

Patronage Factors of Retail Customers Towards Commercial Banks

The success and survival of a commercial bank depends on its bankers abilities to understand customers' needs and find effective ways to satisfy these needs.

**Sudin Haron
& Norafifah Ahmad**

Both the authors are with the School of Management, Universiti Utara Malaysia. Sudin is the Dean; Norafifah is a Senior Lecturer in Finance.

The 1990s promises new challenges and opportunities to the banking system in Malaysia. As stated in Bank Negara Malaysia's 1990 annual report, one of the likely challenges which would appear in the near future is greater competition from within the banking system itself.

The higher level of competition is not only faced by the banking industry in Malaysia. It is becoming the most influential factor to the structure and activities of the banking system around the globe. In the United Kingdom for example, increasing competition has pushed British banks into greater customer oriented and competitive behaviour. In other countries, the industry has been transformed from its traditional staid image to that of a vibrant and dynamic environment¹.

The Prime Minister of Malaysia, during the Malaysian Financial Institution's annual dinner on August 28, 1991 emphasised the need for the banking system towards the year 2020 to be more service-oriented; committed to supporting productive activities; competitive and efficient; innovative and sophisticated; as well as stable and resilient.

As a result of greater competition and changes in market conditions,

Malaysian bankers can no longer uphold their traditional belief that only corporate and commercial customers bring income to the bank. They must realise that small business and retail customers are also potentially profitable markets for commercial banks. This is because firstly, both these customers are - in many cases - dependent on commercial banks for their financing needs, and secondly, because meeting these needs would help build the economy which in turn benefits the banks as loans and deposits grow. Retail customers referred to in this context are wage earning customers whose relationship with the bank is for personal convenience.

Having recognised that retail customers are a potential market niche, it is essential for bankers to obtain information concerning their patronage factors toward specific financial institutions. Banks must also know the degree to which various product/service characteristics are important and how these factors influence customers' choice in deciding on their banker. This information is needed prior to the introduction of any new product or service. Hence, understanding customer characteristics is very important to bankers since they relate to critical factors that determine bank selection.

**Table 1 : Bank Selection Criteria: Determinant Attribute Analysis
(Anderson, Cox and Fulcher, 1976)**

Decision	Total Sample	Rank	Mean Scores			
			Convenience Customers	Rank	Service Customers	Rank
Recommendation by friends	7.623	1	5.505	1	10.205	3
Reputation	7.528	2	5.266	3	10.286	2
Availability of credit	7.309	3	4.672	6	10.524	1
Friendliness	7.251	4	5.133	5	9.833	4
Service charges on chequing accounts	6.352	5	5.227	4	7.724	7
Interest charges on loans	5.843	6	3.828	10	8.300	5
Location	5.736	7	5.316	2	6.248	10
Overdraft privileges on chequing accounts	5.586	8	3.527	11	8.095	6
"Full service" offering	5.550	9	3.934	9	7.519	8
Parking	5.303	10	4.512	7	6.267	9
Hours of operation	5.133	11	4.379	8	6.052	11
Interest payments on saving accounts	4.350	12	3.254	12	5.686	12
Special services for youths	3.998	13	3.012	13	5.200	13
Special services for women	3.436	14	2.582	14	4.476	14
New accounts premiums or gifts	2.798	15	2.316	15	3.386	15

LITERATURE REVIEW

Empirical research using different methodologies and approaches have been applied in various parts of the world to examine the criteria which influence clients in selecting their bank. Anderson et.al.² used 'Determinant Attribute Analysis' in a survey in the United States on 466 samples. The results indicated that 'recommendation by friends' was the main criteria in bank selection, followed by 'reputation' and 'availability of credit'. Other criteria are shown in Table 1. Anderson also divided his sample into two groups: a convenience group and a service oriented group.

