7	Fidelity bank	3	8	2	5	45	17
8	First bank	107	45	26	24	639	**1**
9	First Inland bank	5	8	2	5	53	16
10	GT bank	28	30	12	16	242	**6**
11	Intercontinental bank	26	30	23	24	264	**3**
12	Nigeria Int'l bank	0	1	1	2	07	24
13	Oceanic bank	29	29	23	12	261	**4**
14	Platinum Habib bank	8	14	9	7	99	11
15	Skye bank	8	6	7	5	69	13
16	Spring bank	5	4	1	1	35	19
17	Stanbic – IBTC	1	3	2	0	17	20
18	Standard Chartered bank	1	0	2	1	09	23
19	Sterling bank	9	14	7	8	100	**10**
20	Union bank	31	22	21	12	244	**5**
21	United bank for Africa	49	34	38	19	393	**2**
22	Unity bank	29	14	15	12	200	**7**
23	Wema bank	1	2	2	1	15	21
24	Zenith bank	20	24	12	9	185	**8**

n = 407, survey data (2008)