

BEHAVIOURAL FACTOR-BASED CLUSTERING TO EXAMINE WHY SMALL BUSINESSES CHOOSE PARTICULAR BANK: THE NEW ZEALAND EVIDENCE

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Abstract

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In this paper, using the theory of planned behaviour, behavioural and non-behavioural factors underpinning small business' (SB) choice of a bank are explored. To date, we are unaware of any study that uses a behavioural approach to study bank selection by SBs owner/managers. These factors, discussed in the literature, form the basis of a questionnaire administered in New Zealand. Univariate & bivariate analyses, in addition to cluster analysis of the data, show that behavioral factors, such as knowing a person in the bank, prior personal banking experience and recommendation/referrals, are shown to be most important. Also, after controlling for size, industry, and age of business it is found that there is no statistically significant difference in choice variables. Further, inertia is strong once a bank is chosen and cost, while emphasized, does not trigger actions. A cluster analysis of SB owners/managers produced four different groups. However, all of these groups are affected by the same behavioural factors in their choice of a banking partner.

Keywords: SME, Bank Selection, Behavioural, TPB

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1. INTRODUCTION

It is generally well established that both economic and non-economic drives impact small business (SB) financial decision making (Gallo, Tàpies, & Cappuyns, 2004; Moritz, Block, & Heinz, 2016). Moreover, small businesses comport themselves differently from and use some finance-related instruments and techniques that are dissimilar to those used by their larger counterparts (López-Gracia & Sogorb-Mira, 2008; Berger & Udell, 1995).

Yet, much research into SB finance-related decision making is still dominated by the traditional framework of analysis (Southey, 2011; Al Balushi, Locke, & Boulanouar, 2018) using the economic theory of rational decision making as expressed by the expected utility theory (Schoemaker, 1982). This is despite the emergence of alternative explanations such as Prospect Theory (Kahneman & Tversky,

1979), Image Theory (Beach, 1990), Mental Accounting (Thaler, 1999), the theory of reasoned action and the theory of planned behaviour (Ajzen, 1991).

Specifically, investigations into reasons underpinning small business choice of a business banking partner is an area of research which, to the best of our knowledge, has only used traditional, and non-behavioural, theoretical explanations (Ghosh, Ghosh, & Khan, 2015; Nielsen, Terry, & Trayler, 1998; Nielsen, Trayler, & Brown, 1995; Pauluzzo & Geretto, 2017).

It is true that the traditional finance paradigm has contributed greatly to our understanding of factors affecting bank selection decision-making (Kaur, 2015; Trayler, Nielson, & Jones, 2000). However, from a managerial choice viewpoint, which includes nonfinancial and behavioural factors (Matthews, Vasudevan, Barton, & Apana, 1994; Barton & Gordon, 1988; Zellweger, Frey, &

Halter, 2005), the traditional financial theories fail to deal with the intricacies around financial decision-making in SBs. Furthermore, many of the recent studies show that: 1) traditional approaches either ignore managerial preferences or fail to account for the importance of SBs' preferences and norms (Pearson, Carr, & Shaw, 2008; Al Balushi et al., 2018); 2) decision making in most SBs is impacted by the human behaviour, attitudes and nonfinancial goals of the SB owner/manager (Zellweger et al., 2005).

The above realisations constituted our primary motivation for using a noneconomic rationale to investigate bank choice decisions. Our current research answers the increasing calls to expand financial choice models to research financial decisions in SBs (Barton & Gordon, 1987; Barton & Gordon, 1988; Beattie, Goodacre, & Thomson, 2006; Matthews et al., 1994; Al Balushi et al., 2018) and to explore how behavioural factors influence the choice of a business-banking partner by SBs.

In this research, we use Ajzen's (1991) theory of planned behaviour (TPB), which maintains that behavioural intention is defined as the subjective probability that a person will perform certain behaviour. According to the TPB (Ajzen, 1991), behavioural intention is represented as a function of three basic determinants - attitudes, subjective norm, and perceived control. Factors that affect these determinants affect behavioural intention and the more favourable the subjective norm and the attitude and the greater the perceived control, the stronger the person's intention to perform the behaviour (i.e., selecting a specific bank). Factors affecting behavioural intention and other factors extracted from prior research were used in a survey to obtain information from SBs proprietors in New Zealand on why they chose their bank. We used univariate, bivariate and cluster analysis to analyse the data.

The results show that the most important factors in choosing a bank were behavioural in nature including prior personal experience with the bank, personal contacts through knowing someone in the bank, and a recommendation from a friend or associate. Other findings included that although cost of banking was viewed by SBs as very important influence in their decision to switch banks, the fact that majority of those businesses do not move, coupled with the other finding that they don't evaluate bank costs in their initial bank choice decision point to a realisation that once associated with a bank, there is little interest in moving. These results are not in line with the predictions of rational/traditional theoretical explanations of why SBs chose a particular business banking partner. Instead, the overall conclusion points to SB owners/managers as being largely affected by behavioural factors in explaining their decision making about which bank to partner with.

Our research contributes to the SB finance literature in significant ways. Firstly, we expand the understanding of SBs' financial decision-making by acknowledging the unique SB owner-manager influences on financing decisions. Secondly, as previous studies on SB bank selection focused on non-behavioural factors, we obtain a more comprehensive perspective by including behavioural factors. Thirdly, we examine the factors that inform

and influence attitudes towards bank selection from the SBs' Owner-managers' perspective and we consider these previously ignored perspectives using the TPB as the framework of our investigation. Lastly, by showing that non-economic variables can influence financing behaviour decisions we add to the wider research literature on SBs and SB finance in particular.

