

# CONSUMER PERCEPTIONS OF BANKING SERVICES: FACTORS FOR BANK'S PREFERENCE

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## Abstract

The paper examined consumer perceptions of banking services as a factor for bank's preference among open and distance learning students. Survey research method was adopted. The population of study was the ODL students from which sample were selected using stratified random sampling technique. Questionnaire was administered on selected samples. The research instrument was validated through content validity while reliability was done through test-re-test method. Respondents' perceptions of banking services were captured using the factor analysis technique to determine perceptions order of importance while T-Test determined its significance. The study revealed that the different perceptions of the customers were significant in influencing the choice of bank especially by the students. The paper concluded that the consumer perceptions of the banking services were essential requirements for understanding how well to delight banking customers. The study recommended that bank delivery services must be customer oriented and customer relationship focused.

**Keywords:** Bank's Preference, Consumer Perceptions, Banking Services, Factor Analysis, T-Test  
**JEL Classification:** M00, M3, M31

## 1. INTRODUCTION

South African economy is reasonably diversified with key economic sectors including Mining, Agriculture and other sectors. The contribution of these sectors to the GDP indicated that the highest contribution to the GDP came from Finance /Real Estate and Business (21%) compared to the other sectors. (GDP data from Statistics South Africa, 2012)The figure indicated the activeness of the banking sector. In its 2012-13 global competitiveness, the world economic forum ranked South Africa 3<sup>rd</sup> for its financial market development indicating high confidence in South Africa financial markets at a time when trust is returning slowly to many other financial markets. (World economic forum, 2013)

The South African banking system is well developed and effectively managed comprising a central bank called South Africa Reserve Bank as well as a few large, financially strong banks, investments institutions and a numbers of smaller banks. Many foreign banks and investment institutions have operations in South Africa. The investment and the merchant banking industry remains the most competitive front in the industry while the country big five banks - ABSA( Amalgamated banks of South Africa) FNB,( First National Bank, STANDARD BANK, Nedbank, Capitec dominates the retail market.( Doing business in south Africa,2012). With the growing competitiveness in the banking industry (Grady& Spencer, 1990), and similarity of services offered by banks (Holstius &Kaynak, 1995), it has become imperative that banks identify the factors that determine the basis upon

which customers choose between providers of financial services.

Studies on retail bank marketing are not totally a new research paradigm. A sizeable number of literatures focused on banking behaviors of the retail customers (for example, Holstius and Kaynak, 1995). A lots of the previous studies carried out have been done in the western world where there is great disparity in the orientations from the African nations like South Africa. The populations of interest for these previous studies have been the general population. Only a handful of investigations have been directed towards the younger age groups such as the undergraduates. (Mokhlis, Mat and Aalleh, 2009). Even with this development, a special population group within university education spectrum has not been captured. - Open and distance learning students (ODL). The present study therefore address this issue by carefully investigating bank preference among open and distance learning students of University of South Africa.The open and distance learning is a mode of delivering education often on the individual basis to students who are not physically present in a traditional setting such as the classroom Distance education has been able to expand access to education and training for the general populace by lessen the effects of constraints imposed by personal responsibilities and commitments. The large numbers of the people involved in this category are matured and working class who by their distance education are involved in the choice of bank to facilitate payments of school fees or carry out any other financial transactions to promote their studies from wherever they are. These students earn salaries and therefore provide an excellent business

opportunity for retail banks to be concerned about their perceptions of banking services to influence the choice of their financial providers

Several studies conducted on analyzing factors affecting customers preference in choosing banks especially those focusing on the undergraduate students (Mokhlis, 2009, Almosawi, 2001, Cleopas & Olawale, 2011) have not captured the growing numbers of students in the open and distance learning institution who by rights of employment are account holders who will have to fulfil certain financial obligations to the institution. It is therefore evident from the literature that there is a gap to be filled by closely examining the factors that determine the selection of providers of financial services amongst this special category of students. This study therefore seeks to fill the gap created by the absence of information on bank preference or selection criteria among the ODL Students. The objective of the study is to determine the consumer perceptions of the banking services as factors for bank's preference.

## 2. LITERATURE REVIEW

### 2.1. Conceptual Review - Banking Preference

Banking preference is greater liking for one Bank over the others in the way the bank performs the activity of accepting and safeguarding deposits from individual/entities and lending out the money in order to earn profit. Banking preference further connotes how customers would select the bank to deposit, borrow and perform any other financial transactions. It varies from person to person, nation to nation simply because of differences in cultures, belief systems and legal atmosphere. A study of banking preference enables banks to prepare banking marketing strategies that will invite new customers and retain existing customers.

