



**Determinants of Customers' Choice of Bank: An Empirical Investigation of Customers' Preferences in Addis Ababa City.**

**By: Faysel Yassin**

**Addis Ababa University  
College of Business and Economics  
School of Commerce  
Graduate Studies  
Marketing Management Program Unit**

**May 2015  
Addis Ababa**

**Determinants of Customers' Choice of Bank: An Empirical Investigation of Customers' Preferences in Addis Ababa City.**

**By: Faysel Yassin**

**A Thesis Submitted in Partial Fulfillment of the Requirement for the Award of Master of Arts Degree in Marketing Management.**

**Addis Ababa University  
College of Business and Economics  
School of Commerce  
Graduate Studies  
Marketing Management Program Unit**

**Advisor: Dr. Micheal Harshavardhan MBA Ph.D.**

**May 2015**

**Addis Ababa**

## **DECLARATION**

I, Faysel Yassin, declare that this thesis is my original work and has not been presented for any degree in any other universities, and that all the sources of materials used herein have been duly acknowledged.

**Declared by:**

Name: \_\_\_\_\_

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

## STATEMENT OF CERTIFICATION

This is to certify that the thesis entitled “*Determinants of Customers’ Choice of Bank: An Empirical Investigation of Customers’ Preferences in Addis Ababa City*” submitted by Mr. Faysel Yassin to Addis Ababa University towards partial fulfillment of the requirements for the award of the degree of Master of Arts in Marketing Management is a genuine record of the work carried out by him under my supervision and guidance.

Dr. Micheal Harshavardhan MBA Ph.D.

*Sig:* \_\_\_\_\_

*Date:* \_\_\_\_\_

**Addis Ababa University**  
**College of Business and Economics**  
**School of Commerce**  
**Graduate Studies**  
**Marketing Management Program Unit**

**Determinants of Customers' Choice of Bank: An Empirical  
Investigation of Customers' Preferences in Addis Ababa City.**

**By:**

**Faysel Yassin**

**Approved By the Board of**

**Examiners:**

\_\_\_\_\_  
**Advisor**

\_\_\_\_\_  
**Signature**

\_\_\_\_\_  
**Internal Examiner**

\_\_\_\_\_  
**Signature**

\_\_\_\_\_  
**External Examiner**

\_\_\_\_\_  
**Signature**

## **ACKNOWLEDGMENTS**

First of all, I would like to express my appreciation to my advisor Dr. Micheal Harshavardhan MBA Ph.D., who has given me his invaluable advice, guidance, and encouragement from the beginning up to the end of the study.

I would also like to thank my friends who have helped me to complete this study by providing moral support and their invaluable suggestions.

Finally, I offer my regards to my colleagues who were involved in photocopying the questionnaires, without their help this research would not have been possible.

# DEDICATION

I had several people by my side along the way, and without them the possibility of finishing my education would have been impossible - my wife and our sons.

A special thanks goes to my wife, Kedija Abdu. You've always believed and stood by me, even when things were difficult to bear. You are my source of love and the person who creates the drive to keep me moving forward. You never complain when it comes to the long hours that I work in office and the long hours I spend working and reading in home - all the way through midnights and weekends. Throughout the entire process of pursuing my education you were patient and understanding. We've come a long way, and your sacrifices have not gone unnoticed. Your patience, your love, your hugs, and your encouragement made the long hours spent working in office and home a little easier to bear. Not even words could express my gratitude.

Also, big thanks goes to our sons, Yassin and Ihsan - my sources of love and daily inspiration. My weekend time, which was meant to be rightly yours, was spent working and reading. Your smile renews my energy and your loves give me a meaning for my existence.

# Table of Contents

<b>CHAPTER ONE: INTRODUCTION .....</b>	<b>1</b>
1.1. BACKGROUND OF THE STUDY .....	1
1.2. STATEMENT OF THE PROBLEM.....	2
1.3. RESEARCH QUESTIONS.....	3
1.4. OBJECTIVE OF THE STUDY .....	4
1.4.1. <i>General Objectives</i> .....	4
1.4.2. <i>Specific objectives</i> .....	5
1.5. HYPOTHESIS TO BE TESTED.....	5
1.6. DEFINITION OF TERMS.....	6
1.7. SIGNIFICANCE OF THE STUDY .....	7
1.8. SCOPE OF THE STUDY.....	8
1.9. LIMITATION OF THE STUDY .....	8
1.10. ORGANIZATION OF THE PAPER .....	8
<b>CHAPTER TWO: REVIEW OF LITERATURES.....</b>	<b>9</b>
2.1. THEORETICAL FOUNDATION .....	9
2.2. REVIEW OF MARKETING CONCEPT AND ITS APPLICATION TO BANKING INDUSTRY .....	9
2.2.1. <i>Marketing Concept of Service Sector</i> .....	10
2.2.2. <i>Strategic Marketing - Segmentation and Positioning</i> .....	14
2.2.3. <i>Consumer Behavior in Service Sector</i> .....	17
2.2.4. <i>Steps in Consumer Decision-Making Process</i> .....	18
2.2.5. <i>Influences on Customers' Decision</i> .....	20
2.2.6. <i>Service Quality</i> .....	24
2.3. CUSTOMERS BANK SELECTION CRITERIA: SURVEY OF PREVIOUS EMPIRICAL STUDIES .....	26
2.4. THEORETICAL FRAMEWORK .....	34
<b>CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY .....</b>	<b>36</b>
3.1. INTRODUCTION .....	36
3.2. RESEARCH DESIGN .....	36
3.3. DATA AND DATA SOURCES .....	36
3.4. SAMPLING DESIGN AND SAMPLE SIZE .....	36
3.4.1. <i>Sampling Method</i> .....	36
3.4.2. <i>Sample Size</i> .....	37
3.5. RESEARCH INSTRUMENT.....	38
3.6. DATA COLLECTION .....	39
3.7. DATA ANALYSIS.....	39
<b>CHAPTER FOUR: DATA ANALYSIS AND DISCUSSION .....</b>	<b>41</b>
4.1. DESCRIPTIVE ANALYSIS .....	41
4.1.1. <i>Customers' Profile</i> .....	41
4.1.2. <i>Customers Usage of Banking Service</i> .....	44
4.1.3. <i>Customers Satisfaction with Banking Service</i> .....	44
4.1.4. <i>Customers Loyalty Status</i> .....	46
4.1.5. <i>Banking Behavior of Customers</i> .....	47

4.2.	FACTOR ANALYSIS.....	48
4.3.	SCALE RELIABILITY AND VALIDITY OF INSTRUMENTS.....	49
4.3.1.	<i>Scale Reliability</i> .....	49
4.3.2.	<i>Validity of Instruments</i> .....	49
4.4.	FACTOR FORMULATION.....	50
4.5.	DESCRIPTION OF BANK SELECTION FACTORS.....	52
4.6.	RANKING IMPORTANCE OF BANK CHOICE CRITERIA BASED ON FACTORS.....	56
4.7.	RANKING IMPORTANCE OF BANK CHOICE CRITERIA BASED ON MOTIVATIONAL ITEMS.....	60
4.8.	HYPOTHESIS TESTING.....	62
<b>CHAPTER FIVE: CONCLUSION AND RECOMENDATION.....</b>		<b>65</b>
5.1.	CONCLUSION.....	65
5.2.	RECOMMENDATION.....	67
<b>REFERENCES:.....</b>		<b>69</b>
<b>APPENDIXES.....</b>		<b>I</b>
	ANNEX 1: SURVEY QUESTIONNAIRE.....	I
	ANNEX 2: TOTAL VARIANCE EXPLAINED EXTRACTED FROM SPSS.....	VI
	ANNEX 3: EXTRACTION METHOD: PRINCIPAL COMPONENT ANALYSIS (PCA).....	VII
	ANNEX 4: ROTATED COMPONENT MATRIX EXTRACTION METHOD: PRINCIPAL COMPONENT ANALYSIS (PCA).....	VIII
	ANNEX 5: ONE-SAMPLE TEST (TEST VALUE = 3) FOR MOTIVATIONAL ITEMS IN CUSTOMERS' BANK SELECTION.....	IX
	ANNEX 3: ITEM-TOTAL STATISTICS.....	X
	FIGURE 3: SCREEN PLOT ADOPTED FROM SPSS.....	XI

## LIST OF TABLES

Table 1	Results of Profile Data of the Respondents	43
Table 2	Type Of Bank Service Used By Customers Most Of The Time	44
Table 3	Respondents Degree of Satisfaction with the Bank Services	45
Table 5	Respondents Loyalty Status for their Main Bank	47
Table 6	Respondents' Banking Behavior	48
Table 7	Reliability of Total Items	49
Table 8	KMO and Bartlett's Test	50
Table 9	Results of Factor Analysis	55
Table 10	Ranking importance of bank selection criteria based on factors	60
Table 11	Ranking Importance of Bank Selection based on Motivational Items	61
Table -12	One-Sample Test (test value = 3) for Bank Selection Factors	63

## **Abstract**

*Banks should identify main factors that determine the basis upon which customers select commercial banks in order to develop effective marketing strategies needed to attract new customers and retain the existing ones. In this context, the purpose of this study is to determine the criteria (factors) that customers consider important when selecting a bank and how these criteria are prioritized according to their importance. A survey questionnaire was used to collect responses from 311 customers of seven major commercial banks in Addis Ababa city through non-probabilistic convenience sampling method and responses to the questionnaire were measured on a four point Likert-type scale of importance ranging from 1 (not important at all) to 4 (most important). 36 bank selection criteria that were used in the survey questionnaire were gathered from various studies and from the relevant literature, revised and adopted to the Ethiopian banking context. Descriptive statistics was used to identify respondents' profile and their banking behavior and exploratory factor analysis technique was performed on 36 bank selection criteria items to reduce the variables to a manageable number of constructs. One sample t-test was used to test the significance of identified factors for customer bank selection decision. The results of this study reveal the first three most important factors that are considered significant by perception of customers in bank selection decision are "Personal characteristics", "Service provision" and "E-banking Technology". Factors that are considered least significant by customers include "physical facility and image of the bank" and "Marketing and promotion". From 36 motivational items analyzed, willingness of employees to help customers and provide prompt service is the most important motivational items considered significant by customers' perception followed by bank employees' knowledge and courteousness to inspire trust and confidence and electronically networked bank branches. Hence, the managerial implication of these findings is that banks have to take significant efforts in selecting, training and motivating the staff members to perform to the satisfaction of customers. Banks also need to ensure higher level of competence and professionalism in terms of faster and wider delivery of services.*

## **CHAPTER ONE: INTRODUCTION**

### **1.1. Background of the Study**

The promulgation of Proclamation No. 202/1994 by the transitional government of Ethiopia in 1994 changed the economic outlook from command to market oriented system and partially liberalized the financial industry. As a result, private commercial banks and insurance companies flourished in the country to nourish the need of the market. As of June 30, 2014, the number of private commercial banks operating in the country reached 16, raising the total number of banks in the country to 19, including the 3 public banks. The entry of new banks and the expansion of the already existing ones is intensifying competition among commercial banks to retain and/or attract customers by appealing to them to be their first choice.

Customers want to get the most useful products/services at the lowest price/convenience, they will judge the benefits/significance of a certain banks services/offers (for example, how useful is it or how attractive is it) compared to similar ones from others banks. In general, people will choose banks that they perceive provide the greatest reward or benefits at the lowest cost, given their preferences.

Thus, it has become increasingly important that banks identify the factors that determine the basis upon which customers choose between providers of financial services. Understanding customers' banks selection criteria has been argued to be helpful for banks in identifying the appropriate marketing strategies needed to attract new customers and well as retain the existing ones. The issue of "how customers select banks" has been given considerable attention by researchers (for example: Rehman et al, 2008; Mokhlis, 2009; Aregbeyen, 2011; Rashid, 2009; Hedayatnia, 2001). Exploring such information will assist banks to recognize the appropriate marketing strategies needed to attract new customers and retain existing ones (Aregbeyen, 2011).

Thus, this study undertakes analysis of customers' bank selection decision factors. Chapter one of this proposal deals with introduction part, part two presents review of relevant literature, chapter three presents the research methodology, chapter four undertake data analysis and discussion of findings and chapter five present conclusion and recommendation of the study.

## **1.2. Statement of the Problem**

Exploring "How customers select banks" help banks to identify the appropriate marketing strategies needed to attract new customers and retain the existing ones. Various studies have been undertaken across different parts of the world to analyze factors that affect customers' decision in selecting a particular bank and the findings vary from country to country based on the context of study (*Katircioglu et al., 2011; Hedayatnia, 2011; Sanyang, 2009; Shafer et al., 2011; Mokhlis, 2009; Hinson, 2009; Siddique, 2012*). These studies demonstrated the importance of consistent review of factors that influence customers' choice of bank selection for their banking service need.

Although such studies have contributed substantially to the literature on bank selection criteria, their findings may not be applicable to other countries like Ethiopia, due to differences in cultural, technological infrastructure, economic and legal environments. Studies undertaken in Ethiopia are not found with the exception of W/marian (2011) who tried to analyze determinants of bank selection criteria in Ethiopia. W/mariam has undertaken study on customer bank selection criteria in Ethiopia using a convenience sampling procedure, sample size of 201 customers (*students in AAU 42%, employees of Ethiopian Revenues and Customs authority 36% and merchants in Merkato 22%*). The study did not cover customers of major commercial banks in Addis Ababa which would have indicated different findings. Also, the study didn't include the most important variables for bank selection decision that were found to be important in various studies undertaken in other countries. It is, therefore, not adequately known whether the customers of Ethiopian banks choose a bank based on banks physical facility and image, bank employees personal characteristics, service provision, convenience location, e-

banking technology, marketing and promotion and financial benefits offered by banks.

According to Edris & Almahmeed (1997), the growing competitiveness in the retail banking industry has made it increasingly important that retail banking institutions need to consistently review principal factors that influence customers' choice of a retail banking services provider. Moreover, meeting retail customers' needs of banking service provision has emerged as a significant element of bank reputation that influences customers to select a particular bank (Leibert, 2004). According to Khazeh & Decker (1993), most retail banking institutions do not achieve remarkable growth due to failure to identify and effectively manage factors that determine customers' choice of bank selection criteria.

Banking industry in Ethiopia is becoming highly competitive day-by-day due to service differentiation, similarity and easiness of service availability and technology used in service delivery. Customers are selecting banks considering various features of the service proposition. Therefore, banks should identify main factors that determine the basis upon which customers select commercial banks so that they can develop marketing strategies based on empirically informed opinion. In this context, the purpose of this study is to investigate the determinants affecting customers' decision in choosing banking services in Addis Ababa City.

### **1.3. Research Questions**

The study tried to analyze and answer the following main research questions and seven sub-research questions:

#### ***I. Main Research Question***

Q1. What are the criteria (factors) that customers consider most important to select a particular Bank?

