

CUSTOMER CRITERION FOR SELECTING A BANK: AN EXPLORATORY FACTOR ANALYSIS FROM AN INDIAN PERSPECTIVE

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Abstract: *The Indian banks are paving their way towards the goal of financial inclusion, i.e., making financial services accessible to everyone. With the growing economy, banks are acting as a pillar for sustainable development. These days banks are facing a challenge to attract and retain their customers. They are formulating various strategies in order to gain or tap the maximum number of customers; therefore, it becomes imperative for banks to recognize the factors which the consumer consider while selecting a bank. This study focuses on the customers of north India, specifically the tier-2 and tier-3 cities, where people still lack in terms of financial literacy. A survey was conducted with a sample size of 330 respondents out of which 308 were considered for analysis. Various factors were identified using exploratory factor analyses which were reputation, technology, branch availability, appearance, word of mouth, customer services, price and amenities. These were well thought-factors by the customers keeping bank selection dimensions in the center stage. This kind of study would help banking specialists to customise their strategies in terms of increasing the number of customers as the competition is high in the market. Moreover, it would also help banks in formulating region-wise strategies.*

Keywords: *Banks, India, Exploratory Factor Analysis, Customers, Selection Criteria*

JEL Codes: *M1*

INTRODUCTION

In emerging economies, the consumer is playing a vital role to increase the demand for various products and services. Customer retention is an important element in all kinds of services and more so in the case of banking services. Banks not only compete with each other but also face a tough competition from non-banking financial companies and other financial intermediaries. Banks administration must recognise and increase every service that can boundary consumer decision. It is on account of the fact that customer retention is the need to increase business turnover and profits of banks. The existing customers' satisfaction brings more services with lesser operational costs and thus contributes more to increased profits of a bank. Therefore, customer satisfaction becomes the key to customer retention. Customer satisfaction depends on the perception of a customer about the banking services one gets at the bank. Numerous studies have been accepted to examine the elements that influence the effect of customer's perception of banking services. These researches have contributed significantly to the literature on customers choosing a bank for various banking services. The research findings vary with the cultural, regional, economic and legal perspectives. The available literature specifies

that a unique amount of research work that has been done to explore bank choice criteria for the broad category of customers. Commercial banks, including private and nationalised banks, have been providing a variety of services to attract the customers' for expansion of their business, on the one hand, while widening customers' network, on the other side. Understanding consumers' banks choice criteria and factors will be useful for banks in recognising the suitable marketing tactic required to interest fresh clients and recall current clients (Kaynak & Kucukemiroglu, 1992).

The ever rising attractiveness into the banking commerce (Grady & Spencer, 1990) plus similar services offering via banks (Holstius & Kaynak, 1995) has made it progressively value to, find the reasons which describe the base where a person select among suppliers of monetary services. Customers preference increases by better awareness about the banking services extended by a bank, and further enhances quality, efficiency of services and cost efficiency. In the increasingly aggressive environment, it is imperative for banks to procure additional information about their customers to understand their preferences, priorities, types of services and products to develop on such lines. In India, there are private and public sector banks and both operate on different footings. Bank customers have a good number

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of options to choose a bank according to their convenience, types of facilities and end efficiency of services at a comparative cost. Understanding the selection criteria for a bank by the customer will be helpful to the bank in identifying and developing proper marketing approach to draw new customer and hold on to existing customers.

In this research, an attempt has been made to investigate the factors influencing the selection of a bank by the customer in India. Focus on delivering good and quality service to the customer has been the main part of selecting the bank. Focusing on such factors will be helpful in positioning the banks effectively in the market and provide the satisfaction to their existing and new customers. While studying the “Factors affecting Customer Criteria for Selecting a Banks”, the research will be guiding the management of banks about the foremost factors to be kept in the mind to improve the overall degree of quality services so that customer remain satisfied and thus, leads to enhance the performance. The finding of this research had a noteworthy managerial implication for bank marketers in understanding the inclination of customers while choosing a bank. This study had been conducted first, to explore the factor affecting customer criteria for selecting a bank and, second, to investigate most dominant factors affecting customer criteria for selecting a bank.

REVIEW OF LITERATURE

Various studies in the past have been conducted to examine the various factors considered by customers for selecting a bank.