Convenience customers regard bank services as convenience goods. This group placed more emphasis on 'suggestion by friends', 'reputation' and 'friendliness' as important criteria in choosing a bank. The service oriented group on the other hand considered 'availability of credit' as the most important bank selection criterion.

The findings by Anderson² is supported by Chin Tiong Tan &

Christina Chua³. Their research in Singapore concluded: "In this study, social factors were found to be stronger influence than other variables. Such a finding has good intuitive sense as it is expected that in the oriental culture, where social and family ties are closer, consumers are more vulnerable to the advice of friends, neighbours and family members".

A study by Javalgi et.al.⁴ in the United States using the 'Analytic Hierarchy Process' to determine bank selection criteria, reported that 'safety of one's funds' to be the main criterion followed by 'paying highest interest rates on savings', 'location', 'reputation', 'availability of loans', 'low interest rates on loans', 'ease of qualifying for checking account by maintaining a minimum balance', and lastly, 'Saturday banking'.

Investigating services used and factors considered important in bank selection on 140 Canadian households, Laroche et.al.⁵ found that 'friendliness of staff' was the primary choice determinant followed by 'hours of operation', 'size of waiting

lines', 'convenience of location', 'efficiency of personnel', 'speed of processing items', 'parking facilities and accessibility', 'availability of credit', 'bilingualism of staff' and 'interest on savings'.

Kaynak⁶ who also conducted research in Canada divided his sample into two groups: bank customers and bank managers. These two groups were asked the same question: What is the most ideal bank according to your perception? Bank customers preferred a bank with 'fast and efficient service', while managers chose 'reputation' as the main factor. The rankings of other determinants in the study are shown in Table 2.

The above findings are from studies done on the public or existing customers. Ringall⁷ surveyed 250 customers who had just opened accounts six months earlier, and found that location was cited as the key factor in selecting a bank. Other factors are ranked as shown in Table 3.

Evans⁸ investigated the influence of situation on an individual's choice of a bank. He divided selection crite-

ria into two factors: service factors and situational factors. Factors such as near and convenient location, waiting line, pressure due to time, depositing and withdrawing money, loan transaction, and portfolio services were considered 'situational factors'.

The findings showed that each of the factors had not indicated the same degree of importance in influencing an individual's behaviour in his/her selection of a bank.

METHODOLOGY

In our survey, a sample of 229 retail customers of banks in the towns of Alor Setar, Sungai Petani and Kangar towns were surveyed. The towns were chosen as they represented a highly competitive banking environment compared to other towns in the states. Customers had a wide range of banks and other non-bank financial institutions to choose from. The data for this study was collected through a self-administered questionnaire distributed by student workers. The questionnaire contained three sections. The first section of the questionnaire was designed to gather information about the respondent's personal, demographic and economic characteristics. The profiles of the respondents are shown in Table 4.

In the second section of the questionnaire, the respondents were asked to indicate on a five point Likert-type scale, ranging from 'very important' to 'not at all', how they viewed a series of factors in selecting a commercial bank. Many of the factors were adapted from Anderson², Kaynak⁶, Laroche⁵, and Erol and El Bdour⁹.

The final section of the questionnaire was designed to generate data concerning the usefulness of products/services offered by the commercial banks for their customers. The perceived level of usefulness of these products/services was also measured on a five-point Likert scale. The scale

Table 2 : Bank Customers' and Bank Managers' Perceptions of the Ideal Bank (Kaynak, 1986)

	Customers' Perception	Rank	Bank Managers' Perception	Rank
Fast and efficient service	1.42	1	1.28	2
Convenient locations	1.56	2	1.86	7
Hours of operations	1.72	3	2.14	8
Competitive rates and terms	1.76	4	2.14	8
Friendly bank personnel	1.76	4	1.43	3
Service offerings	1.88	6	1.43	3
Reputation of the bank	1.88	6	1.14	1
Availability of credit	1.88	6	1.71	6
Parking facilities	2.16	9	1.57	5