#### ***II. Sub-Research Questions***

Q2. Is bank selection decision related to physical facility and image such as: interior layout of the branch, attractive external and/or internal appearance of a bank, attractive counter partition in the branch, employees dress & appearance, size of the bank and modern looking (pleasant bank atmosphere and interior comfort)?

- Q3. Is bank selection decision significantly related to personal characteristics such as: bank employees' ability and competence, willingness of employees to help customers and provide prompt service, respect and consideration shown to customers by bank employees, adequate explanation of services and products, friendly/pleasing manners of bank employees, caring and individualized attention given to customers by bank employees, bank employees' knowledge and courteousness?
- Q4. Is bank selection decision significantly influenced by service provision such as: fast response to customer complaint, confidentiality in keeping customers' records, quick and prompt service in the branch, confidence in the branch manager of the bank, minimum waiting time and variety of banking services offered to customers?
- Q5. Is bank selection decision significantly related to convenience location such as: proximity of bank branch location to home/work place, availability of several branches and availability of parking space nearby?
- Q6. Is bank selection decision significantly related to availability of e-banking technology such as: availability of one window banking, availability of ATMs in several locations, connectivity of banks' ATMs to other bank's ATMs, electronically networked bank branches and availability of internet banking facility?
- Q7. Is bank selection decision significantly related to marketing and promotion such as: recommendation by friends or relatives, interesting and informative advertising and reception shown at the branch?
- Q8. Is bank selection decision significantly related to financial benefit offered such as: ease of obtaining loans/credit, higher interest payment on savings deposits, ease of obtaining foreign currency, lower commission and service charges relative to other banks, and lower interest rates on loans relative to other banks?

#### **1.4. Objective of the study**

##### **1.4.1. General Objectives**

- I. To determine the criteria (factors) that customers consider important when selecting a bank and how those criteria are prioritized according to their importance;

### **1.4.2. Specific objectives**

The specific objectives of the study are:

- I. To examine the relationship between customers bank selection decision and physical facility and image of the bank;
- II. To examine the relationship between customers bank selection decision and personal characteristic;
- III. To examine the relationship between customers selection decision and service provision;
- IV. To examine the relationship between customers bank selection decision and convenient location of the branch;
- V. To examine the relationship between customers bank selection decision and e-banking technology;
- VI. To examine the relationship between customers bank selection decision and promotional strategies of the bank;
- VII. To examine the relationship between customers bank selection decision and financial benefits offered; and
- VIII. To identify bank selection motivational items which are considered significant by customers' perception.

### **1.5. Hypothesis to be tested**

Based on the above mentioned research objectives and research questions, eight hypotheses were tested to determine answers to the research questions. The following hypotheses are null hypotheses:

**H1:** Physical facility and image of the bank affect bank selection decision;

**H2:** Personal characteristics affect bank selection decision;

**H3:** Service provision affects bank selection decision;

**H4:** Convenient location affects bank selection decision;

**H5:** E - banking technology affects bank selection decision;

**H6:** Marketing and promotional strategies affect bank selection decision;

**H7:** Financial benefits offered affect bank selection decision; and

**H8:** Bank selection motivational items affect customers' bank selection decision.

## **1.6. Definition of Terms**

Definition of variables is presented under to clarify constructs used in the study.

- 1) Bank selection decision - refers to decision by individuals when selecting a bank for their transactions. It is to determine the most favorable factors among physical facility and image of the bank, personal characteristic, service provision, convenience location, e-banking technology, financial benefits offered and others;
- 2) Physical facility and image of the bank refers to interior layout of the branch, attractive external and/or internal appearance of bank, attractive counter partition in the branch, employees dress & appearance, size of the bank and modern looking (pleasant bank atmosphere and interior comfort);
- 3) Personal Characteristic refers to bank employees' ability and competence, willingness of employees to help customers and provide prompt service, respect and consideration shown to customers by bank employees, bank staffs give adequate explanation of services and products, friendly/pleasing manners of bank employees, caring and individualized attention given to customers by bank employees, bank employees' knowledge and courteousness to inspire trust and confidence;
- 4) Service Provision refers to fast response to customer complaint, confidentiality in keeping customers' records, quick and prompt service in the branch, confidence in the branch manager of the bank, minimum waiting time and bank offers variety of banking services to customers;
- 5) Convenience location refers to proximity of bank branch location to home/work place, availability of several branches and availability of parking space nearby;

- 6) E-banking Technology refers to availability of one window banking, Availability of ATMs in several locations, ATMs of the bank have connectivity to other bank's ATMs, electronically networked bank branches and availability of Internet banking facility;
- 7) Financial Benefits refers to ease of obtaining loans/credit, higher interest payment on savings deposits, ease of obtaining foreign currency, availability of parking space in the branch, bank provides lower commission and service charges relative to other banks, and the bank charges lower interest rates on loans relative to other banks; and
- 8) Marketing and promotion refers to the bank recommended by friends or relatives, Interesting and informative advertising, reception shown at the branch.

### **1.7. Significance of the study**

The research examined the determinants of bank selection factors and motivational items that have significance for bank selection process by customers' perception. The importance of this study can be viewed from two dimensions: theoretical contributions and practical implications.

Theoretically, the study fills an important gap in the literature that is, exploring bank selection criteria for potential customers in Addis Ababa city. Therefore, the findings of this study can add to the existing body of the literature and can serve as a starting point on which future studies can be built.

On the practical side, the result is expected to be useful for the banking industry because this study attempted to reveal the criteria that attract customers to work with a particular bank. The findings will help bank managers to focus and align their marketing strategies on bank selection criteria that can help them to stimulate customers to do business with their bank.

## **1.8. Scope of the study**

This study concentrated on the factors considered important by customers in selecting a bank. Factors focused on this study were service provision, bank physical facility and image, personal characteristics, convenience of location, e-banking technology, marketing and promotion, and financial benefits offered.

## **1.9. Limitation of the Study**

As with any empirical study, this study also has certain constraints that must be considered when assessing the outcomes of its findings and implications. This study poses generalizability questions because the sample frame used is customers of seven banks in Addis Ababa city and it may not represent the banking behavior of the general public. This study needs replication using a larger and more representative sample from other regional towns. This larger-scale replication could help to better understanding of the banking behavior of Ethiopian banking customers as banking infrastructure in Addis Ababa and socioeconomic characteristics of Addis Ababa's population may differ from those of other regional towns. Also, demographics of respondents should be treated separately in order to design distinctive market segments reflecting the varying importance and ranking assigned to bank selection factors.

## **1.10. Organization of the Paper**

The thesis is structured in five chapters. Chapter one deals with the introduction of the paper. Chapter two explores a review of previous literature including marketing concept of the service sector, strategic marketing – segmentation and positioning, consumer behavior in service sector, steps in consumer decision - making process, influence on consumers' decision, service quality and survey of previous empirical studies. The research design and methodology are presented in chapter three which explains the research design, data and data sources, sampling design and sample size, research instrument, data collection and statistical methods used to analyze the data. In chapter four, the results and findings of the study are discussed. Finally, the last chapter enclosed the summary of findings, conclusions drawn and recommendations of the study.

## **CHAPTER TWO: REVIEW OF LITERATURES**

### **2.1. Theoretical Foundation**

The relevant theoretical foundation underpinning the study is the rational choice theory. This theory provides useful insights on the choice or selection behavior of individual customer. The Rational Choice Theory or rational action theory is a framework for understanding and often formally modeling social and economic behavior. Rationality, which basically expresses the idea of wanting more rather than less of goods, is widely used as an assumption of the behavior of individuals. The theory, therefore, suggests that patterns of behavior in societies reflect the choices made by individuals as they try to maximize their benefits and minimize their costs (Coleman et. Al 1992). In other words, people make decisions about how they should act by comparing the costs and benefits of different courses of action. Consequently, patterns of behavior develop within a society which results from those choices.

The validity of rational decision making is rooted in two complementary assumptions namely completeness and transitivity (Aregbeyen 2011). Completeness requires that all actions of the individual can be ranked in an order of preference (indifference between two or more is possible), while transitivity is a condition that if choice *A* is preferred to *B*, and action *B* is preferred to *C*, then *A* is preferred to *C*. Together these assumptions form the result that given a set of exhaustive and exclusive actions to choose from, an individual can rank them in terms of his preferences, and that his preferences are consistent.

### **2.2. Review of Marketing Concept and Its Application to Banking Industry**

In this sub-section, an attempt is made to provide context for the study of customers' bank selection decision criteria in terms of banks' marketing management in general and banks' strategy choice in particular. Accordingly, a review of relevant literature is made with regard to marketing concepts and its application to banking industry such as: marketing concept of the service sector,

strategic marketing - segmentation and positioning, consumer behavior in service sector, steps in consumer decision-making process, influences on consumers' decision, service quality and customer satisfaction.

### **2.2.1. Marketing Concept of Service Sector**

A well designed marketing strategy is very important for every business whether it is product oriented or service oriented. Every business is established with aim of making a profit and without effective marketing plan it is impossible to achieve that goal. There is difference in the marketing techniques with the difference in the business offering.

The marketing approach used for product marketing is different from that of service marketing. Because of their diversity, services have traditionally been difficult to define. The way in which services are created and delivered to customers is often hard to grasp since many inputs and outputs are intangible. Lovelock et al (1999) defines service "as an act or performance offered by one party to another. Although the process may be tied to a physical product, the performance is essentially intangible and does not normally result in ownership of any of the factors of production".

Technological innovations and other developments in external environment of the banking industry are affecting the way of service delivery of banks. Formerly services were offered only through the face-to-face interaction but now different marketing channels are used for the marketing of financial services. From these channels some are face-to-face conventional branch based banking while other are with the use of technology like ATMs, Agent Banking, internet banking etc. To take fruit of the effective marketing strategy it is important for banks to categorize its product and customers according to the market channel they would like by considering customers' bank selection decision criteria (Lee, 2002). Problem with the financial service marketing is its intangible nature and complexity. As the offering get complex it become difficult for the consumer to get idea about its performance and has no idea about the inner of the offering that

how well will it perform, in this case consumer try to judge the performance of the service through the image of the organization. In that case goodwill and reputation of the organization matters a lot which contribute to the fact the organization brand itself contribute to the value addition in the service offering (Lee, 2002).

So it is important to understand the difference between product marketing and service marketing so as to design and execute relevant strategy accordingly. Generally speaking, product marketing has 4P's and service marketing has 7P's. Product marketing has 4P's naming as Product, Price, Place and Promotion. According to Mudie et al (2006), service marketing has extra 3P's in its marketing mix which results from service's unique characteristics that include (a) Intangibility (b) Inseparability (c) Heterogeneity and (d) Perishability. Because of these characteristics of service, 3 new P's are added in service marketing that are People, Process and Physical Evidence (Mudie et al, 2006).

"People" refer to the appearance and behavior of service personnel. "Physical evidence" – is everything from the appearance, design, layout of the service setting, to brochures, signage, equipment (the 'tangibilizing' of the intangible). "Process" – refers to how the service is delivered, the actual procedures and flow of activities. Mudie et al, 2006 concludes that each of the three extra Ps is of central importance in services as each represents cues that customers rely on in judging quality and overall image of the service offering.

Kotler (2012) argues that a company must consider four special service characteristics when designing marketing programs: intangibility, inseparability, variability, and perishability.

A) Service intangibility: it means that services cannot be seen, tasted, felt, heard, or smelled before they are bought (Kotler, 2012). The potential customer is often unable to perceive the service before (and sometimes during and after) the service delivery. Muidie, 2006, argued that the implication of intangibility characteristics to service marketing is that to help

a customer picture a service prior to usage, a service organization needs to provide something tangible to present the service offering.

- B) Service inseparability: it refers to the fact that services cannot be separated from their providers, whether the providers are people or machines. If a service employee provides the service, then the employee becomes a part of the service. Because the customer is also present as the service is being produced, provider-customer interaction is a special feature of services marketing. Both the provider and the customer affect the service outcome ((Kotler, 2012). The involvement of the customer in the production and delivery of the service means that the service provider must exercise care in what is being produced and how it is produced (Mudie, 2006). Gilmore (2003) concludes that in such inseparability circumstance it may be difficult for the service providers to control the quality and consistency of the service, unless staffs have been trained to deal with such situations in a precise and effective manner.
- C) Service Variability: it means that the quality of services depends on who provides them as well as when, where, and how they are provided (kotler 2012). Muidie (2006) argues that an unavoidable consequence of simultaneous production and consumption is variability in performance of a service. Reducing variability involves determining the causes. It may be due to unsuitable personality traits in an employee which are very difficult to detect at the selection stage.
- D) Service Perishability: it means that services cannot be stored for later sale or use (kotler 2012). The perishability of services is not a problem when demand is steady. However, when demand fluctuates, service firms often have difficult problems. Mudie (2006) indicates that fluctuations in demand characterize service organizations and may pose problems where these fluctuations are unpredictable. Strategies need to be developed for producing a better match between supply and demand.

Banks offer services which means the offering cannot be separated from its produce; they are produced and consumed at the same time so personal interaction between the employee and consumer is of great importance in the banking sector. For this internal marketing is necessary for banking sector to search and keep the talented employees.

Bank Marketing has been defined as “that part of management activity which seems to direct the flow of banking services profitably to selected customers” (Theofanide (2010). Deryk Weyer (Barclay’s Bank) defines the bank marketing as “it consists of identifying the most profitable markets now and in future; assessing the present and future needs of customers; setting business development goals and marketing plans to meet them and managing the various services and promoting them to achieve the plans, all in the context of a changing market environment” Aamir (2012).

As quoted by Aamir (2012), according to Prof. Dr. GUNAL ONCE (2011) marketing in the banking sector is considered of great importance because of change in demographics, intense competition in the industry and to increase the profits. He suggests the three techniques that are currently used by the banks for marketing are:

- Internal marketing
- Network marketing and
- Relationship marketing.

Relationship marketing has a significant effect on the banker customer relationship. This strategy is used to enhance and keep the customer base of the business (Ndubisi & Wah, 2005). Personal selling is important marketing tool in the bank marketing in which personal selling branch staff involves in the marketing. When customers visit the branch they market their products to them or product development officers visit the customer’s place and introduce the products to him. In western countries special people are assigned that personally contact the

customer, take their views about service performance and develop the lasting relations with the customer (Mohan, 1996).

### **2.2.2. Strategic Marketing - Segmentation and Positioning**

In order to provide a context for an attempt to determine customers' bank selection decision criteria, it is useful to discuss the nature of bank marketing within the broader principles of the marketing concept in terms of market segmentation, targeting and positioning. Every business wants profits, and to increase profits they need to increase their customer base, through marketing banks introduce its offerings to the target market. Through marketing potential customers is generated and when these customers use the service of the organization it increase its profitability (Mansor, Abdullah, & Rahim, 2011).

Generally speaking, segmentation, targeting and positioning presents the choice made by a particular bank with regard to which customers to serve, and this choice guides and determines the emphasis made by banks on certain bank selection decision criteria.