The remainder of this paper is structured as follows: Section 2 reviews the literature, Section 3 presents the data, Section 4 presents and discusses the empirical results, and Section 5 concludes the paper.

2. LITERATURE REVIEW

Much of the early bank selection studies assume that SB managers behave rationally. This is despite other studies, such as those of Barton and Gordon (1987, 1988), showing that managerial choice and non-rational elements of decision-making are important features that need to be taken into consideration to understand financial decision-making in SBs. SME (small and medium-sized enterprise) behaviours are largely unique due to the specific properties these firms enjoy. For instance, because SMEs try to retain generational influence, their managerial succession influences their financing strategies, often qualified as conservative, and financial plans (López-Gracia & Sánchez-Andújar, 2007). SME owners/managers also ward off external equity so as not to lose control over their business, even when such a strategy could affect their business profitability and growth opportunities (Michaelas, Chittenden, & Poutziouris, 1998).

This evidence shows that financial choices vary among small business owner-managers (Moritz et al., 2016). This is because SBs are highly dependent on a single decision-maker, who is usually the owner-manager (Gibcus, Vermeulen, & De Jong, 2006). Furthermore, studies have shown that SME owners self-select to run businesses that best match their own areas of expertise (Wiklund, Delmar, & Sjöberg, 2005). Therefore SB financing behaviour might be the result of owner-managers' personal attitudes and these attitudes, therefore, become embedded into the SMEs (Michaelas et al., 1998). Furthermore, finance-related decisions of SMEs are quite complex because they depend on a number of financial, social and behavioural considerations (Romano, Tanewski, & Smyrnios, 2001). It has been argued that SBs are likely to engage in a financial logic based on not only rational economic motivation but also behavioural and nonfinancial factors on which there is a paucity of research from finance researchers (Michaelas et al., 1998).

Consequently, to better understand the reasons underpinning SBs' choice of a bank we need to explore the traditional as well as the behavioural and nonfinancial factors (Baker & Ricciardi, 2014; Matthews et al., 1994) such as the subjective norms, attitudes, and perceived behavioural control of the businesses' owner-managers. We begin by discussing the former, then move on to the latter.

2.1. Theory of planned behaviour and small business financing

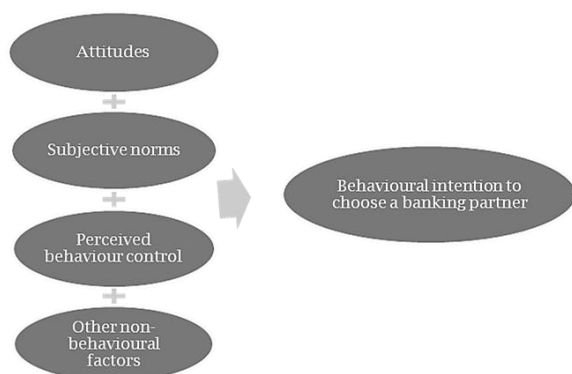
In this study, we use elements of Ajzen's (1991) TPB to study bank selection behaviour in SMEs. TPB explains and predicts human behaviour, which is behaviour not entirely under the person's self-control and where behavioural decisions and the proximate behaviour are seen as determined primarily by the decision-maker's behavioural intentions (Ajzen, 2002). These behavioural intentions, in turn, are determined by three determining factors. These factors are: 1) attitudes defined as (un)favourable evaluations of the likely attributes or consequences of a behaviour; 2) perceived norms, which refer to the beliefs of the decision-maker about the significant others' expectations, such as family, friends and advisors such as an accountant or mortgage broker, about whether to perform a behaviour or not; 3) perceived behavioural control denoting the perceived ease or difficulty to perform a behaviour depending on the belief of the decision-maker about the existence of behaviour-limiting factors.

In small businesses, the owner-manager is usually the single decision-maker about all aspects including financial decisions (López Salazar, Contreras Soto, & Espinosa Mosqueda, 2012). The beliefs and values of this owner/manager are substantial drivers in strategy making tasks (Heck, 2004). Our model showing these and other non-behavioural factors affecting bank selection is exhibited in Figure 1, below.

2.1.1. Attitudes

Although very important, research on bank selection often neglects the SB owner's attitudes (Southey, 2011). The decision of the SB owner/manager to select a specific bank is not solely fashioned by rational reasons. Rather, it is shaped as much by the owner/manager's desires and wishes (Read, 2002) as by any restrictions imposed by potential banking partners. Desires and wishes are and can be informed by previous experiences. Therefore, attitudes are a factor affecting the behavioural intention of the SB owner/manager to select a specific banking partner.

Figure 1. Factors affecting bank selection



2.1.2. Subjective norms

Social norms have been shown to significantly affect SB owner/managers' decision-making (Chang, Memili, Chrisman, Kellermanns, & Chua, 2009). For example, Anderson, Jack, and Dodd (2005) show that an important source of support and encouragement to entrepreneurs is family. In addition, Greve and Salaff (2003) illustrate how close contacts, such as family members, are used by entrepreneurs to help them during all stages of business decisions. This is consistent with practice as reported by Bank of America (2016), where the Head of SB, Bank of America, stated: "We know [SB] owners are inherent self-starters making significant personal sacrifices on behalf of their businesses, but what's fascinating is this dimension of family, friends and community that they see as core to their success" (p. 1).

Fishbein and Ajzen (1975) proposed subjective norms are a direct determinant of behavioural intention. This is because under significant social pressure and social influence, individuals would perform a not so favoured behaviour if they believed that one or more important referents think they should do so, and if they are sufficiently motivated to comply with the referents (Venkatesh & Davis, 2000). Thus, if family or friends favour a specific bank, these norms should affect bank choice via behavioural intention.