Table 3 : Newcomer's Reasons for Bank Selection (Riggall, 1980)

Reasons Stated	Percentage
Bank is close to home	46.8
Bank is close to work	32.4
Friends suggested bank	16.0
Bank has low service charges	10.8
Bank has teller machine	9.2
Employer uses bank	8.8
Bank has many branches	7.2
Heard bank's services were accurate	4.8
Used bank previously	4.4
Got loan from bank	4.4
Bank open on Saturday	3.6
Bank has branch at mall where I stop	2.8

ranged from 'used all the time' to 'never being used'. The bank product/service choices were derived from Laroche⁵, and Erol and El Bdour⁹.

Data analysis included both univariate and multivariate statistics. Univariate techniques were used to identify the overall attitudes of bank customers towards commercial banks and the usefulness of bank services. The primary tool of multivariate statistics was a principal component analysis with Varimax rotation which was used to cluster bank selection criteria.

FINDINGS

Determinants of bank selection

There are many similarities and differences between findings of this research and the findings of earlier research. The most important factor considered by retail customers in making a selection decision is 'fast and efficient service', followed by 'friendliness of bank personnel' and 'speed of transaction'. The scores for all factors are shown in Table 5.

The selection of 'fast and efficient service' as the most important factor

Table 4 : Respondents' Profiles

	Number	Percentage
<u>Race :</u>		
Bumiputra	124	54.1
Non-Bumiputra	105	45.9
<u>Age :</u>		
<20 years	12	5.2
20 - 29 years	101	44.1
30 - 39 years	79	34.5
40 - 49 years	26	11.4
> 50 years	11	4.8
<u>Level of education :</u>		
Nil	1	0.4
Primary	12	5.2
Secondary	149	65.1
University/College	53	23.1
Professional	11	4.8
Missing value	3	1.3
<u>Type of employer :</u>		
Private	103	45.0
Government/public agency	125	54.6
Missing value	1	0.4
<u>Type of job :</u>		
Professional	27	11.8
Management	10	4.4
White collar	121	52.8
Blue collar	54	23.6
Missing value	17	7.4
<u>Years on job :</u>		
< 5 years	92	40.2
5 - 9 years	49	21.4
10 - 14 years	41	17.9
15 - 20 years	28	12.2
> 20 years	19	8.3
<u>Monthly income (Ringgit) :</u>		
< \$1000	150	65.5
1000 - 1999	69	30.1
2000 - 2999	7	3.1
3000 - 3999	-	-
> \$4000	1	0.4
Missing value	2	0.9

'Recommendations by friends and relatives' was ranked last in this study, whereas this factor was considered the most important in Anderson's² and Chin Tiong Tan's³ studies.

The inconsistency between the finding of this research with Tan's as far as this recommendation is concerned is rather strange considering that the respondents from both countries have many similarities. Like Singaporeans, Malaysians have strong social links and close family ties. Furthermore, in oriental culture where people still maintain strong traditional values, friends' and relatives' advice have strong influence on the decision making process.

Another interesting finding was that 'location being near home or office' was considered unimportant by the respondents. On the contrary, location was considered as an important factor in bank selection decision by earlier research.^{5,6,7}

Apart from 'recommendations by friends and relatives', other unimportant factors in selection decision were 'external appearance of bank', 'size of bank', 'mass media advertising' and 'interior comfort'.

In an effort to more clearly delineate patterns, a Varimax-rotated factor analysis was run on the 26 selection criteria. Calculated item weights of 0.6 and above were considered significant. Four factors emerged from the analysis and they were labelled as: Bank products, Image, Pricing and Service. Table 6 shows the consistency of each factor.