*Consumer Perception* - Consumer perception pertains to how individuals form opinions about companies and the products they offer through the purchase they make. It is the process through which consumers select, organize and interpret information in order to provide themselves with a meaningful and coherent view of the product or service. It also refers to how customers view a product based on their own conclusions. These conditions are derived from a number of factors, such as price and other attributes of the product.

*Consumer Banking Activities* - This is the provision of services by a bank to individual customers, rather than to companies or other banks. The services include: savings and transactional accounts, debit cards and credit cards, ATM services, Personal loans.

*Open and Distance Learning* - Distance learning is becoming increasingly recognized as a suitable and valuable educational experience (Davies, Howell, & Petrie, 2010). It provides avenue for individuals who want to receive education but who cannot attend standard educational establishments to acquire a profession. Distance education is also effective in reducing the imbalance between education supply and demand (Aderinoye and Ojokheta, 2004). Many studies have reported that open and distance education is a crucial tool in reducing gender inequality for women, especially in

developing and poor countries. Given the fact that ODL students are geographically dispersed, ODL practitioners have to deal with numerous challenges if they are to provide meaningful and suitable tuition to these students. These challenges include teacher contact and feedback, student support and services, alienation and isolation, lack of experience, as well as demonstrations of practical applications (Galusha, 1998). The composition of an ODL practitioner is different from that of a residential university practitioner, which will require the use of different methods and means in order to teach.

### 2.2. Theoretical Review

Three theories pertinent to the study were reviewed to show how the theories underpinned bank selection and consumer perception. The Rational Choice theory provided an insight into the choice and selection behaviors of customers. The theory posited that the pattern of behaviors in societies reflect the choices made by individuals as they try to maximize their benefits and minimize their costs. In effect, people make decisions about how they should act by comparing the costs and benefits of different course of actions. Pattern of behaviors develop within the society resulting from those choices. Rational decision making entails choosing an action given one preferences. Its validity is rooted in two assumptions namely completeness and transitivity. Completeness requires that all actions of the individuals can be ranked in an order of preferences while transitivity is a condition that if action A is preferred to B, B is preferred to C, it means A is preferred to C. The rational choice is relevant to the study based on the choice the ODL students will have to make among the various banks that are in existence around him. This choice is contingent on numbers of considerations that are beneficial to the students It is this consideration that this study purpose to uncover.

Competition theory explains how firms try to win customers patronage and loyalty through service excellence, meeting customers' needs and providing innovative products. Competition occurs when two or more organizations act independently to supply their products to the same group of customers. Direct competition exists where organizations produce similar products appealing to the same group of customers. Indirect competition exists when different firms make products which are not in head to head competition but are competing for the same customers Rand. Therefore the competitive strategy of a firm depends on customer's choice behaviors which influence firms' productive decision towards the satisfactions of consumers' preferences. The study is relevant to the study considering the various marketing activities employed by the Banks to be relevant and effectively compete with others in the market.

Consumer Perception Theory explains consumer behaviour by analyzing motivations for buying or not buying a particular product. Three areas of consumer perception theory are: self-perception, price perception and benefit perception.

### 2.3. Empirical Review

Chen (1999) in his study to identify critical success factors in the banking sector highlighted four factors, namely the ability of the bank to manage operations, bank marketing, developing bank trademarks and financial market management. Phuong and Har (2000) in their study also indicated that the most important criteria affecting undergraduates' bank selection decisions were higher interest rate for saving, convenient location and overall quality of service they are followed by the availability of self-bank facilities, charges on services provided by banks, low interest rate on loans, long operating hours, availability of students privileges and recommendations by friends and parents specifically. The respondents considered overall quality of service more than twice as important as recommendations by parents/friends. Colgate and Hedge (2001) studied the process of defection in Australia and New Zealand. The study indicated three main problem areas, which influenced customers to switch banks, namely service failures, pricing problems and denied services. This finding is important in our context of study because, a client may switch to another bank because his present banker may not provide a service, which the customer thinks most important. They further added that customers tend to complain more often about services failure prior to exiting a bank and customers may be staying silent about the problems that are most important in their decision to exit the bank. Shevlin and Graeber (2001) explored the various factors that influence a customer in choosing a particular bank in Texas, USA. They pointed out that ATM (Automatic Teller Machine) was the primary reason for a customer choice for a bank, referral from friends and relatives are most prevalent sources of influence. Devlin (2002) analysed the customer choice criteria in retail banking market in the UK on the potential variations in the importance of various choice criteria, which were classified as either intrinsic or extrinsic, with respect to customer financial knowledge. Intrinsic attributes were defined as those specific to a particular service rather than generalisable across services like price and service specific features. Extrinsic attributes were those factors that are not specific to a particular service and can be generalized across offering like service quality factors, corporate brand and relationship factors. It was found that lower knowledgeable groups were particularly influenced by extrinsic criteria of location of the branch and recommendations that they receive. Even though such extrinsic factors were found to influence higher financial knowledgeable groups also, higher knowledgeable groups were found more likely to take account of intrinsic attributes such as service features.