In order to stay relevant in the market in the prevalence of increasingly stern competitive pressure in the Ethiopian banking industry, banks have to fight the stiff competition. as such, building a competitive edge on the criteria that customers give high emphasis in their bank selection decision help banks to survive and prosper, which can be done by effective positioning strategies along with redesigning service provisions and approaches of customer management. Zineldin (1996) concludes that increasing competition and diversity of service development in banking industry has pressured banks to become increasingly responsive to market considerations in terms of segmentation, management and market strategies, internal and external infrastructure, their use of information technology and their ability to innovate and differentiate. Theofanide (2010) extended this necessity by hinting that: in the communication jungle out there, the only hope to score big is to be selective, to concentrate on narrow targets, and to practice segmentation.

Market segmentation, targeting and positioning are vital issues in marketing theory and practice. According to Kotler (2001), a company can rarely satisfy everyone in a market. Not everyone likes the same financial services. Accordingly, marketing strategy is based on expected customer behavior in a certain market. In order to know the customer and its expected buying behavior, a process of segmenting and positioning is needed. These processes are chronological steps which are dependent on each other. Therefore, companies start with market segmentation.

According to Kotler (2012), companies must first decide whom it will serve. They identify and profile distinct groups of buyers who might prefer or require varying products and marketing mixes. Market segments can be identified by examining demographic, psychographic, and behavioral differences among buyers. It does this by dividing the market into segments of customers (market segmentation). As theory, market segmentation is the process of dividing a market into distinct groups of individuals or organizations, who share one or more similar responses to some elements of the marketing mix.

The company then decides which segments present the greatest opportunity, those needs that can be met in a superior fashion, and selecting which segments it will go after (target marketing). Theofanide (2010) suggests that banking services are characteristically different from physical products and as such the focus of differentiating customers based on these services should also be multi-faceted.

For each chosen target market, the firm develops and proposes a differentiated and unique market offering (positioning). The offering is positioned in the minds of the target buyers as delivering some central benefit. Positioning is an attempt to distinguish the bank from its competitors along real dimensions in order to be the most preferred bank for a certain market segment or prospect (Zineldin, 1996). Market positioning also plays an imperative role in market strategy by analyzing the market to segment the customers' requirements based on competitive advantages (Kotler, 1994; Zineldin, 1996). Therefore, effective positioning reflects how customer perceives the banking products and services, factors that make the

customers satisfied and whether customers behave differently with different factors while choosing a bank.

Customer satisfaction is the desired effect that organizations are eager to produce in order to achieve their objectives. However, it is almost impossible for an organization to satisfy the whole market (the notion of mass marketing has obliterated) and therefore they operate selectively. In other words, a bank has to select its target market and then position its offerings appropriately. Meidan (1984) suggests that target marketing implies segmentation of the market, thus once this step is carried out the bank should ideally decide on its broad strategy. The existing heterogeneity of consumers is an opportunity for the market orientated bank, whereas it tends to be an obstacle for production orientated organizations (Frank et al, 1972) as quoted by Theofanide (2010).

Segmentation is directly connected with people, thus it has inevitably a dynamic nature. The market segmentation “toolkit” consisting of geo-demographic, behavioral and other psychographic variables is not a panacea and it should be subject to realignment, analogous with the contemporary developments in the market and the business world. Indeed, Hooley and Saunders (1993) argue that there is a constant pursuit of innovative ways to define a market and gain competitive advantage. Schiffman and Kanuk (1994) proposed eight different ways to segment a market and divided them into demographic, geographic, psychographic, socio-cultural, use-related, use-situational, benefit and hybrid segmentation bases for services marketing. As Weinstein (1987) simply puts it, segmentation is the key to successful marketing. It is however, necessary to attempt adapting “text book suggestions” to Ethiopian market particular context and situation. As Danneels (1996) notes, “Marketing theory should be rooted in the reality of actual management practice”. However, Henson and Wilson (2002) believe that nowadays it is more difficult for banks to rely on community ties and local knowledge in order to retain customers, because of customers’ increasing lifestyle mobility and access to a broad range of financial activities. If this is the

case, then banks should increase their efforts in order to assure their bonds with the market.

### **2.2.3. Consumer Behavior in Service Sector**

In order to create value for customers and profit for organizations, banks need to understand why consumers behave in certain ways to a variety of bank selection decision criteria. Consumers have a more difficult time evaluating and choosing services than goods because the service offering is intangible, non-standardized and consumption is so closely intertwined with production.

The bases of service marketing concept are to understand how consumers choose and evaluate a variety of service offering and to meet their expectation better than competitors. Understanding the needs and wants of customers goes into the realm of the behavioral sciences. Solomon et al (2006) defines consumer behavior as study of the processes involved when individuals or groups select, purchase, use or dispose products, services, ideas or experiences to satisfy needs and desires.

Understanding and adapting to customer motivation, attitudes and their ultimate selection decisions for offerings such as banks are not an option but an absolute necessity (Kotler, 2000). This is consistent with the work of (Weber, 1949) in which he argued that it is necessary to identify the underlying constructs which determine consumer behavior. To this end, factors impinging on consumers' selection of banks are an important research task (Devlin, 2002). The bank selection itself has traditionally constituted a complex process which confuses many consumers (Lee and Marlowe, 2003). Although these days, the changing patterns of consumer behavior and the requirement of great service on one hand and the banks need to build long term customer relationship, on the other have made this process more difficult and also more important to clarify (Lymperopoulous et al., 2006).

Consumer behavior has been altered lately as a result of deregulation, information revolution and the emergence of new forms of technology (Howcroft et al., 2003). Bank customers have had difficulties distinguishing one bank from another due to rapid changes, innovations in the banking industry and fierce competition (Boyd et

al., 1994). There has been increased choices and improved product offerings that have made the consumers more sophisticated, analytical and systematic in their buying decisions, knowledgeable and demanding (Murphy, 1996; Shelton, 1995). This has made retail bank customers require information, comprehensive advice, integrity, honesty, consistency, responsiveness and value for money (Shelton, 1995; Leach, 1995). The main interest of the customer is the way the financial service is delivered (McKechnie, 1992) especially in the bank opening hours, provision of information, and ability to focus on customers' needs (Holmlund and Kock, 1996).

Within the traditional structure of the financial services industry consumers in the past had little choice in terms of selecting financial instruments and delivering channels (Cook, 2002). The rigid structure of the industry combined with the operation of cartels, meant that consumers had to accept the form and price of both financial instruments and delivery channels (Beckett et al, 2000). Consumers were locked into buying patterns and had little incentive to change. A number of interrelated factors such as competition and deregulation (Blankson et al, 2007), and new forms of technology (Beckett et al, 2000) have revolutionized the distribution of many financial services. These changes have had a significant impact upon consumer behavior. According to Beckett et al. (2000), consumers are now more disposed to change their buying behavior when purchasing products. Consequently, bank service providers are less certain that their customers level of loyalty.

#### **2.2.4. Steps in Consumer Decision-Making Process**

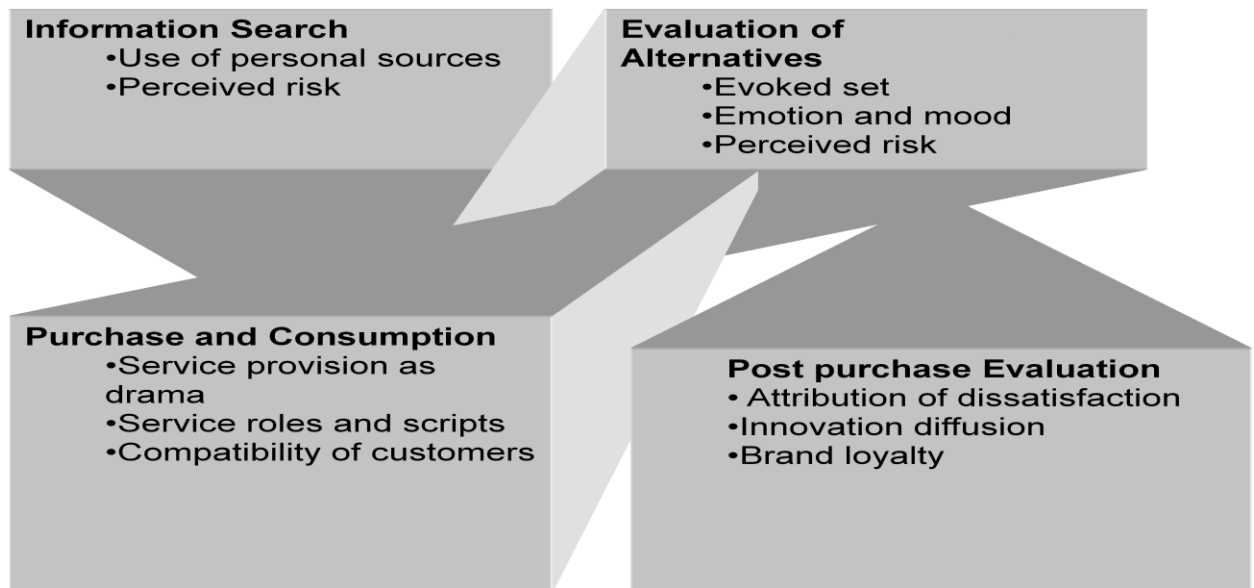
Considering that there is a difference in consumers' decision-making process for service organization as compared to that of goods organization, it is critical to understand which cues or attributes of the service offering are valued most in the decision-making processes of current and potential customers. Consumer decision-making process includes information search, evaluation of alternatives, purchase and consumption, and post purchase evaluation (Solomon et al 2006).

Consumer evaluation process for goods and services varies in all stages of the buying process (Mudie et al 2006).

Because experience and credence qualities dominate in services, consumers employ different evaluation processes than they use with goods, where search qualities dominate. They are also likely to experience the steps in the decision-making process in different orders and at different times from the steps in the classic good driven decision-making processes. Specific characteristics of services may lead to divergent evaluation process and altered consumer behavior. Specific areas where characteristics of services may lead to divergent evaluation processes and altered consumer behavior are:

- Information search,
- Evaluative criteria;
- Size and composition of the evoked set of alternatives;
- Perceived risk;
- Adoption of innovation;
- Brand loyalty;
- assessment of value;
- attribution of dissatisfaction;

Figure 1: The Customer Decision-Making Process



Adopted from: *Mulugeta G/Medihin (2010), Services and Relationship Marketing. Module for Graduate Program AAU School of Commerce*

### 2.2.5. Influences on Customers' Decision

A consumer buying behavior is influenced by social, personal, psychological and cultural factors (Kotler, 2003). The service organizations must be aware of these factors in order to develop an appropriate marketing strategy for its target market (Danyi 2008). A consumer, making a purchase decision will be affected by three factors:

- Psychological;
- Personal; and
- Social factors.

Each of these influences is addressed in relation to banking choices.

#### A. Psychological Factors

Information processing, beliefs, attitudes, have been identified amongst others as personal influences on consumer behavior (Danyi 2008).

**Information processing:**

This has to do with the way by which stimulus is received, interpreted, stored in memory and later retrieved (Jobber, 2007). It makes the link between external influence including marketing activities and consumer decision making (Jobber, 2007). Information processing is further divided into two aspects, perception and learning.

Perception is a compound process by which people select and interpret sensory stimulation into reality. A motivated person truly acts by his or her perception of the circumstances. People come out with different perceptions of the same object because of the existence of three perceptual processes namely selective attention, selective distortion and selective retention (Hoyer et al 2010). A customer's perception of a bank determines to a large extent the choice of bank to patronize (Kennington et al.1996). Any change in the organization or content of long term memory is said to be teaching and it entails changes in an individual's behavior, resulting from experience (Kotler, 2003). Higher knowledge customers take account of intrinsic attributes such as service features, rate of returns and low fees in their choice of banks (Devlina, 2002). Availability of financial advice is also an important attribute that determines a choice of bank to patronize (Khazeh and Decker, 1992)

**Beliefs and attitude:**

The thoughts that a person holds about something can be said to be a belief. In the marketing perspective, it is thought about a product or service on one or more choice criteria. Marketers are usually interested in the belief of the consumers because of its relation to attitudes (Jobber, 2007). The overall favorable or unfavorable evaluation of a product or service is referred to as attitude. This may be positive or negative towards the product or service (Jobber, 2007). Beliefs and attitudes are of importance in the evaluation of alternatives in the decision making process of the consumer as well as product design (Jobber, 2007). Almosawi (2001) discovered that one of the most important criteria considered by the customer is the banks reputation and image.

**Motivation:**

When a need is aroused to a sufficient level of intensity, it becomes a motive. This motive is that need that is sufficiently pressing to make a person to act (Kotler, 2003). The theories of Abraham Maslow and Fredric Herzberg both have different implications for marketing strategy and consumer analysis (Kotler, 2003).

**B. Personal Factors**

The decisions of a buyer are also influenced by personal factors. These include personality, life style, life cycle and age.

**Personality:**

Personality is the inner psychological characteristic of individuals which leads to consistent responses to their environment. It is often described in terms of traits like self-confidence, dominance, autonomy, deference, sociability, defensiveness and adaptability (Kotler, 2012). Personality is a useful variable in analyzing consumer brand choices. The idea is that brands have personalities and consumers are likely to choose brands whose personalities match their own. Brand personality is therefore the human trait which may be attributed to a particular brand (Kotler, 2012). Lee and Marlowe (2003) discovered that personal services in banks are a main decision making criteria that may vary according to customers' socioeconomic and demographic profile.

**Life style:**

This is basically a person's pattern of living in the world as expressed in activities, interest and opinions, that interact with his or her environment. Lifestyle analysis group consumers according to beliefs, values and demographics and has been found to correlate with purchasing behavior. It therefore has implications for marketing (Jobber, 2007 and Kotler, 2003). Convenience in terms of location to office and payroll deductions will suit a working customer's lifestyle for a choice of bank (Lee and Marlowe, 2003).

### **Life cycle and age:**

Stages in the life cycle have also been known to influence consumer behavior. Income and purchases are likely to vary according to different stages in life. Age also plays a distinguishing role in consumer behavior. The young have always been a major target for marketers because of their capacity to spend (Jobber, 2007). Rashid (2009) investigated customers' bank selection criteria in Pakistan and discovered that customers from 21-30 years of age category have put highest importance to efficiency and Core Banking services. Customers from 31-40 have put high importance to compliance to Islam, Cost-Benefit and Core Banking services. However, the most experience group, age category of 40 plus years put highest importance to level of confidence and they kept core banking and compliance in their second level choices while selecting an Islamic Bank.

### **C. Social Factors**

Social class is the stratification of the society into broad groups that share certain attitudes, values or life style (Kotler, 2012). Class thus serves as a reference group for certain norms (e.g. product preference and media behavior). It is not generally considered a reference group because its influence is not personalized or direct. Some variables that have been used to classify people into different social classes include reference groups, family and social roles and statuses (Kotler, 2012).