Lelissa & Metasebiya (2017) in their study examine factors categorised as critical and personal which have an impact on the selection criteria of banks by customers. An EFA analysis was performed in which it was found that factors like speed, branch network, location and forex reserves were considered as the most important factors for Ethiopian customers. Other factors like service quality and human resource were considered as the most dominating factors. Customer happiness is considered important while some services are provided to them. One of the studies by Kaufman (1967) found that location proximity and quality of services offered are considered as important criteria by customers for selecting a bank. These findings were similar to the study by Mason and Mayer (1974) where they also explored various factors like friendly employee, loan experience, advice of relatives and friends, and ease of location were considered as the top factors for selecting banks. Few more studies disclose consumer preferences for selecting a bank depend on various criteria like location, default salary account and loan procedure of a bank (Martenson, 1985). An additional study by Arora et al. (1985) investigated the consumer choice for selecting a bank which was mainly determined

by accessibility, easiness of procedure, execution of transactions and interest rate. Another study by Laroche et al. (1986) found that the behaviour of staff, length waiting lines, location and hours of bank operations played a significant role in the selection of a bank. A positive relationship has been observed between customer happiness and customer loyalty. Many studies regarding bank-selection criteria were being conducted in countries like Pakistan. Offering good products and services to customers and also managing productivity are challenging tasks for the banking industry. Such a research helps in filling the gap of the existing literature by identifying the various parameters considered by customers in Sahiwal city. The identification of factors like quality of services, price and convenience plays a vital role in the selecting a bank. It also assists the bank strategist to apply in their marketing activities (Zulfiqar et al., 2014).

Hinson et al. (2013) in their study reveal that when the consumers get influenced they are at ease to avail various services offered by banks. Time is the only material worth anything anymore. Customer immolates money to save time. The comfort factors also describe the themes of being happy after a bank service. It is suitable to describe that we enquire one type of youth customers in this study, i.e. the university scholars. In spite of the facts that this market portion is vital to study, other portion of youth customers, who may have a different choice procedure, should not be disregarded.

Saleh et al. (2013) explained one of the facts that the consumer is getting more demanding due to the competitive environment. For banks, retention of customers become a challenge because of the changing competitive environment. In this study, it was investigated that accessibility is the most important factor for a customer in the selection of a bank. This factor incorporates several other factors like speed, internet facility, and availability of ATM services.

One of the studies conducted regarding customer choice of the bank in Rajshahi city explored that image of a bank, customer service, speed, technology and management of a bank are vital factors for selection of a private bank. These findings may assist banks to concentrate more on these parameters to ensure quality (Siddique, 2012). Moreover, when it comes to banks from different countries, the selection criteria are prioritised in different ways like in the case of Islamic banks. Factors like customer value products, quality of services, and understanding of products by staff are important in the choice of Islamic banks. Moreover, religion had a lesser influence on their selection criteria (Awan and Bukhari, 2011).

Chigamba and Olawale (2011) investigated about South African banks which were consistently facing the competitive pressure of the changing business environment. In their research, they explored the mindset of young

consumers and their preferences, and it was found that students emphasise the most on the quality of services while choosing a bank. In India, Sangwan et al. (2010) researched in the area of banking with the specific topic related to Factors that influence their selection of banks. A sample size of 312 respondents participated in this study. The responses showed the reliability is an important selection criterion. They founded the vital factors influencing the customer in selecting banks. These factors include parking space, loyalty event, employees courtesy, brand-name, low service charges with the bank, security system of the bank, responsiveness, value added services and comfort. Moreover, there are factors in motivating the customer to choose a particular bank based on favorable rate of interest, quick service, high interest on savings, zero balance account facility and bank image. Ahmad & Rahman (2008) have conducted a study in the city of Lahore. In this analysis, they found the four major variables that influence the customer choice in selecting a bank were customer services, comfort, online-banking and atmosphere of the bank.