2.1.3. Perceived behavioural control (PBC)

PBC indicates people's view of their ability to perform a given behaviour. According to East (1993), if people believe that they have control over an action they will be more confident of achieving the outcome(s) of that action. Our study defines PBC as the perception of the degree of control the decision-maker has regarding the selection of a particular banking-partner. For example, fear of being rejected by a bank would discourage the SB owner/manager from approaching that specific bank. Ajzen (2002) claims that a high level of PBC should usually correspond to greater behavioural intention and increased efforts and perseverance to realise the intended behaviour.

Empirically, PBC has been shown to be one of the most influential factors that play an important role in enhancing performance in entrepreneurship and in determining financial decisions. Studies, such as of Taylor and Todd (1995), show that PBC explain significant variance in intention and subsequently in behaviour. It also shows that there is a positive association between PBC and intention, emphasising the importance of psychological traits such as PBC, as maintained by Farrell, Fry, and Risse (2016), in explaining financial decision-making. However, research into the relationship between PBC and financial behaviour is limited (Farrell et al., 2016). Our study is a step towards filling this gap.

2.2. Other factors

Bank location, in much previous research, has been supported as an important factor in bank choice. Research suggests that business owners often choose a bank based on which branch is nearest their home or where they do their personal/business

banking (The Economist, 2007). This is because SBs still make frequent use of bank branches.

Lucey (1990) notes that many small firms want a bank that is conveniently located. More recent research, cognisant of internet banking, finds that around 50% of SBs want to have a branch five minutes away rather than have free online services and no local branch. A 2006 survey of small businesses finds that although most banks are spending considerable money and time to promote their online service, SB owners believe having their bank nearby is the most important bank characteristic for conducting their firm's banking business. 62% of SBs use a local or regional bank as their primary bank because they want to be physically close for cash deposits, especially for retail enterprises (Scott & Dunkelberg, 2006). In New Zealand 70% of businesses have zero employees (BusinessNZ, 2019) and, not surprisingly, businesses are not willing to spend valuable time waiting for services.

Regarding banking costs, the level of charges is not seen as a key factor in the choice of bank. Mazur (2007) states that SB owner/managers choose the bank according to the best products and interest rate, but the fact is these owners think there are no differences between these products, they are just the same service operated by different banks. Furthermore, a previous study in New Zealand by Locke and Boulanouar (2009), which investigated the cost of banking services to SBs, has shown that "the ability of individual small businesses to readily ascertain which bank will provide the required services at least cost is not a simple matter. The range of services is not necessarily directly comparable between banks and the bundling of charges does not lead to easy comparison" (p. 211-212). The conclusion of Locke and Boulanouar (2009) was: "The lack of price competition in the provision of small business banking services combined with limited transparency concerning actual fee levels prevents small businesses from readily estimating likely fee levels" (p. 211).

The decision to switch banks has been the subject of a number of investigations. The general consensus is that many SBs consider the possibility of changing banks but very few actually make a move. Howorth, Peel, and Wilson (2003) observe that much of the literature is anecdotal, impressionistic and based on the commonly held assumption of inertia rather than loyalty and belief it is important to stay with the same bank. In the UK, 34% of SBs are reported as considering a swap of banks but only 4% actually did so according to the Federation of Small Businesses (1998). The Howorth et al. (2003) study notes dissatisfaction with service and the finance available are important factors in motivating thinking of changing banks. However, information capture is important and a distinguishing feature between those that swapped and those that didn't was the ability to convey information about their activities and thus attract favourable finance.

Heffernan (2006) uses an econometric model to examine the pricing behaviour of British financial institutions with respect to key bank products/services offered to small and medium-sized enterprises (SMEs) including current accounts, investment accounts, business loans, and mortgages. She concludes that policies directed at improving

information and making it easier for small businesses to change banks/accounts would reduce inertia and improve competition among financial institutions. The inertia of SMEs with regard to changing banks was also noted by Carey and Flynn (2005). Their study shows a high degree of Irish SME dependence on banks as a source of funding and evidence of increases in bank rates/charges with limited switching between banks to avail of better rates. They conclude that the key contribution of their paper is that it highlights the need for Irish SMEs to proactively manage their potential funding sources.

With respect to bank marketing, television advertisements for business banking that were screened in New Zealand at the time when this research was underway, suggest there are prompts that attribute of banking other than the cost of services being promoted. This assertion is supported by previous research. For example, the findings of Mylonakis (2008) in Greece found that bank customers may not be interested in advertising in the first instance while choosing their bank, but this is the initial reaction of all those who are interested in achieving the most cost-beneficial and favorable terms. The point here is that advertising is not the main criterion in choosing a bank. However, its existence is a prerequisite, as it verifies a bank's critical presence in the market and plays an important role in the choices.

In New Zealand, there are four main banks operating a branch network. The same banks operate in Australia, with different names, and are the predominant players in that market. However, there are a number of smaller banks, which are actively involved in the SME market. The proposition here is that the factors influencing the choice of banks alter when there is a greater number of choices to be considered. Strachan and Weston (1998) suggest that SBs lending increases with the size of the banks. An empirical study, based on US data by Rauch and Hendrickson (2004), finds that consolidation of banks has led to larger interest rate gaps between SBs loans at small banks versus larger banks. This is evidence that consolidations are effectively increasing the cost of borrowing.

