

AN EMPIRICAL ANALYSIS OF THE DETERMINANTS OF BANK SELECTION IN PAKISTAN A Customer View

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Abstract. This study analyzes the major determinants of a bank selection by a customer in the banking industry of Pakistan. It is based on a survey of 358 customers of private, privatized and nationalized banks located in the city of Lahore (Pakistan). The findings of the study reveal that the most important variables influencing customer choice are customer services, convenience, online banking facilities and overall bank environment. The study aims to bridge the existing gap in local banking literature through identifying the important bank selection determinants and concludes with some policy implications which are expected to have an impact on the marketing efforts of Pakistani banks.

I. INTRODUCTION

The trend towards globalization has introduced many changes in the economic and business environment all over the world. Pakistan is no exception to these changes and almost all industries including the banking sector, in one way or the other, are being affected by this trend. In consequences of this, banking sector in Pakistan is becoming increasingly more competitive. Commercial banks in Pakistan like banks operating in the developed countries are putting more emphasis on providing more facilities and services to their customers.

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The banking sector of Pakistan has undergone considerable changes since the government of Pakistan announced its policy to privatize commercial banks. Pakistan moved towards liberalization and financial sector deregulation in 1990 in order to implement structural reforms agenda and to strengthen its financial system. This started with the privatization of state-owned commercial banks and induction of new ones from private sector to establish a market-based banking system (Akhtar, 2002). In the age of globalization the provision of effective and quality services to their business customers is becoming a key determinant of the growth and prosperity of banking sector in Pakistan. As a result, Pakistani banks are offering a broadened range of services to cater the needs of sophisticated and demanding customers.

During the last one and a half decade, the banking sector of Pakistan has witnessed a massive change from a slow government dominated sector to a more responsive and a competitive sector. The case of Pakistan's banking sector is cited as a major success story on how restructuring and privatization can transform a sector which can contribute significantly towards economic growth. Mergers and acquisitions in the banking sector are also likely to increase the competitive pressures. As Pakistan has also opened its doors to foreign commercial banks, some foreign banks are in a process of acquiring such smaller banks which have a good branch network. Similarly, some new groups are buying out foreign banks' operations in Pakistan. All these changes are posing major challenges and competition for banks to make their customers more "loyal" by providing them more facilities and services.

As economic environment is rapidly changing and customers are becoming more demanding and sophisticated, it has become important for financial institutions to determine the factors which are pertinent to the customers' selection process (Boyd *et al.*, 1994). Therefore, for this sector, the quest lies in determining the basis on which customers, both depositors and borrowers, make their selection process for a bank. This study aims at to explore these determinants in more detail in Pakistan and also identifies the orientation of customers relative to these factors. This research will further help in determining the specific factors which customers perceive as important in their choice of a commercial bank.

The remainder of the paper is organized as follows: In Section II, relevant literature is reviewed. Section III presents the purpose of the study. Methodology is discussed in section IV. Data analysis and discussion of findings are given in section V. Summary and Conclusions are presented in Section VI followed by references.

II. LITERATURE REVIEW

Many studies have identified the banking needs of business customers. Schlesinger *et al.* (1987) in their study conducted in New York State found that the three most important factors in selecting a bank for small business customers were lending rates, accessibility of borrowing, and the number of services offered. Price of service was also found to be an important bank selection factor in another survey conducted by Buerger and Ulrich (1986).

Chen (1999) conducted a survey of 336 domestic-owned and 39 foreign-owned banks in Taiwan in 1997 to identify critical success factors adopting various business strategies in the banking sector. Data was analyzed using factor analysis technique which highlighted four factors, namely the ability of the bank to manage operations, bank marketing, developing bank trademarks and financial market management.

Another survey was undertaken by Thornton and White (2001) to analyze consumers' attitude towards the usage of financial distribution channels. Their findings revealed that banks adopt a multiple distribution channel to meet the needs of different market segments. This study suggested that if a financial institution finds that its profit comes mainly from service-oriented customers, then it would be best for the banks to concentrate on human interface type of services like branch network. And if banks were to attract or retain convenience, technological or change oriented customers, then they should focus more on online electronic type of distribution channels. Furthermore, in a competitive banking scenario, customer service, user-friendly technology, and more sophisticated customer products are important components within the marketing mix, but communication is also emerging as a crucial element in the marketing activity of a bank (Andrew, 1990).