PRODUCT/SERVICES USED BY RESPONDENTS

The types of products or services used by the respondents are shown in Table 7. It highlights that the savings account facility was most frequently used by the retail customers, closely followed by ATM. This situation is consistent with the retail customers' perception that a commercial bank is meant only for commercial customers. They maintained an account with the commercial bank only because their employer used that for payment of their salaries. They also made full use of the ATM facility because of convenience and the limited amount that could be withdrawn. Other facilities such as travellers cheques, foreign exchange, safe deposit boxes, personal overdraft, housing loan, personal fixed loan were seldom used by the respondents.

IMPLICATIONS

The purpose of this study was to determine the factors that retail customers perceive as pertinent to their selection of a bank. Besides using the results of this study as a founda-

is consistent with the findings by Kaynak⁶, Erol and El-Badour⁸ and Turnbull¹. The second most important factor in this research: 'friendliness of bank personnel' is considered the most important factor by Laroche's⁵ respondents.

Table 5 : Ranking Importance of Selection Factors

	Mean Score	Standard Deviation	Rank
Fast and efficient service	1.30	0.55	1
Friendliness of bank personnel	1.36	0.62	2
Speed of transactions	1.43	0.62	3
Confidentiality of bank	1.53	0.71	4
Reputation and image of bank	1.58	0.74	5
Knowledgeable about your business	1.60	0.76	6
Lower interest charges on loans	1.60	0.79	6
Inter-branch facilities	1.64	0.71	8
Parking facilities and accessibility	1.73	0.83	9
Reception received at the bank	1.74	0.87	10
Impression of manager	1.75	0.78	11
Higher interest payments on saving accounts	1.80	1.04	12
Lower service charges	1.80	0.96	12
Convenience of location	1.82	0.83	14
Available credit with favourable terms	1.86	0.85	15
Hours of operations	1.86	0.83	15
A wide range of services offered	1.90	0.81	17
Offer service on financial counselling	1.91	0.79	18
Able to fulfil individual/personal needs	2.00	0.88	19
Interior comfort	2.02	0.81	20
Overdraft privileges	2.04	0.87	21
Internal appearance of bank	2.17	0.90	22
Mass media advertising	2.34	1.00	23
Size of bank	2.38	1.04	24
External appearance of bank	2.59	1.10	25
Recommendations by friends and relatives	2.86	1.06	26

**Table 6 : Criteria in Bank Selection
(Varimax-rotated factor analysis results)**

<u>Factor 1</u>	- <u>Bank products:</u>
	A wide range of services offered
	Services on financial counselling
	Overdraft privileges
	Inter-branch transaction
<u>Factor 2</u>	- <u>Image</u>
	Recommendations by friends or relatives
	External appearance of bank
	Interior comfort
	Mass media advertising
<u>Factor 3</u>	- <u>Service</u>
	Friendliness of bank personnel
	Fast and efficient service
	Speed of transaction
<u>Factor 4</u>	- <u>Pricing</u>
	Lower interest charges on loans
	Higher interest payment on savings

tion for formulation of their marketing strategies, commercial banks can also examine to what extent their marketing policies can be tailored towards retail customers' needs and requirements.

The most significant finding revealed by this study was that retail customers valued their time highly and expected their banking transactions to be completed as quickly as possible. They perceived 'fast and efficient service' as the most important factor in their selection criteria and 'speed of transactions' ranked third. 'Long queue in the banking hall', 'temporary shut-down in ATM service', 'unoperational counter during banking hours', 'unattended enquiry' and 'slow in making decision' were signals of inefficiency.

In reality, many commercial banks because of their lack of awareness view the issue differently. Beautification of bank premises and providing interior comfort are given top priority, although the idea is not fully appreciated by the customers. Commercial banks are also willing to allocate a large amount of money for advertising without realising the uncertainty of its return.

Another important issue which requires attention is that the way bank personnel handle their customers indicates quality of service. Quality of service here is more than a smile or a passing greeting to customers. 'Dress code', 'customer relations' and 'techniques of answering the telephone' are some of the areas to be emphasised.