Mazur (2007) finds that where a SB already has a personal account with the bank, chances are good that they will also open a SB account with that same bank. Prior studies in New Zealand indicate that 70% of businesses have a relationship of more than 4 years with the same bank, and 36% have a relationship of more than 10 years, indicating that SMEs are inclined to have longer-term relationships with their financing institutions according to Statistics New Zealand and the Ministry of Economic Development (2010). Research undertaken by the New Zealand Centre of SME Research in 2006, identified that 84% of those SME's in New Zealand interviewed preferred to have a personal relationship with their bank, commenting that awareness and knowledge of each other's businesses would result in reduced errors, reducing the need for repetition of details and explanations and increasing assurance overall (Perry, Cardow, Massey, & Tweed 2006). Howorth et al. (2003) addressing the information asymmetry issue suggests that it has been established that having a longstanding relationship with a bank leads to lower interest

rates, lower collateral requirements and increased availability of finance. This, in turn, makes choosing to add the business banking account to the owners' personal bank an attractive option.

As Julian and Ramaseshan (1994) stated, delivering quality services and products to customers has a significant positive influence on the chances of success and survival in today's competitive banking environment. Lymperopoulos, Chaniotakis and Soureli (2006), examined the importance of service quality in bank selection and found bank service quality is the most important element that customers consider in order to select their mortgage providers and establish a long-term relationship with them.

A number of studies have argued that the efficiency of banking services are the main selection criteria of a specific bank (e.g., Holstius & Kayank, 1995; Yue & Tom, 1995; Mylonakis, Malliaris, & Siomkos, 1998; Coyle, 1999; Driscoll, 1999).

3. DATA AND METHODOLOGY

Following the recommendation of Fishbein and Ajzen (2010) concerning constructing TPB questionnaires, an instrument using a 5-point Likert scale was employed to collect the data for the research model's constructs. Behavioural and non-behavioural questions, distilled from the literature, formed the basis of the questionnaire. There were sixteen questions in total, reducing the likelihood that potential respondents would be daunted by the length or complexity of the instrument. Questions 1 through to 4 inclusive were demographic in nature, providing useful input about the respondents permitting sub-sample analysis for example by the number of employees. The rest of the questions were based upon those issues raised in the literature as 'explanatory variables' for the small business choice of preferred bankers. A list of the 16 questions is presented in Appendix.

The initial survey utilised an online communication protocol established by the Chamber of Commerce in New Zealand. SBs received an email from the Chamber Chief Executive requesting that proprietors of businesses with 50 or fewer employees participate. A hyperlink in the email opened a web-based questionnaire and submission process. The system automatically recorded each response and compiled these in an Excel spreadsheet containing a separate worksheet for each of the 16 questions. The survey remained open for one week and 59 responses were received.

4. ANALYSIS

4.1. Univariate and bivariate analysis

Responses to each of the questions numbered 5 to 16 provide useful insights into what the small businesses consider to be important components of the bank choice decision calculus. This initial univariate/bivariate analysis, when combined with the demographics solicited in questions 1 to 4, provides further insights relating to size, time in business etc.

Question 5 addresses the issue of what is the most important influence on the small business choice of business banking partner. Overall results

show the primacy of behavioural factors. The aggregate responses are shown in Table 1 (below). Overall, 43% of businesses respond that their most important influence is prior to the personal banking experience. However, further analysis shows that more than 50% of micro-businesses (1-5 employees) chose this as their most important influence. As these businesses are very small, it is likely that the owners decided to continue with their current bank because of ease and experience. As businesses increase in size other, less personal, reasons started to be the most important influence. 68% of the respondents identify personal considerations of some sort as the most influential factor in their choice of a particular bank to be their business bank. The factor of most significant importance is prior experience with the bank, either as a personal customer or through the business owner's family having accounts with that particular bank. A friend or associate working within the bank or being recommended to a particular bank by a friend or associate is also significant. The small business owner's personal relationship with a bank and their various other personal, relationship-orientated considerations form the major overriding factor in the decision-making process when choosing a business banking partner.

Table 1. What is the most important influence on your choice of the business bank?

Because my family used this bank	5.26%
Knowing someone who worked in the bank	7.89%
Other	31.58%
Somebody else recommended it to you	11.84%
Your prior personal banking experience	43.42%
Total	100.00%

The personal relationship appears to be of paramount importance so exploration of where any recommendations may have come from is appropriate. Question 7 addresses this issue and the responses are tabulated in Table 2 (below).

Table 2. Who recommended this bank to you?

Accountant	8.0%
Family/friend	21.3%
Mortgage broker	6.7%
Nobody	37.3%
Other	26.7%

Table 3. Bank recommendation by business size

Size	Recommended by	Percentage
1-5 employees	Accountant	5
	Family/friend	15
	Insurance advisor	3
	Mortgage broker	8
	Nobody	46
5-10 employees	Other	23
	Family/friend	38
	Mortgage broker	6
	Nobody	19
11-20 employees	Other	38
	Accountant	25
	Family/friend	25
	Nobody	25
21+ employees	Other	25
	Accountant	19
	Family/friend	13
	Mortgage broker	6
	Other	25

37% of the businesses indicate that nobody recommended the bank to them. A significant majority of businesses are influenced by their choice of the bank through recommendations made to them. As shown in Table 3 (above), further investigation reveals that the smallest sized businesses are the least likely to have received recommendations. Potentially, the smaller businesses relied on their own prior personal banking experience as the basis for business banker choice. Notably, when the responses to questions 2 and 6 are cross-tabulated there is a discernible pattern.

The close linkage between personal and business financial arrangements faced by small businesses does not appear explicitly in the arrangement of mortgages. While personal assets are typically pledged as security by proprietors of smaller businesses when raising debt capital, especially bank loans, it is not apparent banks offering personal mortgages have required business banking to be transferred to them as part of the arrangements. As shown in Table 4 (below), only 25% of businesses are required to bank with owners' personal mortgage providers.