### 3. METHODOLOGY

The research design was basically exploratory because the research majorly uncovered the factors influencing consumers' choice of bank for their transaction with special reference to the ODL students. Survey research method was used to obtain the views of the respondents from the research samples. The total population of study was

139,358 CEM students. The justification for selection was that the college had the highest number of students. The sampling frame was the total numbers of registered students in CEMS data base at the time of the research. The study adopted the Yamane formula to determine the sample size because the population was finite and we have a defined error margin for the population. The Yamane formula is as stated below:

$$n = \frac{N}{1 + Ne^2} \quad (1)$$

where: N = Population size;  
e = Desired margin of error  
n = sample size desired

Going by the above formula, the sample size for the study is calculated at 0.005% as desired error margin as below:

$$\begin{aligned} N &= 139,358 \\ N &= (\text{Sample Size}) = 139,358 \\ 1 + 139,358(0.05)^2 &= 1 + 139,358(0.0025) \\ 1 + 348 &= 349 = 139,358 = 399 \text{ students.} \end{aligned}$$

Stratified random sampling technique was adopted in order to accommodate the students' different course of studies and provinces. It implies that students in the different programs of the college and provinces were randomly selected. The data collection instrument used in the study was essentially the questionnaire. The questionnaire was highly structured and undisguised in nature. The questionnaire was divided into two broad sections. Section A contains the research questions based on a five point likert scale ranging from Not at all (1), To a very slight extent (2), To a moderate extent (3), To a great extent (4) and to the fullest extent (5). Section B of the questionnaire contained the demographic data of the respondents. Content Validity was used to validate the research instrument. To illustrate content validity, interviews were conducted with professionals to validate the items extracted from related literature. The construct validity of the instrument was justified on the basis that the measures were developed from conceptual review.

The reliability of the instrument was carried out through test-re test reliability. The higher value of the correlation coefficient attested to the reliability of the instrument, when r yields the value of 0.70 and above, the reliability of the instrument is ensured. Fifty questionnaires were administered among selected students. The degree of similarity between the two measurements was determined by the coefficient of correlation of the two outcomes. The Cronbach's alpha of the questionnaire was calculated as 0.901 The Cronbach's alpha result above confirmed the reliability of the research instrument, simply because the value obtained (0.901) is greater than 0.70. The source of data for the study was essentially primary sources. The primary data is the collection of facts and figures directly relating to the study by the researcher. This was achieved through the use of questionnaires as described under the research instrument which was administered on the respondents of the study.

Component factor analysis and T-test were used to analyze the various factors presented. Factor analysis coefficient was determined to show the potency and the order of importance for each factor. The weighted mean to determine the capability of

each factor among the study group was also computed.

**4. DATA ANALYSIS, RESULTS AND DISCUSSION OF FINDING**

In table 1 above, the factor analysis coefficient revealed that the most potent determinant of the banking preference among the ODL Students was

customer treated competently with professionalism by the employees of the Bank.

The least of the factor according to factor analysis coefficient was the absence of an alternative bank. This has really not influenced the choice of the students. The University having an account with the bank was really not a major consideration to influence their choice of Bank. The other factors are well positioned between the two extremes. The weighted mean of the respondents indicated the average responses for the factors.