Holstius *et al.* (1995) cited efficiency and courtesy as the most important attributes in determining overall customer satisfaction, while other important attributes were convenience of location, range of services, reputation and availability of innovations. Similarly, the importance of location decisions in satisfying customers is also emphasized in the previous studies (Kaynak and Kucukemiroglu, 1992; McCullough *et al.*, 1986). Laroche *et al.* (1986) conducted a survey in Canada and found that speed of services, and factors relating to the competence and friendliness of bank personnel and convenience of location were the major factors which consumers perceived as important in their selection of a bank.

Zineldin (1996) conducted a survey of 19 potential factors which customers consider as important in the selection of a bank in Sweden. These

factors include reputation, recommendation by others, interesting advertisement, convenience of location, opening hours and high technological services. Each respondent was asked to rate the importance of each of the above-mentioned factors on a scale of 5 (very important) to 1 (completely unimportant). His study revealed that friendliness and helpfulness of personnel, accuracy in account/transaction management, availability of loans and provision of services were the most important factors. Another study on bank selection criteria by Yue and Tom (1995) was based on Chinese-Americans residing in Sacramento, California. The important factors of bank selection by the customers were found to be efficiency of services offered, bank's reputation, bank fees, location, and interest rates on saving accounts.

Nielsen *et al.* (1998) conducted a nationwide survey in Australia for 25 banks and 2,500 bank business customers to rank the factors to be considered more important in bank selection process. Their findings revealed that business firms placed more importance on the willingness of the bank to accommodate their credit needs and the efficiency of the bank in its day-to-day operations. Whereas bankers placed more importance to their ability to offer competitive prices, a full range of products and services and the provision of a personal banking relationship. Another study conducted for Athens (Greece) by Mylonakis *et al.* (1998) who studied 811 bank customers to identify the important factors for bank selection criteria. Their study pointed out location convenience, attention to customers, personalized service as the most important factors in the selection of a bank. Driscoll (1999) identified five factors (convenience; price; product selection; service; and ambience) that customer perceive as important for selecting their financial services providers.

A review of literature indicates that studies related to bank selection criteria have been mainly conducted in case of more developed countries (Denton and Chan, 1991). Such studies have contributed substantially to the literature on bank selection but their findings may not be applicable to developing countries like Pakistan due to different cultural, political and economic setup. As a set of determinant factors that have a significant role in bank selection in one region may prove to be insignificant in another (Almossawi, 2001). In case of Pakistan, Jamal *et al.* (2003) took a survey of 300 customers of a specific bank and studied the determinants of customer satisfaction in the retail banking in Pakistan. Their results indicate a strong relationship between service quality and customer satisfaction. Thus, current literature on banking in Pakistan lacks studies on bank selection criteria and this study is an attempt to bridge this gap.

III. THE PURPOSE OF THE STUDY

Banking sector in Pakistan has been growing significantly despite its social and economic problems. However, only a few studies are found which made an effort to determine the crucial factors that customers perceive as important in their choice of bank in Pakistan. This study is initiated to accomplish this aim. The main objectives for conducting this research are:

1. To determine the importance of selected factors used by Pakistani customers in choosing their bank.
2. To compare the perceived usefulness of the services offered by private, nationalized and private deposit banks.
3. To provide Pakistani bank executives with insights into the kinds of service customers find most appropriate for their banking needs.

IV. METHODOLOGY

Commercial banking in Pakistan has undergone through considerable changes during the last decade. For instance, during 1990s, the Government of Pakistan decided to privatized most of the nationalized banks. Since then, this sector is becoming more and more competitive. Banks are concentrating more on selling personal loans and offering consumer goods financing (such as car leasing, house loans, etc.) and are trying to achieve larger market shares. Commercialized banks are also offering mutual fund investments both in stock market and money market to their customers.

This study was conducted in the city of Lahore (the second largest city of Pakistan). Almost all the major banks have their branch offices in the city. For this analysis, the data have been collected about the customers of nationalized (National Bank of Pakistan, The Bank of Punjab and First Women Bank), privatized (Muslim Commercial Bank, United Bank Limited and Allied Bank) and private banks (ABN Amro Bank, Bank Alfalah and Soneri Bank) operating commercially in the selected area (Garden Town). Nine banks were selected for the analysis (three for each category). The data for the study was collected from 358 bank customers through a specifically designed questionnaire covering the various attributes that customers perceive as important in their choice of a commercial bank.

Non-probability sampling technique was adopted. Surveyed customers were not selected by any criteria and only the location of the banks was chosen. Some of those who visited a particular bank branch during the study period were included. A total of 450 questionnaires were administered out of

which 358 were completely filled in. Thus, a response rate of over 79% was achieved.