Table 4. Is business banking a requirement for a mortgage?

	<i>Percentage</i>
<i>Yes</i>	25.33%
<i>No</i>	74.67%
<i>Total</i>	100.00%

While the proportion is only a quarter, when it is grouped with other banks not being interested, the cross-tabulation, in Table 5 (below), is 45%.

Table 5. Is business banking a requirement for mortgage? Cross-tabulation

<i>Business banking a requirement for mortgage</i>	<i>Other banks not interested in business</i>	
	<i>Yes</i>	<i>No</i>
<i>Yes</i>	45%	18.87%
<i>No</i>	55%	81.87%
	100%	100%

This indicates that those who are looking for mortgage funding and have difficulties finding finance are more likely to be required to bring the business under the same banking umbrella. This reveals an interesting risk management strategy on the part of those banks through deliberate non-diversification. Interestingly, when the question of how carefully costs are compared it is this group that is required to bring their business banking in order to get a residential mortgage that indicates the highest percentage of cost scrutinisers.

Advertising has little influence on the choice of the bank (Table 6, below). This is an interesting finding given the conduct of the banks in promoting themselves to businesses. If there is very limited movement between banks, then the promotion is presumably geared toward prospective start-ups. Given the considerable churn in small businesses with over 50% ceasing to be in business within 5 years, there is a large market for new accounts. However, given the responses above concerning reasons for choice and recommendations, it

suggests that the advertising may not be well directed.

Table 6. Did a bank's advertising cause you to change from another bank?

	<i>Percentage</i>
<i>Yes</i>	4
<i>No</i>	96

Bank location is potentially a key variable. Significant bank branch closures occurred through the 1990s with the introduction of technology, including automated teller machines (ATMs) and online banking. However, this pattern has reversed with new branches opening (Boulanour, 2013). The establishment of Kiwi bank, run through Post Shops countrywide, has put pressure on the main retail banks. The close relationship between retail banking and small business banking, mooted in the literature, suggests that branch proximity is potentially an important issue.

Table 7 (below) shows that 18% of respondents think the proximity of the nearest bank branch is very important, 41% think it is 'sort of' important and 41% do not think it is important. This is predictable given that online banking facilities are now standard for day to day banking needs and internet banking has time advantages for SMEs. Generally, most major banks have good structures in setting up branches in different areas whether in a city or small town.

Table 7. How important was proximity of the nearest branch of bank to your business?

	<i>Percentage</i>
<i>Not really</i>	40.79%
<i>Sort of</i>	40.79%
<i>Very</i>	18.42%

Further analysis indicates that years in business, size and industry influence the relative importance of proximity to bank branches. When businesses commence trading, they may consider whether specific banks have branches in their area. As the businesses develop, more attention may be focussed on their bank's service and so the proximity of branch may become less important.

Our results, in Table 8 (below), suggest that the presence of a customer relationship manager greatly enhances the likelihood of a long-term association with the bank, as 37% of the respondents that had customer relationship managers had been with their particular bank for over five years, whereas only 17% of firms had been able to sustain a relationship of a similar length when a customer relationship manager was not present. Looking at even longer-term relationships the trend continues with 21% of firms sustaining a relationship with their bank for over a decade when a customer relationship manager is present, whereas only 9% manage to do so without a customer relationship manager.

Table 8. Bank has the best customer relationship manager and looks like providing the best service?

	<i>Percentage</i>
<i>Yes</i>	67.1
<i>No</i>	32.9

The next question asks about whether the business would change banks if the bank staff changed. The majority of businesses indicate “no”, as seen in Table 9 (below). However, this does raise the particularly important question of whether the relationship is with that particular bank, or with the bank staff? Is it the institution and its policies or the people and their personalities that matter in such relationships?

Table 9. Would you change banks if the bank staff changed?

	<i>Percentage</i>
<i>Yes</i>	17.11%
<i>No</i>	82.89%
<i>Total</i>	100.00%

The analysis indicates that in cases where the firm does not believe that their particular bank has the best customer relationship manager and best level of perceived customer service, then just over 10% will change banks if the bank staff changed. This suggests a stronger relationship with the bank as an institution and thereby a greater affinity with the bank’s policies and products. However, in cases where customer service is perceived to be at a high level, this figure nearly doubles with 20% of businesses stating that they will change banks if the bank staff changes. This supports a contention that where the quality of customer service is an important consideration for small business owners they are more concerned with the actual people with whom they are dealing. Even those who chose the bank because they knew somebody who worked there indicate they are not likely to change a bank if staff alters.

The cost comparison is not a simple matter (Locke & Boulanouar, 2009) and the survey indicates that almost half of the businesses do not really make comparisons as shown in Table 10 (below).

Table 10. How carefully did you calculate the likely charges and compare these with other banks?

	<i>Percentage</i>
<i>Not really</i>	47.4
<i>Sort of</i>	18.4
<i>Very</i>	34.2

However, the businesses appear to give a somewhat contradictory response when asked whether they will change banks if there are clear cost savings, as shown in Table 11 (below). In this case, almost 70% of the businesses said that they would change. When cross-tabulated with the previous question it appears that almost half of those businesses indicating they will change do not really do any cost calculations. This is compatible with the view that cost comparisons are almost impossible to make given the lack of marketing based on price competition and the generally obfuscating pricing of services used by banks, as found by Locke and Boulanouar (2009).

Table 11. Would you change banks if there were clear cost savings?

	<i>Percentage</i>
<i>Yes</i>	68.4
<i>No</i>	31.6

A cross-tabulation of questions 6 and 12 reveals that for those who choose “other” for the

reason they selected a particular bank less than 25% report that they consider the cost of services very carefully. In part, this may be attributable to the difficulty that Stephanou and Rodriguez (2008) observe concerning the limitations of SME management.