### **Reference Groups:**

This term is used to designate a group to which individual consumers relate. The consumer does not necessarily have to be a member of the reference group, but it is necessary that the reference group exert some influence either direct or indirect. This influence is present because the group perspective is used as a frame of reference by the individual for decision (Jobber, 2007; Kotler, 2012). The influence the reference group has operates in the consumer through purpose roles and status. The group may purchase in a certain way to accomplish the same purpose as the group, because of a member of the group and to play a similar role or to obtain status like that held in the group (Jobber, 2007 and Kotler,

2012). Krisnanto (2011) studied the customers' determinant factors of the bank selection in Indonesia and discovered factors that determine in selecting a bank tend to be based on the secondary factors such as recommendation from friends, and advice from family members.

#### **2.2.6. Service Quality**

Commercial banks usually know what customers expect from them. These expectations usually form the basis of their mission statements. The customer will normally patronize a bank highly responsive to his needs (Kotler, 2003). Understanding elements of service quality gives valuable insights as to how customers make a choice of banks to patronize. Thus, an attempt is made to review the concept of service quality in this section.

Service quality is viewed as a multi-dimensional concept. Consumers assess and evaluate a number of factors or dimension. Parasuraman et al. (1988) opened a new window of research in service quality by establishing SERVQUAL model. Their model has been replicated in many countries with multi-dimensional sectors. The model suggests that consumers evaluated service quality by comparing expectations with perceptions on ten dimensions: Tangibles, Reliability, Responsiveness, Communication, Credibility, Security, Competence, Courtesy, Understanding/knowing customers, and Access.

G/Medihin (2010) indicates that these ten dimensions were subsequently collapsed into five generic service quality dimensions as follows:

##### **A. Reliability: Delivering on Promises**

Of the five dimensions, reliability has been consistently shown to be the most important determinant of perception of service quality. Reliability is defined as the ability to perform the promised service dependably and accurately. In its broadest sense, reliability means that the company delivers on its promises about delivery, service provisions, problem resolution and pricing.

## **B. Responsiveness: Being Willing to Help**

Responsiveness is the Willingness to help customers and provide prompt service. This dimension emphasizes attentiveness and promptness in dealing with customers request, questions, complaints, and problems.

## **C. Assurance: Inspiring Trust and Confidence**

Assurance is defined as Employees' knowledge and courtesy and the ability of firm and its employees to inspire trust and confidence.

## **D. Empathy : Treating Customers as Individual**

Empathy is defined as the caring, individualized attention the firm provides its customers. The essence of empathy is conveying, through personalized or customized services, that customers are unique and special.

## **E. Tangibles: Representing the Service Physically**

Tangibles are defined as the appearance of physical facilities, equipment, personnel, and communication materials. All of these provide physical representations or images of services that customers, particularly new customers, will use to evaluate quality.

Customer satisfaction is so important that banks consider it as the chief element of their marketing strategies. Banks that provide quality service will attain customer satisfaction and will retain their existing customer while also recruiting new customers. Customer satisfaction is the feeling or attitude of a consumer towards a product or service after usage (Solomon, 1996). Even though several factors have been reported as relevant to gaining customer loyalty, customer satisfaction is still very much recognized for its fundamental role (Jamal and Naser, 2002). A consumer that is satisfied will repeat the purchase of the product or service and convey positive messages about it to others (Dispensa, 1997). On the other hand, an unsatisfied consumer is likely to switch to an alternative product or service when there is need for the same product or service (Gulledge, 1996). It is therefore crucial that banks ensure customer satisfaction for their

services .This has led to the increasing popularity of measuring customer satisfaction in recent years (Gulledge, 1996).

### **2.3. Customers Bank Selection Criteria: Survey of Previous Empirical Studies**

The banking industry is regarded as one of the most critical service industries that require high customer contacts, with individually customized service provisions. As such, meeting customers' needs and maintaining their satisfaction has increasingly been a focus of research in this area. Studies on retail bank marketing are not new. Mokhlis et al (2009) report that since the late 1960s, much has been written on retail bank marketing with the majority of the literature relating to banking behavior of retail customers. Such studies have focused on marketing themes spanning market segmentation, bank loyalty, bank selection decisions, bank image and bank services quality.

Also, one marketing theme that has attracted considerable scholarly attention has been focused on bank selection criteria by bank customers in different countries (*Safakli, 2007; De Haas et al, 2007; Rehman and Ahmed, 2008; Mokhlis 2009; Mokhlis et al 2009; Rashid et al, 2009;Sanyang, 2009; Hinson et al, 2009; Rao and Sharma, 2010; Shafer et al, 2011; Hedayatnia, 2011; Aregbeyen, 2011; Katircioglu et al, 2011; Idris et al, 2011; Goiteom W/mariam, 2011; Krisnanto, 2011; Siddique, 2012; Aamir and Sadaf, 2012; Saleh et al, 2013; Tehulu and Wondmagegn, 2014*). Frequently, these empirical studies using different methodologies and approaches examined the question of why people prefer a specific bank and the findings vary.

Thus, survey of previous studies is selectively done to take account of the several studies that have been conducted across countries and provide very rich setting for this study.

#### ***Service Provision***

In Pakistan, Rehman and Ahmed (2008) analyzed the major determinants of a bank selection by a customer in the banking industry of Pakistan. They undertook a survey of customers of private, privatized and nationalized banks located in the

city of Lahore (Pakistan) and used a factor loading approach to rank the most important decision factors. The study found that the four most important variables influencing customers' choice in selecting a bank were that customer services, convenience, online banking facilities and overall bank environment.

Siddique (2012) studied bank selection influencing factors in Bangladesh. The study analyzed the factors considered important by customer in selection of a private commercial bank and nationalized commercial bank in Bangladesh. It is based on a survey of 600 customers of private commercial banks and nationalized commercial banks located in the city of Rajshahi in Bangladesh and the study used 30 selection factors. The study found that the most important factors influencing customers for selecting a private commercial bank are effective and efficient customer services, speed and quality services; image of the bank, online banking, and well management. On the other hand, the most important factors for choosing a nationalized commercial bank are low interest rate on loan, convenient branch location, safe investment (accountability of the govt.), variety of services offered and low eservice charges.

Hedayatnia (2011) analyzed bank selection criteria in the Iranian retail banking industry. The study was designed to examine the bank selection criteria being employed by bank customers in Iran. A total of 798 customers (55.7 percent male and 44.3 percent female) served as a sample for the study and 38 selection factors were used. Factors analysis is used to extract important selection criteria and Friedman analysis ranks the factors according to their importance. The study found that the important factors determining customers' selection are: quality of services and new banking methods, innovation and responsiveness of bank, friendliness of staff and confidence in manager, price and cost, staff attitudes and convenience of bank location and services.

Safakli (2007) examined bank selection criteria employed by customers residing in various cities of Northern Cyprus. The findings reveal that the chief factors determining customers' bank selection are: "Service Quality and Efficiency", "Bank Image", "Convenient Location", "Parking facilities", "Financial factors" and "Affected

opinion". The findings also show that it may be necessary to deal with different demographic characteristics of respondents as distinctive segments with different priorities in their bank selection process.

### ***Personal Characteristics***

Tehulu and Wondmagegn (2014) examined factors influencing customers' bank selection decision in Bahir Dar City of Ethiopia. The study employed survey questionnaire to collect data from sample respondents of 204 customers in five commercial banks. Results of the multinomial regression model indicated that friendly or pleasing manner of staff, ATM service, bank speed, service quality, external bank appearance and internal sitting arrangement, secured feeling, proximity to home or work place, availability of several branches and long operating hours were significant factors whereas others' recommendations, number of counter windows, safety of funds, good reception at the bank and low service charge were insignificant factors for bank selection decision.

Rao and Sharma (2010) analyzed factors influencing the choice criteria in respect of selecting a bank by MBA students. A quantitative methodology, using responses given 312 students, is employed in the analysis. Findings show that reliability is a significant choice criterion, which includes employee's courtesy, parking facility, loyalty programs, brand name, security system and low charges with the bank. Other factors, which have also increased in importance are the responsiveness, value added services and convenience. Assurance factors, such as speedy services, good rate of interest and zero balance account facility are also significant in importance in motivating choice of a bank.

### ***Physical Facility and Image of the Bank***

Shaher et al. (2011) evaluated the major factors that affect the commercial banks performance in the Middle East region. They used factor analysis technique in their methodology in order to extract the most essential factors that hinder the customers in their choice of banks and banking services. Their finding revealed that banks' characteristics (such as, bank size, loan facility and service charges)

are considered as the most important factors in bank selection decision. Quite the opposite, the sixth factor (other factors like, religion believes and awareness of banks performance) are considered as the least important factors in the Middle East region customers.

Study done by Mokhlis (2009) analyzed determinants of choice criteria in Malaysia's retail banking. The study considers analysis of gender differences in the relative importance of choice criteria in respect of selecting a retail bank. A quantitative methodology, using responses given by 368 Malaysia's undergraduates, is employed in the analysis. The study found that there are some differences in choice factors employed by male and female customers in selecting a bank for patronage. Factors of which both male and female had variation are attractiveness, marketing promotion, ATM service, proximity, people influences and financial benefits.

Mokhlis et al (2009) undertaken an empirical study on selection criteria employed by single and multiple bank users and to see if certain personal characteristics can be used to differentiate these two segments. The study chose to sample a specific consumer segment in Malaysia, namely the young-adults. Selection factors of which both single and multiple bank users had variation were attractiveness, branch location, ATM service, financial benefits and secure feeling. Multiple-bankers appear to place significantly more importance to all these factors. Female customers engage in multiple banking significantly more than their male counterparts. The implications of the findings were discussed and opportunities for future research were provided.

De Haas et al (2007) examined what determines customers' bank choice by considering transition countries. Using a new data set based on the recent EBRD Banking Environment and Performance Survey (BEPS), which was conducted in 2005 for 220 banks in 20 transition countries. The study reveals that bank characteristics such as ownership and size are important determinants of bank customer focus.

### ***Convenient location***

In a study by Hinson et al. (2009), the importance of bank selection criteria in Ghana was investigated. Data were collected from 2000 customers of 22 retail banks in Ghana. The study found that that proximity is the most important factor from customers' view and recommendation by friends (word of mouth marketing) is least important factor.

In Ethiopia Goiteom W/mariam (2011) examined the significance of bank selection criteria and how customers rank the factors based on their importance level to patronize banks and banking services. The study also analyses gender differences in the relative importance of choice criteria in respect of selecting a bank. He used both quantitative and qualitative methodology, using responses given by 201 customers in Addis Ababa city from different occupation (students, employees and businessmen). He used non-probability convenience sampling and data was factor analyzed to reduce the number of total variables in to manageable way. The study found that the most two important bank selection criteria for customers are “convenience” and “service provision” for the entire customers while it is “bank’s image” as the second most important factor for male customers. On the other hand, the least two important factors of bank selection for customers are “financial benefits/ technology”, “reputation” and “promotion strategy” whereas “attractiveness” for female customers.

Saleh et al (2013) studied the most important factor influencing customers in respect of selecting a bank by customer in Kelantan, Malaysia. In particular, it finds those criteria, which have become significantly important in motivating the choice. A quantitative methodology by using responses given by the respondents employed in the analysis. The finding shows that the Accessibility is a significant choice criterion, which includes ATM facility, convenient ATM locations, 24 hours availability of ATM services and speedy service. Other factors, which have also increased in importance, are the Reliability, Responsiveness, Value added service, Convenience and Assurance. Besides that, the five important criteria bank have

ATM facility, convenient ATM locations, 24hours availability of ATM services, internet banking facility, and lastly the bank have a several branches

### ***Technology***

From Nigeria, Aregbeyen (2011) analyzed the determinants of bank selection choices by customers. The study undertook a survey of 1750 respondents from six most metropolitan cities across the six geo-political zones. The responses on the importance of 25 different factors while choosing a deposit bank were sought and analyzed. The study found that the safety of funds and the availability of technology based service(s) are the major reasons for customers' choice of banks. While other factors received less rating, however, the study concluded that it does not in any way imply that they are not important at all. Significant gender and age differences in the factors selection/preferences were also observed.

Katircioglu et al (2011) investigated bank selection criteria of customers in Romania. A survey of 248 bank customers was undertaken in two main cities of Romania. The study found that the number of ATM has been found to be the most important selection criteria for bank customers from Romania. This study has also found that providing extensive ATM services, availability of telephone and internet banking, giving personal attention to customers, reputation and image of the banks, confidentiality of the bank for customer records, appearance of staff to be presentable and the number of branch offices around the country are all the most important factors that Romanian people give attention to. Bank selection criteria statistically differ across cities and income levels in Romania.

Rashid et al (2009) examined the impact of demographic disparities on the bank selection criteria applied by diversified customers of domestic Islamic banks in Bangladesh. They have run regression analysis after controlling for four demographic groupings such as Gender, Marital Status, Age and Educational Qualification. The beta scores were taken for identifying the influential factors chosen by the customers of Islamic Banks. Mostly, non-Islamic factors such as Corporal Efficiency, Core-Banking services, Confidence, etc. were given higher

weights by majority of the respondents. The report recommends introducing complete E-Banking solution, to increase advanced marketing efforts and to hire experienced human resources for better Islamic Banking activities in Bangladesh.

Siddique (2012), studied bank selection decision criteria employed by Indian expatriates in Sultanate of Oman. The paper argues that the commercial banks in Oman need to identify and develop suitable criteria on the basis of which potential Indian expatriates can decide their bank selection decision. A total of 200 Indian expatriates in the age group 18-60 formed the sample, as reflected by the demographic characteristics of Indian expatriates in Muscat, Sultanate of Oman. Principal Component Factor Analysis simplified the correlations between continuous variables. Non-probabilistic convenience sampling and Kaiser-Meyer-Olkin Measure of sample adequacy was used to make the variances clear. Findings revealed that majority of the Indian expatriates considered technology/reputation factor and convenience factor as very critical. Males and females appeared as distinct segments with different priorities determining their selection for a particular bank.

Idris et al (2011) conducted study on religious value as the main influencing factor to customers patronizing Islamic bank in Malaysia. The paper analyses the factors considered as important by academicians in public institutions of higher learning in selecting a particular bank. A sample of 250 Islamic bank customers in seven Malaysian Public Institutions of Higher Learning in the East Coast of Peninsular Malaysia was surveyed. The study revealed that religious value appears to be the most important factor. Other factors perceived to be important include ATM services, financial security, cost and benefit and attractiveness. It is to be concluded that, even though there are a lot of determining factors the religious value practiced by the consumers plays a vital role in influencing them to patronize Islamic banking. For future studies, it is recommended to add more samples from other categories of consumers from different parts of the country.

### ***Marketing and Promotion***

Krisnanto (2011) examined the customers' determinant factors of the bank selection in Indonesia. These factors depend on the intensity of marketing activities undertaken by the bank, reputation of the bank, credit availability, friendly staffs, appropriate interest rates, and location. Based on the results, the research concludes factors that determine in selecting a bank tend to be based on the secondary factors such as recommendation from friends, and advice from family members.