Raza and Hanif (2013) identified the relationship between the dependent and the independent variables which can make a customer satisfied. The independent variables were customer services and price equality. This study specifically focuses on customer satisfaction stating that the customers are the one who creates positive word of mouth as well as negative and creates a reputation of a brand. These satisfied customers build long term profitable relationship with that product or service. Almosawi (2001) conducted a study in Bahrain. He is focused on criteria for selecting a bank being employed by college scholars. The paper indicates that it may be mandatory to deal with female and male as a unique portion with disparate mainly important in their bank choice process. He used 1000 respondent's scholars from the University of Bahrain. In selecting a bank accessibility of parking space near the bank, bank image/reputation, the responsiveness of bank employees and location of ATM, such as their 24 hours availability of services. Phuong et al. (2000) "conducted a study on bank selection decision in Singapore using the methodical hierarchy procedure (AHP) to obtain the prime settlement factor pre-owned and their parallel determinant in bank choice criteria. They decide the answer of the analysis for all sample specify that the bank choice settlement procedure is based primarily on nine determinant choice standard, higher interest rate, suitable location, and quality of service, self-banking provision, lower charge, and lower-loans interest rate, longer operating hours, undergraduate advantage and endorsement".

RESEARCH METHODOLOGY

The present study focused on North India and cities which are including Mathura, Agra and Aligarh. A questionnaire was developed and sent to 330 respondents based on convenience sampling. The responses have been collected from January to March 2018. The total of 308 questionnaires were included in the study after eliminating the incomplete questionnaire. The data was collected from the bank customer. Based on preceding research in associated areas, a questionnaire was partially adopted from Chigamba & Fatoki (2011) to measure the most influential factors that affect the bank selection decisions of the individual customer based on 38 elements. Descriptive statistics and factor analysis are the statistical tools applied in this research.

The questionnaire is divided into two parts. The first part including demographic and socioeconomic variables age, gender, employment status, and educational level and occupation. The second part includes 38 elements which show the impact of these factors on the selection decision of retail investors. We are using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) to mark the responses. The questionnaire is primarily distributed among bank customers. Some of the questionnaires were sent through emails, some are manually distributed to the respondents of the Mathura, Agra and Aligarh region.

DATA ANALYSIS AND RESULTS

Profile of the Respondent

The questionnaire was developed wherein the first part of its demographic and socioeconomic information was being asked to fill. About 45% of the respondents are male and 55% are females. With respect to age, 13% respondent is in the age group of <20 years, 40% in the age group of 21-30 year, 28% in the age group of 31-40 year and 19% in the age group of above 40 years. With respect to educational qualification, 19% are undergraduates, 34% of graduates and 47% are postgraduates.

About income 36% having income up to 2.5 lakh, 30% of 2.5 lakh to 5 lakh, 20% having income from 5 lakh to 7.5 lakh and 14% of above 7.5 lakh in our research.

Reliability

Reliability test tells the accuracy of data. The value of Cronbach Alpha in our study is 0.952. Cronbach alpha test of reliability is the most popular estimate to measure the internal consistency of scale. Cronbach alpha for the 33 items that make up the scale is 0.90, which is higher than 0.5.

However, it also shows a high level of internal consistency with respect to the specific sample.

Descriptive Statistics

Descriptive statistics are usually the best methods for collecting information. It is used to summarise the data in ways that are useful and conclude some meaning. For analysis

of (Table 1) mean score of all the 43 factors are considered. Mean, and standard deviation of these variables are shown in Table 1. Mean, or Average is calculated by finding a sum of all the variables and dividing it by the total number of variables. By this, the above table shows that reputation has highest mean value (3.8149) followed by branch availability, appearance and word of mouth, customer service, price and cost and amenities as compare to other factors.