Information asymmetry may explain some, if not all, of the reason that 31% of SMEs stay with their bank even if other banks can provide clear cost savings. Almost a third of those SMEs surveyed stay with the same bank even when not completely satisfied with the quality of service and loan facilities provided by their current bank. Sharpe (1990) asserts that it is information asymmetry that restrains an SME from changing to another bank and proposes that SMEs stay with the same bank not simply because the bank treats them particularly well, but because high-quality firms are, in a sense, ‘informationally captured’. Howorth et al. (2003) explain this ‘captivity’ as the inability to switch banks due to the difficulties they face in conveying accurate information about their performance to the new bank.

The underlying reason why SMEs are reluctant to change may be due to the structure of the SME. As BusinessNZ (2019) observes, the owner is often the only person available to take responsibility for banking decisions. This means they are not willing to put effort into searching and evaluating potential new banks unless they really, really have to do so. Moreover, even if the owner considers switching banks, it is difficult for them to do so due to their lack of administrative skills. Thus, banks not only have to prove they can offer an SME clear cost savings, it is also their burden to motivate the owner to change.

4.2. Cluster analysis

4.2.1. Selection of variables for the cluster analysis

Using the items measuring the importance of influence on the choice of the business-banking partner, we construct three variables. These variables and their compositions, as per Table 12, below, are used to cluster, profile and analyze this research sample.

When running cluster analysis, the treatment of missing values is very delicate as it can cause severe problems. In this study, following Kessel, Ringle, and Sarstedt (2010), we delete all the responses containing missing values and consequently our sample is reduced from 59 respondents to 52.

Table 12. Clustering variables and their composites

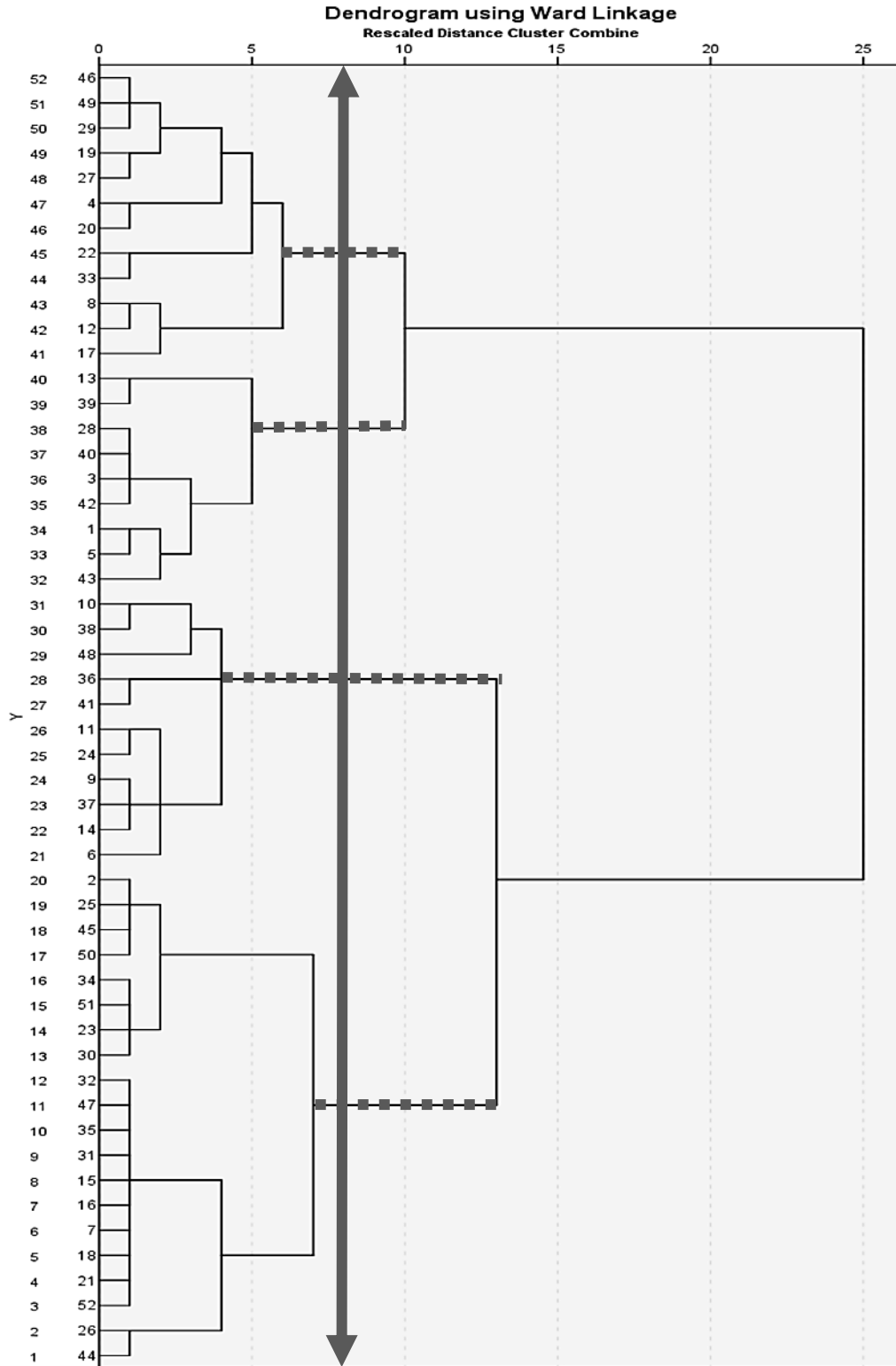
<i>Items</i>	<i>Variables influencing the choice</i>
Prior personal banking experience	Experience with the bank
Family use of this bank	
Knowing someone who worked in the bank	Recommendations by others
Accountant advised you to use this bank	
Mortgage broker advised you to use this bank	
Insurance advisor recommended you use this bank	Bank marketing
The banks own advertising	
Reading some publications, pamphlets, and so on by the local chamber of commerce, Ministry of Economic Development, etc.	