Aamir and Sadaf (2012) conducted study to identify the factors that influence the bank selection decision of the undergraduate students in Lahore, Pakistan. 10 factors were studied in this research to find out what are the most important factors that influence the student bank selection decision. Students of business graduate college/ Universities were selected for the purpose of study. 500 sample sizes were selected and data was collected from them through questionnaire. Study shows that factors that have significant affect on the bank selection decision of undergraduate students are Marketing, People influence, Bank personnel and Attractiveness of the bank's building.

### ***Financial Benefits Offered***

In a study conducted by Sanyang (2009) in Gambia on "bank strategic positioning and factors for bank selection" it was discovered that customers highly regard low service charge and availability of ATM services to be the most important criteria in patronizing banks. His findings also revealed that safety of funds, speed of transaction and convenient location are also treated as the most important factors in patronizing banking services in Gambia.

From the review of literature, it can be concluded that although such studies have contributed substantially to the literature on bank selection decision, their findings vary from study to study and may not be applicable to other countries like Ethiopia, due to differences in cultural, economic and legal environments. Also, there appear

to be no studies that examined the factors affecting customer preferences in banking services in Ethiopia with the exception of W/mariam (2011).

W/mariam has undertaken study on customer bank selection in Ethiopia using a convenience sampling procedure, sample size of 201 customers (*students in AAU 42%, employees of Ethiopian Revenues and Customs authority 36% and merchants in Merkato 22%*), descriptive analysis and factor loading analysis is used to analyze the data. The study did not cover customers of all banks in Addis Ababa which may have indicated different findings. Also, the study didn't include the most important variables for bank selection decision that were found in various studies undertaken in other countries. It is, therefore, not adequately known whether the customers of the Ethiopian banks choose a bank based on physical facility and image of the bank, personal characteristic, service provision, convenience location, technology, marketing and promotion, financial benefits offered and financial stability of the bank.

In this context, the purpose of this study is to investigate the determinants affecting customers' decision in choosing banking services in Addis Ababa City.

#### **2.4. Theoretical Framework**

The theoretical framework indicated below is derived from various studies undertaken in different countries on customers' bank selection decision criteria (*Rehman and Ahmed, 2008; Siddique, 2012; Hedayatnia, 2011; Tehulu and Wondmagegn, 2014; Rao and Sharma, 2010; Shaher et al., 2011; Mokhlis, 2009; De Haas et al, 2007; Hinson et al.,2009; W/mariam, 2011; Saleh et al, 2013; Aregbeyen,2011; Katircioglu et al, 2011; Rashid et al, 2009; Aamir and Sadaf, 2012; Krisnanto, 2011; Sanyang, 2009*).

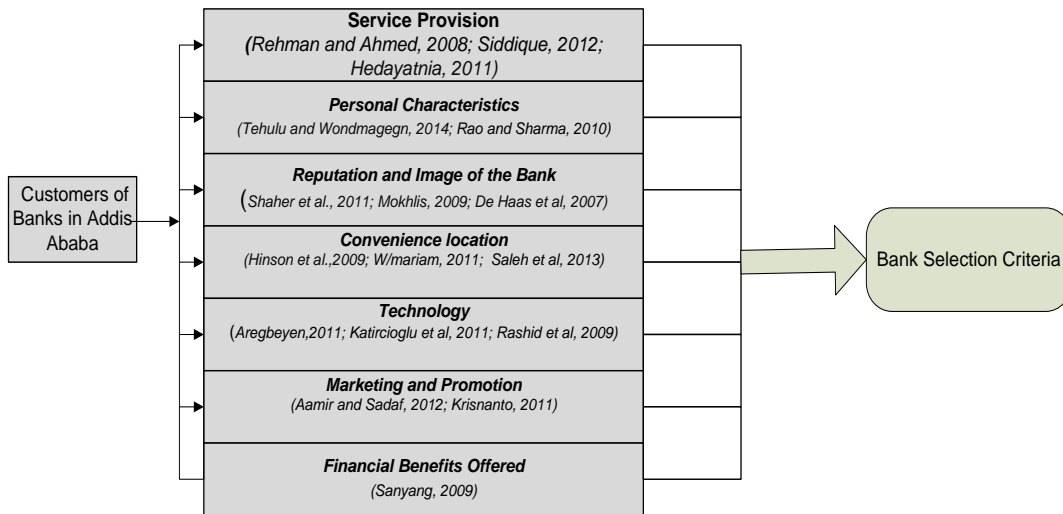


Figure 2: Theoretical Framework (Graphical Research Design)

## **CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY**

### **3.1. Introduction**

This chapter gives an outline of the research methodology used in the study. It describes the research design, definition of terms, sampling design and sample size, data and data sources, research instrument, data collection and data analysis.

### **3.2. Research Design**

The study adopts both quantitative and qualitative research approaches. Specifically, a survey research method is the basic research design through personally administered questionnaires including closed-ended questions. Research survey is undertaken both as descriptive survey and factor exploratory study designs.

### **3.3. Data and Data Sources**

Primary data was gathered from customers of banks operating in Addis Ababa using a self administered questionnaire.

### **3.4. Sampling Design and Sample size**

#### **3.4.1. Sampling Method**

The sampling frame for this study was customers of the major seven commercial banks in Addis Ababa city. The banks selected for the survey include one public bank (Commercial Bank of Ethiopia) and six major private banks (Dashen Bank, Awash Bank, Wegagen Bank, United Bank, Abyssinia Bank, and Nib Bank) in Addis Ababa city. The six major private banks were selected by virtue of their relatively long year of establishment (more than ten years). They already put in place most of the criteria (variables) being tested for the survey questionnaire and they are the first largest six private banks in terms of deposit market share in the industry and customer base.

Convenience (non-probability) sampling was used due to the nature of the study and time constraint and most of previous studies used convenience sampling procedure.

### 3.4.2. Sample Size

As indicated by C.R. Kothari (2004), a formula developed by Cochran (1963) yields a representative sample size for populations that are large (where the population is at least 20,000). This formula was used to determine sample size for the study:

$$SS = \frac{z^2 pq}{e^2}$$

SS = Sample size

Z = Z-value A (e.g., 1.96 equals the desired confidence level, e.g., 95%) >>(1.96)

P = the estimated proportion of an attribute that is present in the population >> (50%)

q = 1-p >>(50%)

e = the desired level of precision >> ( $\pm 5\%$ )

Thus,

$$SS = \frac{1.96^2 \times 0.05 \times (1 - 0.05)}{0.05^2} = 385$$

A sample size of 385 was used for the study.

The number of sample from each bank was determined based on proportion of total customers each bank has throughout the country. Considering that Commercial Bank of Ethiopia (CBE) has more than 10.2 million customers, who are about 2.7 times the aggregate of the six private banks, a fixed number of 30% (115 Questionnaire) are distributed to customers of CBE. The remaining 269 questionnaires (70% total) were distributed to the major six commercial banks based on proportion of total customers they have.

### 3.5. Research Instrument

To achieve the purpose of the study, a structured questionnaire was prepared for use in the survey. Survey questions for the questionnaire was gathered from various studies and from the relevant literature (*Rehman and Ahmed, 2008; Siddique, 2012; Hedayatnia, 2011; Tehulu and Wondmagegn, 2014; Rao and Sharma, 2010; Shafer et al., 2011; Mokhlis, 2009; De Haas et al, 2007; Hinson et al.,2009; W/mariam, 2011; Saleh et al, 2013; Aregbeyen,2011; Katircioglu et al, 2011; Rashid et al, 2009; (Aamir and Sadaf, 2012; Krisnanto, 2011; Sanyang, 2009)*). Survey questions were revised and adopted to the Ethiopian banking context.

The questionnaire was divided into three sections. Part I of the questionnaire asked respondents to obtain their personal background, questions regarding their gender, age, occupation, level of income and so forth.

Part II of the questionnaire was designed to generate data concerning the banking behavior of respondents. The respondents were asked whether or not they were satisfied with current service level of their bank, the length of time that customers have been with their banks, the types of the product/services they used most of the times, the frequency in which they visit banks and so forth.

In part III of the questionnaire, respondents were asked to rate the relative importance of various banks attributes when choosing which commercial banks to patronize. Their responses to the questionnaire were measured on a four point Likert-type scale of importance ranging from 1 (not important at all) to 4 (most important).

To determine the probable usefulness of the questionnaire and whether further revision was needed prior to conducting the survey, 20 questionnaires were pilot tested. The subjects were asked if they have any problems understanding the questionnaire or have specific comments regarding the questionnaire. The subjects were encouraged to be very free with their responses, make suggestions for improvement and delineate any difficulties they found.

After each questionnaire was completed, each subject was asked what he/she meant in checking various answers. Comments were solicited on the clarity of the questions and what changes should be done in order to make the questions simpler. These respondents have also given their comments on understanding the instructions about the scaling and the time taken to answer the questions. The test found no serious problems and minor amendments were made to the survey questions based on the verbal feedback received from the interview.

### **3.6. Data Collection**

The primary data for the study was collected through self-administered questionnaire from the customers of the selected seven major commercial banks (*Commercial Bank of Ethiopia, Dashen Bank, Awash Bank, Wegagen Bank, United Bank, Abyssinia Bank, and Nib Bank*) in Addis Ababa city.

Questionnaires were distributed to bank customers at the seven banks through staff and managers of these banks. Respondents chosen were at the discretion of branch manager and staff.

From a total of 385 questionnaires distributed, 338 were returned, out of which 311 were deemed usable (valid and completed), thereby yielding a response rate of about 81 percent. Such a response rate is considered sufficient for statistical reliability and generalizability (Safiek Mokhlis, 2009) and most satisfactory especially when compared with earlier research works on bank selection decisions (Apena Hedayatnia, 2011; Hafeez Ur Rehman and Saima Ahmed, 2008)

### **3.7. Data Analysis**

The data gathered through the survey were analyzed using descriptive statistics to identify respondents' profile and their banking behavior. Also exploratory factor analysis technique was performed on 36 bank selection criteria items to reduce the variables to a manageable number of constructs and to investigate relationships among major interval scaled questions concerning reasons for choosing a bank. Factor analysis is designed to simplify the correlation matrix and reveal a small

number of factors which can explain the correlation. Such analysis is useful in gaining understanding on the main dimensions that underlie the observed sets of items (Hair, Black, Babin, Anderson & Tatham, 2005).

Following the extraction method, when the extraction suggests that there are two or more factors, Varimax-rotated factor analysis was therefore performed on the constituent items representing the different constructs to validate empirically the theoretical structure of the scale. Factoring ceased when all Eigen values of greater than one were obtained and when a set of factors explained a large percentage of the total variance was achieved. Bank selection motivational items with extraction loadings of greater than 0.4 were retained to load on factors identified. An accepted method of interpretation of factor loadings is to regard as significant any variable with a loading of 0.4 or greater as associated with the appropriate factor (Hair et al. 2005).

Finally “one-sample t-test” was run on identified bank selection factors and motivational items in order to test the significance of these items in bank selection decision by respondent’s perception. The level of significance for this study was predetermined to be 5%.

The data was organized, summarized and analyzed using SPSS (Statistical Package for the Social Sciences) version 20 for Windows. SPSS was used to compute simple descriptive data and to the advanced statistical procedures of factor analysis.

## **CHAPTER FOUR: DATA ANALYSIS AND DISCUSSION**

This chapter gives an overview of the data analysis results. First, descriptive analysis of customers profile and their banking behavior is presented. The next part gives an overview the outcomes of the factor analysis. After the underlying factors are known, one sample t-test on these factors is conducted to compare the importance level for these different bank selection factors and the thirty six motivational items to determine its level of significance by customers' perception.

The results of the analysis highlights research questions and hypotheses constructed. It also serves to determine the factors considered significant in bank selection process by customers' perception.

### **4.1. Descriptive Analysis**

This section presents the descriptive analysis of customers' responses to each item in the survey questionnaire in which section one explores general information about respondents' demographic and socioeconomic characteristics and section two that deals with customers' banking behavior.

#### **4.1.1. Customers' Profile**

The demographic and socioeconomic characteristics of the respondents are shown in Table 1. The respondents profile gives an indication to the sampled respondents' gender, age group, marital status, educational qualification, income level, and occupation type. From the table, majority (67.8 percent) of the respondents are male while female respondents accounted for the remaining 32.2 percent.

In terms of age grouping, those between 20-30 years (53.4 percent) constitute the majority of respondents followed by those between 31-40 years; 41-50 years; below 20 years; and above 50 years with about 34.7 percent; 9.3 percent; 1.9 percent and 0.6 percent, respectively. The result indicates that the youth age segment is relatively the higher user of banking service as compared to the aged

group. This might be attributed to the Ethiopian population age structure in which young segment constitute the larger part of the population.

The majority of respondents (53.4 percent) indicate to be single while married respondents constitute about 43.4 percent. The relatively higher respondents might be attributed to the fact that the highest 53.4 percent of respondents constitute a group between 20-30 years. 3.2 percent of respondents are divorced.

Customers of Ethiopian banks seem to be educated as about 94.2 percent of respondents have above some college courses. Majority of the respondents has first degree (67.8 percent). Next are those with second degree & above with about 15.8 percent representation. Those with college diploma and high school have about 10.6 percent and 3.9 percent representations, respectively.

The highest proportion of the respondents (about 55.3 percent) earns average monthly income of between Birr 3,001 – Birr 8,000. Average monthly income of between Birr 8,001 – Birr 13,000 is earned by about 19.3 percent of the respondents. About 12.5 percent of the respondents indicate to earn between Birr 13,001 – Birr 18,000 average monthly incomes. A relatively low income group respondent constitutes about 10.9 percent of the respondents and earns below Birr 3,000. Lastly, the relatively highest income group among the respondents constitutes 1.9 percent of the total respondents and earns above Birr 18,000 average monthly income.

The distribution of the respondents by occupation type shows that majority of about 57.9 percent are employed in private organizations. Respondents employed by government amount to about 24.4 percent while the self employed respondents account for the balance of 14.8 percent. Students and those engaged in other works account for the total of 2.9 percent respondents.