The questionnaire was structured to collect information about the ownership of the bank (whether private, privatized or nationalized) and the importance of different factors while choosing a deposit bank. For measuring this lickert type scaling was used (1 = Not Important and 5 = Mandatory). Twenty different factors were listed in this category and most of these were derived from similar studies conducted in other countries (Laroche *et al.*, 1986, Zineldin, 1996, Karin Holstius and Erdener Kaynak, 1995) as well as from current banking literature with necessary adaptations made for the Pakistani banking system. Reliability test was conducted for these factors and cronbach alpha value came out to be 0.82 (see Appendix I). The third part of the questionnaire explored information about respondent's profile, *i.e.* his/her age group, income level, qualifications, employment and type of account.

V. DATA ANALYSIS

The demographic and socioeconomic characteristics of the respondents are shown in Table 1. The respondents profile gives an indication to the banks customer's age group, their income level, qualification, employment status, account type and their affiliation with a particular bank. The customer's demographics show that most of the customers for private and privatized banks fall in the age group of 21 to 30 years, whereas age group of 31 to 40 years has more representation in case of nationalized banks. Similarly, most of the customers in all three types of banks have university level qualifications. 37.5% of customers employed in public sector organizations have their accounts in nationalized banks whereas 39.8% of customers employed in private sector have opted for private banks. 61.9% of customers are holding saving accounts in nationalized banks, 57.4% of customers in private banks are holding current accounts and 54.7% customers in privatized banks again are holding saving accounts.

Table 2 highlights the customers' perceptions towards the most important factors that they perceive in their choice of a commercial bank. Mean values are calculated and arranged in descending order. It was not surprising that the most important factors to bank customers overall in the bank selection process were the banks' external and internal image, that the bank offered convenient banking hours and that the bank was easy accessible from their home or workplace. On the other hand, any impact of Urdu or

English language used for documentation and profit rate were identified as least important factors.

TABLE 1
Respondents Profile

		Privatized (N = 137)	Nationalized (N = 97)	Private (N = 121)
Age (Years)	21-30	61.3%	19.6%	52.9%
	31-40	21.9%	41.2%	27.3%
	41-50	13.9%	35.1%	12.4%
	51-60	2.2%	4.1%	6.6%
	> 60	0.7%		0.8%
Monthly Income	10,000-19,999	63.5%	67.0%	41.3%
	20,000-29,999	20.4%	25.8%	31.4%
	30,000-39,999	5.8%	6.2%	15.7%
	40,000-49,999	4.4%		5.0%
	>50,000	5.8%	1.0%	6.6%
Qualifications	Matric	1.5%	2.1%	5.7%
	FA	9.5%	12.4%	11.4%
	BA	34.3%	49.5%	30.1%
	MA	29.2%	14.4%	27.6%
	Others	25.5%	21.6%	25.2%
Employment	Corporate	14.6%	26.0%	39.8%
	Public	24.1%	37.5%	18.7%
	Self Employed	27.7%	30.2%	23.6%
	Others	33.6%	6.3%	17.1%
Type of Account	Current	37.2%	36.1%	57.4%
	Savings	54.7%	61.9%	36.1%
	Fixed	6.6%	2.1%	2.5%
	Others	1.5%		4.1%
Affiliation with Bank	1 Year	16.9%	14.1%	18.9%
	2 Years	36.8%	34.8%	45.9%
	3 Years	20.6%	39.1%	19.7%
	4 Years	25.7%	12.0%	13.9%
	5 Years			1.6%

TABLE 2
Mean and Ranking

Bank Selection Determinants	Ownership						
	Privatized		Nationalized		Private		Total
	Mean	N	Mean	N	Mean	N	Mean
Profit Rate	2.2857	133	2.1237	97	2.6	115	2.3449
Convenience	2.8971	136	2.8125	96	3.2414	116	2.9885
Bank Timings	3.0515	136	3.134	97	3.4628	121	3.2147
Accessibility	3.0515	136	3.1031	97	3.4545	121	3.2034
Image of the Bank	3.3504	137	3.0103	97	3.7049	122	3.3792
Parking Facilities	2.5221	136	2.9485	97	2.7213	122	2.707
ATM Services	2.7239	134	2.4124	97	2.7583	120	2.6496
Online Banking	2.5954	131	1.6804	97	2.8824	119	2.438
Attitude of the Staff	3.0221	136	2.8247	97	3.4667	120	3.119
Customer Services	2.7647	136	2.7113	97	3.314	121	2.9379
Overdraft Privilege	2.6842	133	2.4167	96	2.8596	114	2.6676
Internal Environment	3.0657	137	3.0833	96	3.3833	120	3.1785
Sitting Arrangements	2.9185	135	3.0825	97	3.0847	118	3.02
Bank Charges	2.6765	136	2.8021	96	2.8571	119	2.7721
Mass Media Advertisement	2.8456	136	3.1458	96	2.9913	115	2.9769
External Appearance of Bank	2.8309	136	2.9897	97	3.322	118	3.0399
Easiness to Open an Account	3.0149	134	3.0515	97	3.2833	120	3.1168
Charges on Minimum Balance	2.4962	133	2.75	96	2.7712	118	2.6599
Knowledge about your Business	2.6567	134	2.5567	97	2.9231	117	2.7184
Use of Urdu Knowledge along with English in Bank Documentation	2.3359	131	1.567	97	2.6897	116	2.2384