4.2.2. Hierarchical analysis and outliers' detection

Outliers can affect cluster analysis, as they are not representative of the general population (Hair, Anderson, Tatham, & Black, 1998; Hair, Sarstedt,

Matthews, & Ringle, 2016). To identify outliers in the data, we use a Dendrogram as per Ward's approach (please see Figure 2, below). The Dendrogram does not show any outliers, such as one respondent representing one group.

Figure 2. Dendrogram as per Ward's approach



Note: ■ ■ ■ ■ means "groups retained"

At the level of distance of 7, we obtain 4 groups distributed as follows (please see Table 13, below). The number of individuals per group is more or less evenly distributed.

Table 13. Frequencies using Ward's method

	Groups				Total
	1	2	3	4	
Frequencies	9	20	12	11	52
Percentage %	17.3	38.5	23.1	21.2	100%

4.2.3. Profiling analysis interpretation of the clusters

In the next section, we will try to analyze the groups' profiles by the first conducting clustering variables' mean values (please see Table 14 below).

Table 14. Clustering variables mean values

Number	Items	Groups				Mean	F	Sig.
		1	2	3	4			
1	Personal experience	2.11	1.40	4.67	1.64	2.33	33.022	.000
2	Family use	4.89	1.75	4.17	2.09	2.92	25.639	.000
3	Knowing staff	5.00	3.85	4.42	3.60	4.14	2.449	.075
4	Accountant recommendations	3.78	5.00	4.83	3.00	4.30	13.708	.000
5	Broker recommendations	4.75	5.00	4.08	4.00	4.54	3.826	.016
6	Insurance advisor recommendations	4.78	4.61	5.00	4.22	4.67	1.755	.170
7	Advertising	5.00	5.00	4.09	3.36	4.44	9.361	.000
8	Publications	3.78	5.00	4.91	3.10	4.35	10.016	.000

Examining the four clusters and their characteristics, we notice there are significant differences between them, at the level of all the items except two, which are choice influenced by bank staff and by insurance advisor. These two items are rated highly which indicates that

respondents believe these variables do not significantly influence their banking choice. However, the univariate *F*-ratio shows that all four clusters have significant differences for the first and second items (i.e., personal experience and family use).

Table 15. Clustering variable profiles

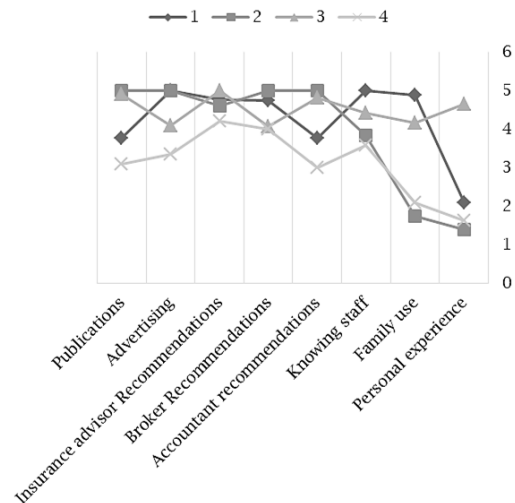
Items	Groups			
	1	2	3	4
Personal experience	Yes	Yes	No	Yes
Family use	No	Almost yes	No	Almost yes
Knowing staff	No	No	No	No
Accountant recommendations	No	No	No	Neither this nor that
Broker recommendations	No	No	No	No
Insurance advisor recommendations	No	No	No	No
Advertising	No	No	No	Neither this nor that
Publications	No	No	No	Neither this nor that

We perform further analysis in order to more clearly profile the four clusters and their characteristics. For this, we use the one-way ANOVA to test the differences between clusters, and since we have 4 clusters, a Scheffe post hoc test is used (Hair et al., 1998; 2016). Table 15, above, shows the resultant four groups.

- The first group, labeled *Confident*, seem to believe that only personal experience affected their banking choice. This implies also that this group is not open to external influences, including the family's influence.
- The group labeled *Realistic*, while influenced by personal experience, is also affected by social norms. Family influence or recommendations flowing out of family use of the bank affect the decision to choose a specific banking partner.
- We label the third group *Mysterious*. This is because none of the study variables seem to have affected their decision regarding their primary business-banking partner. This might mean that other variables are at play and future research should consider these other variables.
- Finally, the fourth group, labeled *Hesitator*, does not confirm the effects of any of the suggested variables in its choice of banking partner.

The overall results from the one-way ANOVA analysis seem to suggest that the experiences lived personally by the SME owners/managers and by those close to them are the most influential factors in choosing a business-banking partner.

Figure 3. Clustering variables



4.2.4. Further profiling analysis of the four clusters

For further profiling of the four clusters, we tried, in this second step, to analyze their characteristics by testing for any significant differences that may exist

between them in terms of the other five items/factors reported in the literature underpinning small business' choice of a banking partner. These items are listed in Table 16, below.