Table 1: Results of Profile Data of the Respondents

<b>Variables</b>	<b>Categories</b>	<b>Frequency</b>	<b>Percent</b>	<b>Valid %</b>	<b>Cumulative %</b>
<b>Gender</b>	Male	211	67.8	67.8	67.8
	Female	100	32.2	32.2	100.0
	Total	311	100.0	100.0	
<b>Age</b>	below 20 years	6	1.9	1.9	1.9
	20-30 years	166	53.4	53.4	55.3
	31-40 years	108	34.7	34.7	90.0
	41-50 years	29	9.3	9.3	99.4
	above 50 years	2	0.6	.6	100.0
	Total	311	100.0	100.0	
<b>Marital Status</b>	single	166	53.4	53.4	53.4
	married	135	43.4	43.4	96.8
	divorced	10	3.2	3.2	100.0
	Total	311	100.0	100.0	
<b>Education level</b>	Below high school	2	.6	.6	.6
	High school	12	3.9	3.9	4.5
	Some College courses	4	1.3	1.3	5.8
	College Diploma	33	10.6	10.6	16.4
	First Degree	211	67.8	67.8	84.2
	Second degree & above	49	15.8	15.8	100.0
	Total	311	100.0	100.0	
<b>Monthly Income</b>	Below Birr 3,000	34	10.9	10.9	10.9
	Birr 3,001 – 8,000	172	55.3	55.3	66.2
	Birr 8,001 – 13,000	60	19.3	19.3	85.5
	Birr 13,001 – 18,000	39	12.5	12.5	98.1
	> Birr 18,000	6	1.9	1.9	100.0
	Total	311	100.0	100.0	
<b>Occupation type</b>	Self Employed	46	14.8	14.8	14.8
	Private Organizations Employed	180	57.9	57.9	72.7
	Government Employed	76	24.4	24.4	97.1
	Student	6	1.9	1.9	99.0
	Others	3	1.0	1.0	100.0
	Total	311	100.0	100.0	

Source: Computations from the field survey data, 2015

#### 4.1.2. Customers Usage of Banking Service

Table 2 summarizes type of banking service used most of the time by respondents. Out of 311 respondents, the majority 66.2 percent of respondents indicate using deposit service most of the time with their respective banks, another 26.7 percent of respondents use ATM service most of the time while another 6.4 percent use local money transfer services. The relatively higher use of deposit service and ATMs might be attributed to the fact that the majority 82.3 percent of the respondents were employed by private organization and government organization and, their demand for credit facility and international banking services is expected to be naturally relatively low as compared to self employed and/or business people.

Table 2: Type Of Bank Service Used By Customers Most Of The Time

Variable	Categories	Frequency	Percent	Valid %	Cumulative %
Which bank service do you use most the time?	Deposit service	206	66.2	66.2	66.2
	Credit / Loan service	1	0.3	0.3	66.6
	International banking services	1	0.3	0.3	66.9
	Local Money transfer services	20	6.4	6.4	73.3
	ATM services	83	26.7	26.7	100.0
	Total	311	100.0	100.0	

Source: Computations from the field survey data, 2015

#### 4.1.3. Customers Satisfaction with Banking Service

Table 3 presents respondents' satisfaction level with respect to the banking services provided by their existing main bank. Majority of respondents' are satisfied with banking service provided, as 66.9 percent feel to be satisfied with the banking services provided by their existing main bank. In fact, 13.2 percent of respondents indicate to feel very satisfied with the banking service offered. However, a sizable

18 percent of respondents feel dissatisfied with their existing main bank and 1.9 percent feels very dissatisfied.

Table 3: Respondents Degree of Satisfaction with the Bank Services

Variable	Categories	Satisfaction level on their main bank			
		Frequency	Percent	Valid %	Cumulative %
What is your level of satisfaction with respect to the banking services provided by your existing main bank?	Very satisfied	41	13.2	13.2	13.2
	Satisfied	208	66.9	66.9	80.1
	Dissatisfied	56	18.0	18.0	98.1
	Very dissatisfied	6	1.9	1.9	100.0
	Total	311	100.0	100.0	

Source: Computations from the field survey data, 2015

Distribution of respondents' satisfaction level by income and education level is presented in Table 4. From the table, it can be seen that the majority of 70.7 percent of respondents that feel very satisfied with the banking services provided by their existing main bank are in category who earn average monthly income of Birr 3,001 – Birr 8,000. Respondents in this category of income were 53.4 percent and 57.1 percent of total respondents that feel satisfied and dissatisfied with banking service. This category of income did not feel very dissatisfied with the banking service. 66.7 percent of respondents who feel very dissatisfied with the banking service are in monthly average income category of between Birr 8,001 – 13,000

Examining respondents' satisfaction level by their education status shows that 56.1 percent of respondents who feel satisfied with the banking service are in the category of those who have first degree. On the other hand, this category of respondents are also the largest 66.7 percent of respondents who feel very dissatisfied with the banking services provided by their existing main bank. From respondents who has the second degree and above, none of them feel very

satisfied with the banking services provided by their existing main bank while a significant number of 28 percent of them were in fact very dissatisfied.

Table 4: Distribution of Respondents' Satisfaction level by Income and Education Level

Monthly Income and Education level * Satisfaction level on their main bank Cross tabulation							
Variables	Categories		Satisfaction level on their main bank				Total
			Very satisfied	Satisfied	Dissatisfied	Very dissatisfied	
Monthly Income	Below Birr 3,000	Count	8	14	10	2	34
		% within Satisfaction level	19.5%	6.7%	17.9%	33.3%	10.9%
	Birr 3,001 – 8,000	% of Total	2.6%	4.5%	3.2%	0.6%	10.9%
		Count	29	111	32	0	172
	Birr 8,001 – 13,000	% within Satisfaction level	70.7%	53.4%	57.1%	0.0%	55.3%
		% of Total	9.3%	35.7%	10.3%	0.0%	55.3%
	Birr 13,001 – 18,000	Count	4	43	9	4	60
		% within Satisfaction level	9.8%	20.7%	16.1%	66.7%	19.3%
	> Birr 18,000	% of Total	1.3%	13.8%	2.9%	1.3%	19.3%
		Count	0	36	3	0	39
	Total	% within Satisfaction level	0.0%	17.3%	5.4%	0.0%	12.5%
		% of Total	0.0%	11.6%	1.0%	0.0%	12.5%
	Total	Count	0	4	2	0	6
		% within Satisfaction level	0.0%	1.9%	3.6%	0.0%	1.9%
Total	% of Total	0.0%	1.3%	0.6%	0.0%	1.9%	
	Count	41	208	56	6	311	
Total	% within Satisfaction level	100.0%	100.0%	100.0%	100.0%	100.0%	
	% of Total	13.2%	66.9%	18.0%	1.9%	100.0%	
Education level	Below high school	Count	2	0	0	0	2
		% within Satisfaction level	4.9%	0.0%	0.0%	0.0%	0.6%
	High school	% of Total	0.6%	0.0%	0.0%	0.0%	0.6%
		Count	8	4	0	0	12
	Some College courses	% within Satisfaction level	19.5%	1.9%	0.0%	0.0%	3.9%
		% of Total	2.6%	1.3%	0.0%	0.0%	3.9%
	College Diploma	Count	0	2	2	0	4
		% within Satisfaction level	0.0%	1.0%	3.6%	0.0%	1.3%
	First Degree	% of Total	0.0%	0.6%	0.6%	0.0%	1.3%
		Count	8	19	4	2	33
	Second degree & above	% within Satisfaction level	19.5%	9.1%	7.1%	33.3%	10.6%
		% of Total	2.6%	6.1%	1.3%	0.6%	10.6%
	Total	Count	23	148	36	4	211
		% within Satisfaction level	56.1%	71.2%	64.3%	66.7%	67.8%
Total	% of Total	7.4%	47.6%	11.6%	1.3%	67.8%	
	Count	0	35	14	0	49	
Total	% within Satisfaction level	0.0%	16.8%	25.0%	0.0%	15.8%	
	% of Total	0.0%	11.3%	4.5%	0.0%	15.8%	
Total	Count	41	208	56	6	311	
	% within Satisfaction level	100.0%	100.0%	100.0%	100.0%	100.0%	
Total	% of Total	13.2%	66.9%	18.0%	1.9%	100.0%	

Source: Computations from the field survey data, 2015

#### 4.1.4. Customers Loyalty Status

The loyalty status that respondents have for their Main Bank is presented in table 5. The majority of 54.7 percent respondents can be regarded as having a medium

loyalty status as they indicate to “favor their main bank while they sometimes use other banks also”. 23.2 percent of respondents do not have loyalty for any bank as they want excellent services each time they visit a bank and they show no loyalty to any bank. The remaining 22.2 percent of respondents use their main bank all the time and can be considered as having absolute loyalty for their main bank?

Table 5: Respondents Loyalty Status for their Main Bank

Variable	Categories	Frequency	Percent	Valid %	Cumulative %
How do you evaluate the loyalty status that you have for your main bank?	I show no loyalty to any bank. I want excellent services each time I visit a bank	72	23.2	23.2	23.2
	I favor my main bank while I sometimes use other banks	170	54.7	54.7	77.8
	I use my main bank all the time	69	22.2	22.2	100.0
	Total	311	100.0	100.0	

Source: Computations from the field survey data, 2015

#### 4.1.5. Banking Behavior of Customers

Table 6 present respondents banking behavior in terms of number of banks used, bank visit frequency and years of banking. It can be seen from the table that majority of bank customers in Addis Ababa seems to have a banking behavior of using multiple banks as majority 62.4 percent of respondents indicate to be a multiple bank users while 37.6 percent of respondents use only a single bank for their banking service need.

Regarding bank visit frequency, majority of 36 percent of respondents visit a bank branch per week while 26.4 percent of respondents visit bank branches once in a month. 17.7 percent of respondents visit a bank branch occasionally, 11.3 percent every two weeks and 8.7 percent visit a bank on daily basis.

Table 6: Respondents' Banking Behavior

Variables	Categories	Frequency	Percent	Valid %	Cumulative %
<b>No of banks used</b>	Single bank user	117	37.6	37.6	37.6
	Multiple bank user	194	62.4	62.4	100.0
	Total	311	100.0	100.0	
<b>Bank visit frequency</b>	Daily	27	8.7	8.7	8.7
	Weekly	112	36.0	36.0	44.7
	Every two weeks	35	11.3	11.3	55.9
	Once in a month	82	26.4	26.4	82.3
	Occasionally	55	17.7	17.7	100.0
	Total	311	100.0	100.0	
<b>Years of banking</b>	Less than one year	11	3.5	3.5	3.5
	1 – 2 Years	49	15.8	15.8	19.3
	2 years and above	251	80.7	80.7	100.0
	Total	311	100.0	100.0	

Source: Computations from the field survey data, 2015

## 4.2. Factor Analysis

Factor analysis is a statistical technique that involves minimizing a wide range of variables to a smaller range of factors. The key concept of factor analysis is that multiple observed variables have similar patterns of responses because they are all associated with a latent (i.e. not directly measured) variable.

Factor analysis tells which variables belong together, and which seem to have the same meaning (Field, 2005; Emory and Cooper, 2001). It is a statistical approach that can be used to analyze interrelationships among a large number of variables and to explain these variables in terms of their common underlying dimensions (factors). This analysis is a data reduction statistical technique and is designed to simplify the correlation matrix that reveals a small number of factors which can explain the correlation. Correlation coefficients vary from sample to sample, much

more so in small samples than in large. Hence, the reliability of factor analysis is as well dependent on sample size (Hair et al., 2005).

As noted by Vaus (2002), such factors are not single measurable entities but are constructs of a number of other directly observable variables. By factor analysis, these observable variables can be extracted into factors, each reflecting an underlying property, which is commonly shared by a certain group of variables (Vaus, 2002). It also helps to validate that respondents are able to distinguish between the various variables despite the similarity of the items to be questioned.

Factor analysis can be rotated and unrotated. A number of techniques are available for rotating factor analysis. Out of all the techniques available, a Varimax technique is used in this study.

### **4.3. Scale Reliability and Validity of Instruments**

#### **4.3.1. Scale Reliability**

The value of the Cronbach's alpha (= 0.886) indicates that the survey instrument's items are statistically reliable; thus the items measure a single unidimensional latent construct.

Table 7: Reliability of Total Items

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.860	.886	36

#### **4.3.2. Validity of Instruments**

The structural validity of the measurement tools is examined to confirm the suitability of the data for factor analysis; the Kaiser-Meyer-Olkin (KMO) Measure and Barlett's Test of Sphericity are used. The requirement is that the KMO measure has to be at least 0.6 and Barlett's test must be significant (Corder, 2009). The KMO measure is found to be 0.759, which is greater than 0.6 and Barlett's test of Sphericity's significance is 0.000, which is less than 0.05 ( $p < 0.05$ ), and is

therefore significant. Hence, the result confirms that factor analysis is appropriate for this study.

**Table 8: KMO and Bartlett’s Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.759
	Approx. Chi-Square	5410.686
Bartlett's Test of Sphericity	df	630
	Sig.	.000

#### 4.4. Factor Formulation

After assessing the data set for factor analysis suitability, Principal Components Analysis (PCA) is conducted in order to extract the data, to determine the factor underlying the relationship between a numbers of variables (Appendix 1). It can be seen from Appendix 1 that ‘total variance explained’ suggests that there are eleven factors that cumulatively account for 69.8% of the variance of the relationship between variables based on the Eigen value greater than one.

The total variance table was followed by a screeplot (Figure 3 - Appendix), which shows the Eigen values against the factor number. The screeplot reveals that the first five factors account for significant variance, whereas the successive ones account for a smaller amount of total variance. Following the screeplot analysis, factor loadings evaluation is carried out. The factor loadings are the correlation coefficients between the variables and factors.

In the table of communalities (Appendix - 2), the figures under the extraction column indicate loadings, and they are all positive figures. Hence, it implies that the variables have positive relationships with the rest of the factors. Ease of obtaining loans/credit, Bank employees’ ability and competence and, lower commission and service charges have the highest loadings, 0.746, 0.726 and 0.695 respectively. The result implies that these were the first three most important variables forming the factors that customers consider when choosing banks.

Following the extraction method, Varimax- rotated factor analysis is conducted when the extraction suggests that there are two or more factors. The rotation of

factors help to understand how the factors initially extracted varied from one another, and provides a clear picture of which variable loaded on which factor. Annex -3 shows the rotated component matrix, including the factors that influenced the customers' choice of banks.

Annex-3 shows the factor analysis of 36 bank selection evaluative criteria. A total number of eleven factors are identified on the basis of Eigen values being greater than one rule (annex -3). However, only two or one variables loaded on five factors ranging from factor-eight to factor-eleven. Thus, the 36 bank selection criteria items are made to load on fixed number of seven factors with Eigen value greater than 1.41, to ensure that at least three variables load on each factor.

Table - 11 also presents the computed mean for the 36 bank attributes within each factor to determine the degree of significance of those attributes to customers in their retail bank selection process. Willingness of employees to help customers, bank employees' knowledge and courteousness and electronically networked bank branches are the first three preferred bank selection variables with a mean of 3.78, 3.69 and 3.67, respectively. Size of the bank, lower interest rates on loans and bank recommended by friends or relatives has the lowest mean value of 2.96, 2.96, and 2.87, respectively.

With the factor analysis seven different factors were extracted from the 36 statements using principle components analysis with Varimax rotation. These factors are corresponding for an important part with the factors of choice criteria mentioned in the literature review. For interpretation purposes factor loadings below 0.4 were removed. An accepted method of interpretation of factor loadings is to regard as significant any variable with a loading of 0.4 or greater as associated with the appropriate factor (Hair et al. 2005). From the 36 variables, one variable (Bank's reputation and its image) is removed because it does not correlate enough with any of the factors.

The Following section presents discussion of all seven factors. The first factor was considered to be the most important for bank selection, with the seven factors being the least important.