**Table 1.** Results of Factor Analysis Coefficients, T-Test and Weighted Mean of Factors

SN	Factors	Weighted Mean	Std. Error Mean	Factor Coefficients	t-Test	P-Value
1	Ease of opening a bank account	4.10	.047	.663	86.691	.000
2	Availability of ATMs in convenient locations	4.10	.045	.637	91.307	.000
3	Provision of fast and efficient services	4.23	.046	.661	91.115	.000
4	Absence of an alternative bank	2.16	.059	.619	36.754	.000
5	Variety of services offered	3.80	.055	.725	69.278	.000
6	Staff courtesy and friendliness	4.01	.047	.800	85.653	.000
7	Professionalism of bank staff	4.17	.043	.806	96.989	.000
8	Low service charges	3.43	.070	.786	49.081	.000
9	Recommendation by friends/relatives	3.01	.060	.684	49.869	.000
10	Influential marketing campaign	2.94	.062	.744	47.565	.000
11	Financial stability of the bank	4.21	.050	.638	83.866	.000
12	Higher returns on savings	3.60	.059	.779	61.284	.000
13	Financial counselling services	2.99	.063	.711	47.278	.000
14	Easily obtainable loans	3.14	.060	.736	52.664	.000
15	Reputation of the bank	4.23	.045	.692	93.936	.000
16	Security of the bank	4.32	.044	.788	97.124	.000
17	Interior décor of the bank	2.84	.066	.708	42.973	.000
18	Proximity to office/home	3.40	.065	.663	52.178	.000
19	Low interest rate on loans	3.51	.067	.824	52.221	.000
20	Prompt response to bank statement queries	4.01	.051	.736	78.873	.000
21	Influence of parents	2.15	.061	.769	35.288	.000
22	Warm reception at the bank	3.40	.058	.715	58.211	.000
23	Internet banking facilities	4.33	.049	.726	88.524	.000
24	Foreign exchange services	3.24	.062	.720	52.405	.000
25	Adequate numbers of tellers	3.46	.064	.741	54.243	.000
26	Bank maintains several branches	3.83	.048	.781	79.426	.000
27	Confidentiality of information	4.38	.046	.722	95.601	.000
28	The university has an account with the bank	2.26	.074	.636	30.609	.000
29	Impressive results declared	3.35	.062	.787	53.952	.000
30	Promptness of service	4.05	.047	.758	85.819	.000
31	Willingness to help customers	4.19	.046	.868	91.530	.000
32	Physical facilities/equipment in good working order	4.01	.046	.744	86.522	.000
33	Knowing customers' details	3.57	.054	.679	65.975	.000
34	Security of financial services	4.24	.044	.796	97.198	.000
35	Ability to offer promised services	4.12	.050	.840	82.918	.000
36	Individualised attention to customers	4.05	.052	.819	78.618	.000
37	Customers treated competently and with professionalism	4.23	.046	.906	92.224	.000
38	Strong commitment to meeting customers' needs	4.14	.050	.893	82.466	.000
39	Sustained trust on delivery	4.13	.046	.773	89.231	.000
40	Maintenance of sound relationship	3.91	.049	.771	80.328	.000
41	Mobile phone banking services	4.04	.053	.653	75.486	.000
42	Interaction with sales executives of the bank	3.10	.063	.659	49.200	.000
43	Being a supplier/business partner to the bank	2.22	.066	.692	33.819	.000
44	Knowing the bank management	2.17	.063	.800	34.595	.000
45	Knowing the board members	1.75	.054	.746	32.421	.000
46	Knowing the bank's profile	2.95	.065	.761	45.625	.000
47	Familiarity with the audited annual report	2.34	.062	.730	37.581	.000
48	Interaction with the user's family	1.94	.055	.875	35.475	.000
49	Interaction with the user's relatives/friends	2.00	.055	.857	36.272	.000
50	Interaction with the user's organisation	2.01	.054	.850	37.132	.000

Source: Field Survey, 2016

The Mean ranges from 4.38 (confidentiality of information) to 1.75 (knowing the bank management). 82% of the factors recorded a weighted mean above average value. The standard error mean ranged between .043 (Professionalism of bank staff) to .074 (The University has an account

with the bank). The lower the values of the standard error mean, the better the result. The T-test shows that all the factors are statistically significant at 5% level. (p-value <0.05). The T -test value ranged between 30.609(The University has an account with

the bank) to 97.198(Security of the financial services).

## 5. CONCLUSIONS AND RECOMMENDATIONS

Based on the analysis and findings from the research, all the factors examined in the research determined the banking selection preference among the ODL Students. However, the most potent first three factors as denoted by factor coefficient are customers treated competently with professionalism by the employees, strong commitment to meeting customers' needs and interaction with the user's family. Banks as a service organization must ensure that every elements of service delivery to the customers are well thought out and customer oriented. This is because all the factors are statistically significant in influencing selection preference of the ODL Students. Attention must be given to each customer's needs which must be professionally handled and delivered in order to promote loyalty and regular patronage of such customers. Any effective marketing program of the bank must carefully consider each of the factors that influenced banking selection preference to achieve the marketing objectives.

In view of the above, the study recommended that Banks should embark on intensive training for their staff to enhance their competency and professionalism with which the staff relates to the customers. Secondly, Banks delivery services must be customer oriented deliberately geared towards meeting the needs of the customers. Thirdly, banks must cherish and believe in customer relationship management as well as sound public relations in order to build and have good reputation with clients in order for such clients to provide a good lead.

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