Table 16. Test for significant differences

Items	Groups				Mean	F	Sig.
	1	2	3	4			
Other banks were not interested in you.	4.34	4.55	3.76	3.54	4.12	2.049	.120
The bank looked like it would provide the best service.	2.55	2.67	2.75	2.18	2.56	0.299	.826
The bank has the best customer relationship manager.	3.11	2.98	2.75	2.18	2.78	0.757	.524
How carefully did you calculate the likely charges and compare these with other banks?	3.00	3.75	3.08	2.36	3.17	2.159	.105
How important was proximity of the nearest branch of bank to your business?	3.36	3.16	3.83	2.63	3.24	1.349	.270

The results show clearly that there are no significant differences between the four clusters. For example with item 1, measuring how other banks were (not) interested in their businesses, all of the

four groups confirmed that banks were interested. In addition, results for item 2 show the very close scores for all four clusters oscillating around the mean score of 2.56.

Table 17. Correlation between the three variables used to form the four clusters

		Experiences	Recommendations	Marketing
Experiences	Pearson correlation	1	-0.038	-0.103
	Sig.		0.790	0.468
Recommendations	Pearson correlation	-0.038	1	0.344*
	Sig.	0.790		0.012
Marketing	Pearson correlation	-0.103	0.344	1
	Sig.	0.468	0.012	

Note: * correlation is significant at the 0.05

The results from the correlation analysis (please Table 17, above) show that only recommendations by external advisors (accountants and mortgage brokers, in particular) and banks advertisement are moderately and positively correlated (Corr = 0.344; Sig. = 0.012). Practically, this might demonstrate the role of word-of-mouth, which could be correlated with the recommendations of specialists. Bank promotion is not aimed solely at potential SB owners/managers. It is also aimed at SB advisors who recommend banks to those potential customers.

Overall, the cluster analysis results reinforce our earlier results that, consistent with other financial decisions, choosing a business-banking partner is also influenced by behavioural variables.

5. CONCLUSION

The traditional literature concerning the choice of the bank(s) by small businesses posits a number of possible factors as being primary considerations in the decision calculus. In this study, we add to these variables, behavioural factors, and we use them in a questionnaire for small businesses in New Zealand.

The findings indicate that behavioural factors including prior personal experience with a bank (which informs SB owner/managers attitudes), a recommendation from family, friends or associates (subjective norms), and personal contacts through knowing someone in a bank, are the most important explanatory variables regarding bank choice. Further, once associated with a bank there is very considerable inertia on the part of small businesses when it comes to making changes.

The clear-cut evidence about the weight and role of behavioural factors versus economic variables in explaining and influencing SB owners/managers selection of banking partners is to

do with the cost of banking as a selection factor. Fiscal prudence is reflected in comments about differences in the cost of banking with this being a very important factor influencing a decision to move as per the traditional literature. However, when considered in the light that most SBs do not move, and most SBs did not evaluate the cost in their initial bank choice decision, it seems that it more a case of dream-time realism. The difficulty in determining the cost of banking, the search costs and the change costs are such as to largely ensure inertia. Banks, having captured a client, probably don't need to do a lot to keep them.

Our paper contributes to the theoretical/empirical work on the uniqueness of the SB sector (Ang, 1991) and is expected to aid private and government agencies involved with SBs finance to develop better policies. When developing policies and mechanisms to support SBs, policymakers should know how the personal characteristics (attitudes, perceived norms, and perceived control) of these SB decision-makers impact on their development. Subsequently, our study would empower all SB stakeholders to design programmes tailored to the specific needs of SB owner-managers.

With the evidence from our paper and other behavioural studies, future studies on financial decision making must consider behavioural factors.

The results from our investigation are based on a New Zealand sample of SME owner-managers. Thus, this paper's findings are not necessarily generalisable to other contexts. Validation of this study's results would require more studies in other geographical areas and, additionally, with cross-cultural samples. Another limitation of our study which can be subject to future research is as follows: research exploring the effect(s) of demographic factors of SB owner-managers alone on their behavioural intention to select a specific banking partner.

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APPENDIX

List of survey questions

1	How old is your business?				
	1 year	2-5 years	5-10 years	11-15 years	16+ years
2	Number of employees				
	1-5 employees	6-10 employees	11-15 employees	16-20 employees	21 + employees
3	Geographical location of the business				
	Auckland	Hamilton	Cambridge	other:.....	
4	Does your firm cooperate with just one bank?				
	Yes	No			
In choosing your current primary business-banking provider:					
5	How important was the influence of the following factors on your choice of business banking?				
	1) Very important	2) Not really	3) Neither here nor there	4) Didn't really think of it	5) Not at all
6	a) Your prior personal banking experience				1 2 3 4 5
7	b) Your family use of this bank.				1 2 3 4 5
8	c) Knowing someone who worked in the bank.				1 2 3 4 5
9	d) Somebody else recommended it to you? Who?				1 2 3 4 5
	• Accountant advised you to use this bank				1 2 3 4 5
• Mortgage broker advised you to use this bank				1 2 3 4 5	
Was the choice of the business bank a requirement of getting a mortgage from this bank?				Yes/No	
• Insurance advisor recommended you use this bank.				1 2 3 4 5	
10	e) The banks advertising				1 2 3 4 5
	• Did this cause you to change from another bank?				1 2 3 4 5
• Reading some publications, pamphlets, and so on by local chamber of commerce, MED, etc.				1 2 3 4 5	
11	Other banks were not interested in you?				1 2 3 4 5
12	The bank looked like it would provide the best service.				1 2 3 4 5
13	The bank has the best customer relationship manager. How did you come to know that?				1 2 3 4 5
14	How carefully did you calculate the likely charges and compare these with other banks?				1 2 3 4 5
15	How important was the proximity of the nearest branch of bank to your business?				1 2 3 4 5
16	What would it take for you to change banks?				
	1) Move the business to a new location	2) Change of bank staff	3) other:		
Indicate your response to this question with a few words.					