#### **4.5. Description of Bank Selection Factors**

The analysis yields a seven principal components solution, which together explain more than half of the variance observed in the variables (57.44 per cent), which satisfies the percentage of variance criterion for social science research (Hair et al. 1998). The factor groups of bank selection items, their factor loadings, Eigen values of each factor and per cent of variance explained are presented in Table 9.

**Factor 1: Personal Characteristics.** Factor one is the most important factor and accounted for the highest 22.4% of total variance. It identifies dimension based on “Personal Characteristics”. The variables that fall under the factor of Personal Characteristics are bank employees’ ability and competence (loading= 0.768), willingness of employees to help customers and provide prompt service (loading = 0.757), respect and consideration shown to customers by bank employees (loadings= 0.749), Bank staffs give adequate explanation of services/products (loading= 0.727), friendly/pleasing manners of bank employees (loading= 0.711), caring and individualized attention given to customers by bank employees (loading=0.674), and bank employees’ knowledge and courteousness to inspire trust and confidence (loading = 0 .593). These variables have positive correlations with each other. This factor, including its variables, has significant influence on bank selection decisions, as customers emphasize on the human element of the service. Service marketing discipline indicates that employees of service organization are part of the service a firm offers for its customers. From the mean value column, it can also be observed that “Responsiveness” defined as willingness of employees to help customers and provide prompt service (mean=3.78) and “Assurance” defined as bank employees’ knowledge and courteousness to inspire trust and confidence (mean=3.69) have the two highest mean values of this factor. This implies that the customers give primary importance to these attributes when choosing a bank.

**Factor 2: Financial Benefits.** There are six loadings in this factor. The factor 'Financial Benefits' is the second most significant factor, and accounted for 9.2% of the variations. The variables under this factor are ease of obtaining loans/credit (loading=0.725), higher interest payment on savings deposits (loading=0.725), ease of obtaining foreign currency (loading=0.684), availability of parking space in the branch (loading=0.558), lower commission and service charges relative to other banks (loading=0.520), and lower interest rates on loans relative to other banks (loading= 0.496). The most significant attributes within this factor, as shown by the mean value, are ease of obtaining foreign currency (mean= 3.29), ease of obtaining loans/credit (mean= 3.26) and higher interest payment on savings deposits (mean=3.15).

**Factor 3: Physical Evidence and Image.** Physical evidence and image is the third important factor that contains some attributes relating to physical evidence of the service, which is one of the elements of service marketing mix. There are six significant variables in this factor, with a total variance of 7.56%. The factor loadings of 0.765, 0.694, 0.576, 0.564, 0.490 and 0.420 represent interior layout of the branch, attractive counter partition in the branch, employees dress & appearance, attractive external and/or internal appearance of bank, size of the bank and modern looking (Pleasant bank atmosphere and Interior comfort), respectively. Physical evidence of the service is important to represent banks' service offering as the service offered is intangible for customers. Within this factor, modern looking/pleasant bank atmosphere and interior comfort (mean = 3.30) and attractive external and/or internal appearance of bank (mean= 3.23) are the most important determinant attribute, whereas size of the bank (mean= 2.96) is the least important attribute in the bank selection process.

**Factor 4: E-Banking Technology.** The next important factor is labeled "e-banking technology", and carries a total variance of 5.3%. Its variables are availability of one window banking (loading = 0.709), ATMs of the bank have connectivity to other bank's ATMs (loading= 0.686), availability of ATMs in several locations (loading= 0.685), electronically networked branches (loading= 0.429) and

availability of internet banking facility (loading= 0.404). Within this factor, the most important determinant attribute is electronically networked branches (mean= 3.67) and availability of ATMs (mean= 3.60) while availability of internet banking is the least important attribute considered by customers (mean= 3.25).

**Factor 5: Service Provision.** This factor explains 4.97% of total variance within attributes. It identifies a dimension based on fast response to customer complaint (loading= .690), Confidentiality in keeping customers' records (loading= 0.571), Quick and prompt service in the branch (loading= 0.515), confidence in the branch manager of the bank (loading= 0.441), minimum waiting time (loading= 0.435), and variety of banking services to customers (loading= 0.426). Based on the mean value of bank selection attributes, minimum waiting time (mean= 3.66) and, quick and prompt service in the branch (mean= 0.3.65) are the most determinant attributes in bank selection decision while confidence in the branch manager of the bank (mean= 3.38) is the least determinant attribute in bank selection decision from service provision dimension.

**Factor 6: Marketing and Promotion.** This factor contains three items that is related to bank recommended by friends or relatives (loading=0.710), interesting and informative advertising (loading=0.454), reception shown at the branch (loading=0.433). This factor may be labeled "Marketing and Promotion". The factor accounts for 4.018 percent of the total variance in bank selection attributes. The most significant attributes within this factor, as shown by the mean value, is reception shown at the branch (mean= 3.41) while recommendation by friends or relatives (mean= 2.87) has least significance in making bank section decision from this dimension. Generally, bank selection attributes based on marketing and promotion has low significance for customers while making bank selection decision, as evidenced in average mean of this attributes.

#### **Factor 7: Convenient Location**

The last factor is convenience location of bank branches, which carries a total variance of 3.936 percent between bank selection attributes. Its variables were

proximity of bank branch location to home/work place (loading= 0.758) and availability of several branches (loading=0.549). Within this factor, the most important determinant attribute is availability of several branches (mean= 3.43).

To sum up, all of the factor loadings is to regard as significant because the entire variable with a greater than 0.4 loadings as associated with the appropriate factor. All the loading in research are positive because loadings > 0.4. It is worth mentioning that among the seven factors discussed above, the first three factors were characterized with higher Eigen values and higher percentage of total variance among bank selection attributes than the other four factors, which implies that these three factors explain much of the variance in the 36 bank selection attributes than e-banking technology, service provision, marketing and promotion, convenience location. Reputation of the bank is not included in any one of the components (factors) because of lowest score in its loading factor. This implies that customers do not choose banks and banking services depending on reputation of the bank, rather they choose banks based on attributes that is discerned when they personally experience banks and its service. Finally, the criteria listed in annex one and three include only those which had factor loadings of 0.4 and above. Results are summarized in table 9 based on their factor loadings scored.

Table 9: Results of Factor Analysis

<b>Factors and Items</b>	<b>Factor Loadings</b>	<b>Mean</b>	<b>Eigen Values</b>	<b>% of Variance</b>
<b>Factor 1: Personal Characteristics</b>			8.080	22.444
Bank employees' ability and competence	.768	3.62		
Willingness of employees to help customers and provide prompt service	.757	3.78		
Respect and consideration shown to customers by bank employees	.749	3.66		
Bank staffs give adequate explanation of services and products	.727	3.65		
Friendly / pleasing manners of bank employees	.711	3.65		
Caring and individualized attention given to customers by bank employees	.674	3.62		
Bank employees' knowledge and courteousness to inspire trust and confidence	.593	3.69		
<b>Factor 2: Financial Benefits</b>			3.316	9.210
Ease of obtaining loans / credit	.725	3.26		

<b>Factors and Items</b>	<b>Factor Loadings</b>	<b>Mean</b>	<b>Eigen Values</b>	<b>% of Variance</b>
Higher interest payment on savings deposits	.722	3.15		
Ease of obtaining Foreign currency	.684	3.29		
Availability of parking space in the branch	.558	3.11		
Bank provides Lower commission and service charges relative to other banks	.520	3.11		
Bank charges lower interest rates on loans relative to other banks	.496	2.96		
<b>Factor 3: Physical facility and Image of The bank</b>			2.721	7.559
Interior layout of the branch	.765	3.10		
attractive counter partition in the branch	.694	3.12		
Employees dress & appearance	.576	3.20		
Attractive external and/or internal appearance of bank	.564	3.23		
Size of the bank	.490	2.96		
Modern looking (Pleasant bank atmosphere and Interior comfort)	.420	3.30		
<b>Factor 4: E-Banking Technology</b>			1.909	5.304
Availability of one window banking	.709	3.45		
ATMs of the bank have connectivity to other bank's ATMs	.686	3.52		
Availability of ATMs in several locations	.685	3.60		
Bank branches are networked electronically and accessibility of my account from any branch of the bank	.429	3.67		
Availability of Internet banking facility	.404	3.25		
<b>Factor 5: Service Provision</b>			1.791	4.976
Fast response to customer complaint	.690	3.61		
Confidentiality in keeping customers' records	.571	3.60		
Quick and prompt service in the branch	.515	3.65		
Confidence in the branch manager of the bank	.441	3.38		
Minimum waiting time	.435	3.66		
Bank offers variety of banking services to customers	.426	3.56		
<b>Factor 6: Marketing and Promotion</b>			1.447	4.018
The bank recommended by friends or relatives	.710	2.87		
Interesting and informative advertising	.454	3.12		
Reception shown at the branch	.433	3.41		
<b>Factor 7: Convenience Location</b>			1.417	3.936
Proximity of bank branch location to home / work place etc.	.758	3.42		
Availability of several branches	.549	3.43		

Source: Computations from the field survey data, 2015

#### **4.6. Ranking Importance of Bank Choice Criteria Based on Factors**

Table 10 summarizes the respondents' ranking of the importance of choice criteria on factors in their choice of banks and table 11, in sub section 4.7, presents respondents ranking of the importance of the 36 bank selection motivational items in bank selection decision. From the table 10, among the seven factors discussed

above, the first three factors are characterized with higher mean importance ratings than the other four factors, which implies that customers place greater importance on personal characteristics (mean=3.621), service provision (mean=3.578) and e-banking technology (mean= 3.561) than convenient location, financial benefits offered, marketing and promotion, physical facility and image of the bank.

“Personal characteristics” (mean=3.621) comes first in terms of relative significance considered by customers. In addition, there are some similarities between the outcomes of this study and those of previous studies. For example, the selection of “Personal Characteristics” as the most important factor in bank selection decision by customers is consistent with the results by Rao and Sharma (2010), Tehulu and Wondmagegn (2014). On the contrary, in the study conducted by Goiteom W/mariam (2011), this factor was ranked as third important factor for the selection of banking services by the customers. On the strategic implication, it is clear that staff members have significant role to play in influencing bank selection decisions of the customers, which is evident from the higher mean of the factor and this is found to be a factor linked with the performance bank employees. Hence, banks have to take significant efforts in selecting, training and motivating the staff members to perform to the satisfaction of customers.

“Service provision” (mean=3.578) comes second in terms of relative significance considered by customers while making bank selection decision to patronize banks and banking services. The importance of this criterion was evidenced in a number of studies conducted by Rehman and Ahmed (2008), Siddique (2012), Hedayatnia (2011), Safakli (2007) and Goiteom W/mariam (2011). This factor outlines customers’ desire for having fast response to customer complaint, confidentiality in keeping customers’ records, quick and prompt service in the branch, confidence in the branch manager of the bank, minimum waiting time and, availability of variety of banking services to customers. The managerial implication of this finding is that banks need to ensure a higher level of competence and professionalism in terms of faster and wider delivery of services. Another variable that fell under this factor

is customers' preference to deal with banks that keep their personal record confidential and banks in which they have confidence in the branch manager. This implies that banks have to put in place the necessary policy and procedures to ensure the privacy of customer information and as well as invest on branch manager leadership development program.

"E-banking Technology" (mean=3.56) is the third most important factor that constitute significant attraction in sampled respondents choices of banks. This factor is ranked as the first most important factor for the selection of banks in the study conducted by Aregbeyen (2011), Katircioglu et al (2011), Rashid et al (2009) Siddique (2012) and Idris et al (2011). From the result of this study and as well as previous research findings, it is evident that this factor presents customers preference for convenience banking which enables them to keep in touch with their money anywhere and anytime. Specifically, e-banking technology reflects customers' desire for availability of one window banking service for fast and efficient service delivery, availability of ATMs in several locations, connectivity of banks ATMs to other bank's ATMs for increased accessibility and electronically networked branches to access their account from any branch of the bank. Hence, banks have to work on this area to understand the needs of the customers and should invest more to improve their electronic banking service offerings.

"Convenient location" factor (mean=3.429) which involve proximity of bank branch location to home/work place and availability of several branches, came fourth in terms of relative importance. This factor came first in the study conducted by Goiteom W/mariam (2011) and Hinson et al. (2009) while Rehman and Ahmed (2008), Mokhlis et al (2009) found it as the second most important factors. The implication of this finding is that banks should increase emphasis in branch expansion strategy while giving a due attention for appropriate location of branches.

"Financial benefits offered" factor (mean= 3.157) is ranked fifth in terms of relative significance considered by customers while making bank selection decision. This factor are considered least important factor in the study conducted by Goiteom

W/mariam (2011). The relatively low significance consideration of this factor might be attributed to the constrained supply of funds in Ethiopian banking industry in the face of increasing demand for credit/loans and foreign currency.

“Marketing and promotion” factor (mean= 3.138) is considered the six factor in terms of relative importance in customers bank selection decision. This factor constitutes attributes that includes the bank recommended by friends or relatives, interesting and informative advertising and reception shown at the branch. This finding is consistent with previous study undertaken in which Goiteom W/mariam (2011) found it to be the fifth factor out of seven factors and Hinson et al. (2009) found it to have the least relative significance in customers’ bank selection decision.

The least important determinants in bank selection process for customers are “physical facility and image of the bank” factor (mean= 3.120). This implies that customers give a relative least significance for interior layout of the branch, attractive counter partition in the branch, employees dress & appearance, attractive external and/or internal appearance of bank and size of the bank. This finding is consistent to the study conducted by Goiteom W/mariam (2011) which found it the six factor out of the seven factor considered by customers. In contrary to this study, previous studies conducted in other countries considered this factor to have a relative significance in customers’ bank selection decision. For example, Shaher et al. (2011) ranked it to be the first most important factors out of the seven factors customers considered in bank selection decision process while Siddique (2012) and Ahmed et al (2008) ranked it the fourth important factor. In Ethiopian context, the managerial implication of this finding is that banks should rationalize their investment on physical facility and image of the bank as customers might not give that much significance in their bank selection decision.

Table 10: Ranking importance of bank selection criteria based on factors

Factor	N	Mean		Std. Deviation
	Statistic	Statistic	Std. Error	Statistic
Personal characteristics	311	3.6218	.02386	.42072
Service provision	311	3.5782	.02350	.41451
E-banking technology	311	3.5611	.02980	.52545
Convenient location	311	3.4293	.02843	.50143
Financial benefits offered	311	3.1572	.03063	.54019
Marketing and promotion	311	3.1383	.03148	.55519
Physical facility and image of the Bank	311	3.1209	.02803	.49440
Valid N (list wise)	311			

Source: Computations from the field survey data, 2015

#### 4.7. Ranking Importance of Bank Choice Criteria Based on Motivational Items

Table 11 below shows the respondents' ranking of the importance of 36 motivational items in their choice of banks. From the table, willingness of employees to help customers and provide prompt service is the most important motivational items. The other motivational items making the list of the ten most important motivational items of bank choice among the sampled respondents include, bank employees' knowledge and courteousness to inspire trust and confidence, electronically networked bank branches, respect and consideration shown to customers by bank employees, minimum waiting time, bank staffs give adequate explanation of services and products, quick and prompt service in the branch, friendly/pleasing manners of bank employees, bank's reputation, bank employees' ability and competence to perform the promised service dependably and accurately, caring and individualized attention given to customers by bank employees. The rest of the other motivational items received less rating. The least five motivational items respondents considered include; bank that provides lower commission and service charges relative to other banks, interior layout of the branch, size of the bank, bank charges lower interest rates on loans relative to other banks, the bank recommended by friends or relatives.