In terms of facilities used by retail customers, there are opportunities to be capitalised by commercial bankers. Retail customers used only the basic commercial facilities in their daily activities. Rigorous efforts should be taken to market products such as travellers cheques, personal overdraft or personal fixed loan and housing loan. Commercial banks

Table 7 : Services Utilised

Services	Mean Score	Standard Deviation	Rank
Saving account	1.78	1.19	1
Automated teller machine	2.05	1.48	2
Current account	3.30	1.59	3
Remittance	3.60	1.36	4
Fixed deposit	3.63	1.49	5
Giro	4.33	1.28	6
Personal fixed loan	4.33	1.21	6
Safe deposit boxes	4.35	1.26	8
Other facilities	4.43	1.22	9
Personal overdraft	4.44	1.13	10
Foreign exchange	4.50	0.93	11
Housing loan	4.52	1.10	12
Travellers' cheques	4.66	0.91	13

would lose this potential and viable market to other financial institutions i.e. finance companies and savings banks if they are not aggressive enough in their marketing strategies.

CONCLUSION

In conclusion, top management in commercial banks should realise that the financial service industry is moving fast towards a dynamic era. The competitive rules of the game have changed with the advent of deregulation, introduction of sophisticated technology, the internationalisation of competitors and shift of bargaining power to the customers advantage. Therefore, the success and survival of an individual commercial bank depends on bankers abilities to understand customers' needs and find effective ways to satisfy these needs. □

References

1. Turnbull, P.W. and Gibbs, M.L. (1989), "The Selection of Banks and Banking Services Among Corporate Customers in South Africa", *International Journal of Bank Marketing*, Vol. 7 No. 5, pp. 36-39.
2. Anderson, W.T. Jr, Cox, E.P. and Fulcher, D.G., (1976), "Bank Selection Decision and Market Segmentation", *Journal of Marketing*, Vol. 40, January, pp. 40-45.
3. Tan, C.T. and Chua, C., (1986), "Intention, Attitude and Social Influence in Bank Selection: A Study in an Oriental Culture", *International Journal of Bank Marketing*, Vol. 4 No. 3, pp. 43-53.
4. Javalgi, R.G., Armaco, R.L. and Hosseini, J.C., (1989), "Using the Analytic Hierarchy Process for Bank Management: Analysis of Consumer Bank Selection Decisions", *Journal of Business Research*, Vol. 19, pp. 33-49.
5. Laroche, M., Rosenblatt, J.A. and Manning, T., (1986), "Services Used and Factors Considered Important in Selecting a Bank: An Investigation Across Diverse Demographic Segments", *International Journal of Bank Marketing*, Vol. 4 No. 1, pp. 35-55.
6. Kaynak E (1986), "How to Measure Your Bank's Personality: Some Insights From Canada", *International Journal of Bank Marketing*, Vol. 4 No. 3, pp. 54-66.
7. Rigall, J., (1980), "A New Study: How Newcomers Select Banks", *American Bankers Association Banking Journal*, July, pp. 93-94.
8. Evans, R.H., (1979), "Bank Selection, It All Depends on the Situation", *Journal of Bank Research*, Winter, pp. 242-245.
9. Erol, C., and El-Bdour, R., (1989), "Attitudes, Behaviour and Patronage Factors of Bank Customers Towards Islamic Banks" *International Journal of Bank Marketing*, Vol. 7 No. 6, pp. 31-37.
10. Reed, J.D., (1972), "Commercial Bank Selection: A Factor Analysis of the Determinants of Consumer Choice", Unpublished Doctoral Dissertation, University of Arkansas.

ADDITIONAL SERVICE FOR MEMBERS

IBBM is pleased to announce that an additional service is available for members. Two personal computers (PCs) have been provided in the Kuala Lumpur main library for members to learn the Lotus 1-2-3 software at their convenience. If you wish to know more about this facility, kindly check with the Institute's library staff.

IBBM also wishes to inform that those PCs may not be available during certain times in the year when they are needed for training programmes.