Factor Analysis was used to identify the principle factors that customers perceive as important for their bank selection. Table 3 represents the results of factor analysis. All characteristics with factor loadings of 0.50 and above

were retained. Extraction method is based on principal component analysis. The authors have identified three major factors for the customer choice for each of the three types of banks, *i.e.* private, privatized and nationalized banks. For privatized banks the most important factors for bank selection are the bank's image, customer services and online banking facilities. Next to these are the factors related to parking facilities provided by the banks and the charges applied on maintaining minimum balance. For nationalized banks, bank's internal environment along with external image came out to be the most important factor. Overdraft facility and convenient opening of an account were also cited as important determinants of bank selection by the customers. For private banks better customer service, online banking and bank's know how on customer's business were considered to be important determinants.

TABLE 3
Factor Analysis

	Privatized Banks			Nationalized Banks			Private Banks			Total		
	F1	F2	F3	F1	F2	F3	F1	F2	F3	F1	F2	F3
Q1	0.65									0.68		
Q2	0.61									0.67		
Q3				0.74								
Q4	0.61									0.68		
Q5	0.74			0.70								
Q6		0.60										
Q7				0.66								0.64
Q8	0.70								-0.71			0.80
Q9				0.67								
Q10	0.71						0.68					
Q11					0.75							
Q12				0.80							0.71	
Q13											0.67	
Q14												
Q15				0.75							0.61	
Q16				0.77							0.74	
Q17						0.58						
Q18			0.64									
Q19								0.58				

TABLE 4
Multivariate Analysis

	Privatized Banks		Nationalized Banks		Private Banks		Total	
Dependent Variables	Slope	P value	Slope	P value	Slope	P value	Slope	P value
Age	1.39	0.12	0.76	0.00	0.43	0.34	0.25	0.00
Income level	0.95	0.83	0.30	0.42	0.56	0.09	0.18	0.01
Qualification	1.93	0.00	0.24	0.92	0.71	0.01	0.14	0.05
Employment	1.03	0.16	0.50	0.04	0.26	0.58	0.11	0.04
Type of account	0.88	0.42	0.59	0.00	0.58	0.01	0.12	0.02
Affiliation	1.06	0.13	0.20	0.83	0.41	0.39	0.08	0.65

Table 4 provides with results of multivariate analysis. These results will provide bankers in private, privatized and nationalized banks with insight into demographics of their customer base. This would help banks to position themselves in accordance with the needs of their respective clients. In depth review of this analysis reveals that employees employed in public sector are more likely to hold a bank account in nationalized banks. Similarly, higher qualification level makes bank customers more in favour of certain factors that private and privatized banks are likely to offer.

VI. SUMMARY AND CONCLUSIONS

Pakistani banks are under the process of moving into a more competitive financial atmosphere with a wider variety of financial services. This study has focused on determining the major factors in a bank selection by the customers. The findings of the study reveal that online banking facility, profit rate, banks internal environment and external appearance, convenience and accessibility are some of the important factors in a bank selection by the customers. Convenient location of bank branch and accessibility is also considered to be one of the important choice determinants. This is in accordance with the findings by Anderson *et al.* (1976). While bank service charges, use of Urdu language along with English in bank documentation, employee's attitude and sitting arrangements were found to be insignificant factors. However, bank employee attitude and behaviour was considered to be a significant factor in the West (The Digital Retail Banking Survey, 1992)

where customers looked for friendly attitude of employees working at their selected banks. However, it is worth mentioning that these bank selection determinants may vary from area to area due to difference in demographic characteristics of the population.

This study can help bankers to identify the major factors that their customers perceive as important in a bank selection and can provide a guide to the banks in designing their future strategies in a competitive economy.

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Appendix I

No. of Cases	No. of Items	Alpha
303	20	0.8201

One Way ANOVA

[illegible]