Table 1: Descriptive Statistics

	Mean	Std. Deviation	N
Opening account	3.6461	1.18132	308
In several location	3.7435	1.08399	308
Of 24 hours	3.5682	1.16066	308
Fast and efficient	3.5519	1.08314	308
Conveninet branch location	3.6688	1.10111	308
Apropriate range of service	3.5487	1.10414	308
Branch opening hours	3.5649	1.11212	308
Sponsor uses the same branch	3.5097	1.03516	308
Pleasant bank atmospheres	3.6299	1.02064	308
Staff courtesy	3.6169	1.20368	308
Cost of service	3.5974	1.04629	308
The reputation of the bank	3.8149	1.08356	308
The professionalism of bank staff	3.6851	1.15063	308
Adequate numbers of tellers	3.5714	1.13779	308
The attractiveness of bank building	3.4578	1.17306	308
Influence of parents	3.6753	2.47037	308
Cell phone banking facility	3.763	2.06072	308
Regular bank statement	3.6461	1.11025	308
Several branches	3.6623	1.13126	308
Proximity to home	3.5812	1.07832	308
Appearance and attire of staff	3.4383	1.15258	308
Low service charges	3.3571	1.20086	308
Recommendations of friends	3.4253	1.12606	308
Parking space	3.3864	1.73207	308
Recommendations of relatives	3.4708	1.12817	308
Influent marketing campaign	3.5325	1.13957	308
Internet Banking facility	3.7565	1.10777	308
Foreign exchange facility	3.6786	1.08165	308
Financial stability of Bank	3.6753	1.1148	308
Grants to customer	3.8019	1.94461	308
Higher returns on savings	3.5779	1.11421	308
Interest on loan	3.5584	1.0367	308
Financial counselling service	3.6006	2.44142	308
Free gifts for customer	3.3669	1.22081	308
Helpdesk call centre of the bank	3.5974	1.12721	308
Easily transfer of fund (RTGS,NEFT)	3.7792	1.12274	308
Customer-friendly environment at Bank	3.5974	1.20271	308
Safe investment	3.789	1.15463	308

Source: Author's calculation

Factor Analysis

This research is related to see the people intention to select the bank and for that purpose to find the factors which influence the people intention in this context. Exploratory factor analysis is a statistical tool that performs a multivariate analysis and helps a researcher to explore variable and form construct. Exploratory factor analysis is a dimension reduction method through which the variables are reduced to a limited number of factors. Constructs are formed by identifying underlying variables that explain a correlation pattern among observed variables. Based on the factor analysis, these constructs further explains the variances of dependent variable. Basically, these constructs are nothing

but a combination of variables from the questionnaire. Further, the naming of these constructs is fully subjected to the researcher's perspective.

KMO and Bartlett's Test

KMO-Bartlett measure of sampling adequacy is an index used to test the appropriateness of the factor analysis. The minimum required KMO is 0.5. The table below shows that the index for this the value of KMO comes out to be 0.937 the accepted is 0.5. Therefore, it indicates the adequacy of the sample size for applying the factor analysis. This means the principal component analysis is appropriate for this data.

Table 2: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.937
Bartlett's Test of Sphericity	Approx. Chi-Square	6876.731
	df	703
	Sig.	0.000

Source: Author's calculation

Total Variance Explained

This output gives total variance explained. This table gives the total variance contributed by each component. The next item shows all the factors extractable from the analysis along with their eigenvalue, the percent of variance attributable to

each factor, and the cumulative variance of the factor and the previous factor. Notice the first factor accounts for 4.386 of the variance, the second 4.028, and third 3.773, fourth 3.245, fifth 3.140 and sixth 3.140, seventh 2.892, seventh 2.736. It is also clear from this table that there are eight distinct components in the table.

Table 3: Principal Component Analysis

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	15.248	40.127	40.127	15.248	40.127	40.127	4.942	13.005	13.005
2	1.667	4.386	44.512	1.667	4.386	44.512	3.978	10.467	23.472
3	1.531	4.028	48.54	1.531	4.028	48.54	3.72	9.791	33.263
4	1.434	3.773	52.314	1.434	3.773	52.314	3.187	8.387	41.65
5	1.233	3.245	55.559	1.233	3.245	55.559	3.144	8.275	49.925
6	1.193	3.14	58.7	1.193	3.14	58.7	2.135	5.617	55.542
7	1.099	2.892	61.591	1.099	2.892	61.591	1.734	4.564	60.106
8	1.04	2.736	64.327	1.04	2.736	64.327	1.604	4.221	64.327
9	0.982	2.583	66.911						
10	0.953	2.508	69.418						
11	0.857	2.254	71.672						
12	0.769	2.025	73.697						
13	0.738	1.943	75.641						

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
14	0.647	1.702	77.342						
15	0.614	1.617	78.959						
16	0.591	1.556	80.515						
17	0.584	1.536	82.051						
18	0.549	1.445	83.496						
19	0.502	1.32	84.817						
20	0.497	1.307	86.123						
21	0.467	1.228	87.351						
22	0.437	1.15	88.501						
23	0.41	1.079	89.58						
24	0.391	1.029	90.61						
25	0.381	1.003	91.612						
26	0.367	0.965	92.577						
27	0.341	0.898	93.474						
28	0.301	0.791	94.265						
29	0.289	0.761	95.027						
30	0.279	0.735	95.761						
31	0.264	0.695	96.457						
32	0.239	0.63	97.087						
33	0.22	0.579	97.666						
34	0.214	0.563	98.229						
35	0.212	0.558	98.787						
36	0.185	0.486	99.273						
37	0.152	0.399	99.673						
38	0.124	0.327	100						

Source: Author's calculation

Rotated Component Matrix

The factors that have component ranged above 0.5 are grouped together and the same has been done for factors of each component. Among the given factors the component that has the highest loading is the most dominant component. The design of rotation is to decrease the number of factors on which the variables beneath investigation have high loadings. Rotation does not actually change anything but makes the interpretation of the analysis easier. Looking at the table above, we have identified 6 factors explaining the Customer criteria for selecting banks and the first category is named "Reputation & Technology" which include factors

such as image, easy transfers, internet banking facilities, financial stability, foreign exchange facility. Second category is named as "Branch availability" which include factors as branch network, efficiency, time of operation, third category named as "Appearance & word of mouth" it include factors like appearance of staff, feedback from relatives, recommendations from friends, fourth category named as "Customer services" including factors like bank atmosphere, staff services, range of services, fifth category named as "Price & cost" including interest rate offered on loan and deposits and sixth category named as "Amenities". Two more factors are also the part of this matrix but they were dropped due to poor factor loading.

Table 4: Principal Component Analysis

	Component							
	1	2	3	4	5	6	7	8
The reputation of the bank	0.675							
Easily transfer of fund (RTGS, NEFT)	0.663							
Internet banking facility	0.638							
Safe investment	0.601							
Financial stability of bank	0.564							
Regular bank statement	0.543							
Foreign exchange facility	0.542							
The professionalism of bank staff	0.521							
Helpdesk call centre of the bank								
Several Branches								
In several locations		0.775						
Of 24 hours		0.751						
Opening account		0.655						
Fast and efficient		0.654						
Convenient branch location		0.544						
Appearance and attire of staff			0.679					
Recommendations of relatives			0.615					
Low service charges			0.58					
Recommendations of friends			0.572					
Proximity to home			0.531					
Influential marketing campaign								
Cost of service								
Pleasant bank atmospheres				0.747				
Staff Courtesy				0.685				
An appropriate range of service				0.544				
Branch opening hours								
Adequate numbers of tellers								
Sponsor uses the same branch								
Interest on loan					0.736			
Higher returns on savings					0.648			
Free gifts for customer					0.604			
Customer friendly environment at Bank					0.549			
Grants to customer								
Cell phone Banking facility						0.878		
Parking space						0.827		
Financial counseling service							0.57	
Influence of parents								0.762
The attractiveness of bank building								

Source: Author's calculation

DISCUSSION, LIMITATION & FURTHER SCOPE

This study is conducted to investigate the criteria by the consumer for selecting banks in the Indian context. The findings of the study state that Reputation & Technology, Branch availability, Appearance & word of mouth, Customer services, Price & cost, and Amenities are factors considered by customers for selecting a bank. Whether choosing a public sector bank or private sector bank customers have certain parameters to select a particular bank. The exploration of the customer's criteria for selecting a bank will be helpful to the bank's management to design suitable marketing strategies to tap new customers and preserve the existing one. Moreover, with the increasing competitiveness in the banking industry, these kinds of studies can provide them with an edge in comparison to their competitors. Furthermore, as per the findings of this study, the bank should reduce the interest on loan base to be at par with the other banks. Banks should expand its presence in different locations for the convenience of the customers. They should use more publicity measures and launch an awareness campaign. Moreover, there are certain limitations of the study, firstly the study can be conducted on a larger sample size. Secondly, a comparative study can be conducted between the northern and southern region, analyzing how the selection criteria vary as per geographical regions.

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