It is clear that staff members have significant role to play in influencing bank selection decisions of the customers, which is evident from the fact that seven out of top ten motivational items are found to be the items linked with the performance of the staff members. This finding is consistent with service marketing concept that considers *inseparability* of service from its providers. Kotler (2012) argues that a company must consider inseparability characteristics of service when designing marketing programs. Service inseparability refers to the fact that services cannot be separated from their providers, whether the providers are people or machines. If a service employee provides the service, then the employee becomes a part of the service. Because the customer is also present as the service is being produced, provider-customer interaction is a special feature of services marketing. Both the provider and the customer affect the service outcome (Kotler, 2012). Gilmore (2003) concludes that in such inseparability circumstance it may be difficult for the service providers to control the quality and consistency of the service, unless staffs have been trained to deal with such situations in a precise and effective manner.

The involvement of the customer in the production and delivery of the service means that banks must exercise care in what is being produced and how it is produced. Hence banks have to take significant efforts in selecting, training and motivating the staff members to perform to the satisfaction of customers. Banks should also give due attention to enhance the service provision.

Table 11: Ranking Importance of Bank Selection based on Motivational Items

Bank Selection Motivational Items	N	Mean		Std. Deviation	Rank
		Statistic	Std. Error		
Willingness of employees to help customers and provide prompt service	311	3.78	.028	.488	1
Bank employees' knowledge and courteousness to inspire trust and confidence	311	3.69	.034	.596	2
Bank branches are networked electronically and accessibility of my account from any branch of the bank	311	3.67	.036	.630	3
Respect and consideration shown to customers by bank employees	311	3.66	.032	.568	4
Minimum waiting time	311	3.66	.036	.638	5
Bank staffs give adequate explanation of services and products	311	3.65	.032	.564	6
Quick and prompt service in the branch	311	3.65	.031	.552	7
Friendly / pleasing manners of bank employees	311	3.65	.035	.624	8

Bank Selection Motivational Items	N	Mean		Std. Deviation	Rank
		Statistic	Std. Error		
Bank's reputation	311	3.65	.101	1.782	9
Bank employees' ability and competence to perform the promised service dependably and accurately	311	3.62	.035	.610	10
Caring and individualized attention given to customers by bank employees	311	3.62	.035	.610	11
Fast response to customer complaint	311	3.61	.035	.621	12
Availability of ATMs in several locations	311	3.60	.034	.591	13
Confidentiality in keeping customers' records	311	3.60	.033	.581	14
Bank offers variety of banking services to customers	311	3.56	.031	.540	15
ATMs of the bank have connectivity to other bank's ATMs	311	3.52	.045	.798	16
Availability of one window banking	311	3.45	.046	.817	17
Availability of several branches	311	3.43	.032	.563	18
Proximity of bank branch location to home / work place etc.	311	3.42	.035	.617	19
Reception shown at the branch	311	3.41	.038	.665	20
Confidence in the branch manager of the bank	311	3.38	.040	.699	21
Modern looking (Pleasant bank atmosphere and Interior comfort)	311	3.30	.037	.656	22
Ease of obtaining Foreign currency	311	3.29	.048	.846	23
Ease of obtaining loans / credit	311	3.26	.049	.872	24
Availability of Internet banking facility	311	3.25	.049	.869	25
Attractive external and/or internal appearance of bank	311	3.23	.039	.683	26
Employees dress & appearance	311	3.20	.040	.704	27
Higher interest payment on savings deposits	311	3.15	.048	.855	28
Interesting and informative advertising	311	3.12	.041	.717	29
attractive counter partition in the branch	311	3.12	.041	.731	30
Availability of parking space in the branch	311	3.11	.046	.805	31
Bank provides Lower commission and service charges relative to other banks	311	3.11	.048	.843	32
Interior layout of the branch	311	3.10	.038	.670	33
Size of the bank	311	2.96	.054	.948	34
Bank charges lower interest rates on loans relative to other banks	311	2.96	.050	.886	35
The bank recommended by friends or relatives	311	2.87	.042	.748	36
Valid N (list wise)	311				

Source: Computations from the field survey data, 2015

#### 4.8. Hypothesis Testing

Table -12: One-Sample Test (test value = 3) for Bank Selection Factors

Factors	N	Mean	Std. Deviation	Std. Error Mean	t-value	p-value*
Personal characteristics	311	3.6218	.42072	.02386	26.063	.000
Financial benefits offered	311	3.1572	.54019	.03063	5.131	.000
Physical facility and image	311	3.1209	.49440	.02803	4.312	.000
E-Banking Technology	311	3.5611	.52545	.02980	18.832	.000

Factors	N	Mean	Std. Deviation	Std. Error Mean	t-value	p-value*
Service provision	311	3.5782	.41451	.02350	24.601	.000
Marketing and promotion	311	3.1383	.55519	.03148	4.392	.000
Convenient location	311	3.4293	.50143	.02843	15.097	.000

Significant at: \* $p < 0.05$

Source: Computations from the field survey data, 2015

Table-12 shows that “Personal characteristics” is very important factor in bank selection process which is considered significant by perception of respondents because its mean value (3.62) is greater than the test value (3=level of agreement)  $3.62 > 3$  or p-value  $0.000 < .05$ . “Financial benefits offered” is also significant by the perception of customers because its mean value (3.16) is greater than the test value  $3.16 > 3$  (3=level of agreement) or p-value  $0.000 < .05$ . The factor “Physical facility and image” was also found to be significant by respondent’s perception because its mean value (3.12) is also greater than the test value (3=level of agreement) i.e.  $3.12 > 3$  or p-value  $0.000 < .05$ . The factor “E-Banking Technology” having the mean value 3.56 which is greater than the test value (3=level of agreement) was significant by respondent’s perception or p-value  $0.000 < .05$ . “Service provision” factor, “marketing and promotion” factor and “convenient location” factor are also considered to be important for the bank selection by the perception of respondents as their mean values are greater than the test value (3=level of agreement), or p-value  $0.000 < .05$ .

On the basis of these findings it is failed to reject our seven research hypothesis i.e. H1: Physical facility and image of the bank affects Bank selection decision, H2: A personal characteristic affects bank selection decision, H3: Service provision affects bank selection decision, H4: Convenient location affects bank selection decision, H5: Technology affects bank selection decision, H6: Marketing and promotional strategies effects bank selection decision and H7: Financial benefits offered affects bank selection decision.

Regarding hypothesis eight (H8) about motivational items, one sample t-test (test value = 3) is presented in annex 4. From the table in annex-4, it can be seen that out of the 36 motivational items in bank selection process, 33 motivational items

have mean value significantly greater than the test value (3=level of agreement) mean values > 3 or p-value < .05. This result implies that these 33 motivational items are considered to be significant for the bank selection decision by the perception of respondents.

The other three motivational items in bank selection decision that include size of the bank (p-value 0.511 > 0.05), attractive counter partition in the branch (p-value 0.006 > 0.05) and bank charges lower interest rates on loans relative to other banks (p-value 0.443 > 0.05) were not significant for the bank selection decision by the perception of respondents. Thus, we fail to reject our eighth research hypothesis i.e. H8: Bank selection motivational items affect customers' bank selection decision.

## **CHAPTER FIVE: CONCLUSION AND RECOMENDATION**

### **5.1. Conclusion**

Banks should attempt to understand factors and motivational items that influence bank selection decision making process so as to make an appropriate marketing strategy. In this context, this study has investigated the determinants of bank selection factors and motivational items that are considered important for bank selection decision by bank customers in Addis Ababa city.

The importance of this study can be viewed from two dimensions: theoretical contribution and practical implications. In theoretical side, this study contributes to the existing limited body of the knowledge about factors that influence bank selection decision of customers in Addis Ababa city and addresses several limitations in a previous study by W/mariam (2011). Practically, this study will help bank managers in identifying important factors and motivational items considered important by customers in term of bank selection, which has significant managerial implications for bank marketing. Prospecting for new customers and retaining existing customers is an ongoing and challenging task. Therefore, it is essential for bank marketers to know the degree to which various bank selection factors are important and how these factors influence customers' choice of banks. Equipped with this knowledge, bank marketers can focus on most important factors and motivational items considered important by customers while designing a marketing strategy and thereby optimize the marketing mix characteristics of seven Ps that are considered relevant for service marketing.

A total of 311 respondents from seven commercial banks in Addis Ababa city are sampled. Their responses on the importance 36 different motivational items while selecting a bank were sought, analyzed and 7 factors are identified.

The study shows that private organization employed, educated and youth age segment was relatively the higher user of banking service as compared to socioeconomic characteristics. Results of demographic and socioeconomic characteristics of the respondents shows that majority of the respondents are male, between age group of 20 year - 30 years, have first degree and earned

average monthly income of between Birr 3,001 – Birr 8,000. The distribution of the respondents by occupation type shows that majority of the respondents are employed in private organizations.

The results of this study reveal the first three most important factors that are considered significant by perception of customers in bank selection decision are “Personal characteristics”, “Service provision” and “E-banking Technology”. Factors that are considered least significant by customers include “physical facility and image of the bank” “Marketing and promotion”.

From 36 motivational items analyzed, willingness of employees to help customers and provide prompt service is the most important motivational items followed by bank employees' knowledge and courteousness to inspire trust and confidence and electronically networked bank branches. The other motivational items making the list of the ten most important motivational items of bank choice among the sampled respondents include respect and consideration shown to customers by bank employees, minimum waiting time, bank staffs give adequate explanation of services and products, quick and prompt service in the branch, friendly/pleasing manners of bank employees, bank's reputation, bank employees' ability and competence to perform the promised service dependably and accurately, caring and individualized attention given to customers by bank employees.

One sample t-test indicates that all factors identified and almost all motivational items are considered significant by for bank selection decision by customers perception.

## 5.2. Recommendation

Based on the findings of the study, the following recommendations are forwarded.

- Demographic and socioeconomic result shows that the educated and younger segment constitutes the majority of customer in Addis Ababa. Thus banks shall take this into consideration and attempt to develop banking products and service that appeal to this customer segment;
- Considering that “Personal characteristics” is the first most important factor that is considered significant by customers in bank selection decision and the fact that employees of service organization are part of the service that service organizations offers (inseparability), banks shall take significant efforts in selecting, training and motivating the staff members to deliver the promised service and thereby ensure the satisfaction of customers. Also increased emphasis shall be given to develop emotional intelligence of bank employees;
- “Service provision” is also an important factor that is significant in customers’ bank selection decision. As such, banks need to ensure a higher level of competence and professionalism in terms of faster and wider delivery of services, shall attempt to put in place the necessary policy and procedures that ensure the privacy of customer information and as well as shall consider investing on branch manager leadership development program;
- “E-banking Technology” is the third most important factor in customer bank selection decision. This reflects customers’ preference for convenience banking which enables them to keep in touch with their money anywhere and anytime. Thus, banks shall consider seriously to invest on upgrading their IT capability, increase emphasis on IT based service delivery channels such as ATMs, electronically networked branches, internet banking, mobile and agent banking;

- Staff members have significant role to play in influencing bank selection decisions of the customers, which is evident from the fact that seven out of top ten motivational items are found to be the items linked with the performance of the staff members. Thus, in order to control the quality and consistency of the service, banks shall invest and increase emphasis in motivating and training it employees;

## REFERENCES:

- Aamir, S., 2012. Factors Influencing the Bank Selection Decision of Students: An Investigation Of Business Graduates. *International Review of Business and Social Sciences* Vol. 2, No. 1, Dec 2012.
- Aish E.M.A, Ennew C.T, McKechnie S.A, et al., 2003. "A cross-cultural perspective on the role of branding in financial services: The Small Business Market." *Journal of Marketing Management*; Vol. 19, Pp. 1021-1042
- Almossawi, M., 2001. Bank selection criteria employed by college students in Bahrain: empirical analysis, *International Journal of Bank Marketing*, 19/3, 115-125, MCB University Press.
- Aregbeyen, O., 2012. Determinants of Bank Selection Choices by Customers: Recent and Extensive Evidence from Nigeria. *International Journal of Business and Social Science*, Vol. 2 No. 22;
- Beckett, A., Hewer, P., & Howcroft, B., 2000. An exposition of consumer behavior in the financial services industry. *International Journal of Bank Marketing*, 18(1), 15-26. <http://dx.doi.org/10.1108/02652320010315325>.
- Beckett, F., Yavas, E. & Bertram B, 2000. Segmenting The Banking Market By Account Usage: An Empirical Investigation. *Journal of Professional Service Marketing*, Vol. 1, pp. 177-188.
- Blankson, C., Cheng, J. M., & Spears, N., 2007. Determinants of Bank selection in USA, Taiwan and Ghana. *International Journal of Bank Marketing*, Volume 25, issue 7.
- Blankson, C., Ming-Sung, J. C., & Spears N, 2007. Determinants Of Banks Selection In USA, Taiwan And Ghana. *International Journal of Bank Marketing*, 25(7), 469-489. <http://dx.doi.org/10.1108/02652320710832621>.
- Boyd, W. L., Leonard, M. & White C.,1999. Customer Preferences For Financial Services: An Analysis. *International Journal of Bank Marketing*, Vol. 12, No. 1, pp. 9-15.
- Boyd, W. L., Leonard, M., & White C., 1994. Customer preferences for financial services: An analysis, *International Journal of Bank Marketing*, Volume 12, No. 1, 1994, pp. 9-15.
- Coleman, J., & Fararo, T., 1992. *Rational Choice Theory, Advocacy and Critique*. Sage Publication, London.

- Cook, D. T., 2009. Knowing the child consumer: Historical And Conceptual Insights On Qualitative Children's Consumer Research, *Young Consumers*, 10(4), 269-282, <http://dx.doi.org/10.1108/17473610911007111>
- Danyi, S., 2008. *Services Marketing*, Oxford Book Company.
- Devlin, J.F., 2002. Customer Knowledge And Choice Criteria In Retail Banking, *Journal Of Strategic Marketing*, 10(4), 273-90.
- DeYoung, R., 1999. Mergers and the changing landscape of commercial banking (Part I).
- Durkin, M., Howcroft, B., O'Donnell, A., & McCartan-Qunin, D., 2003. Retail Bank Customer Preferences: Personal And Remote Interactions. *International Journal of Retail and Distribution Management*, 31 (4), 177-189.
- Durkin, M.G. & Howcroft, B., 2003. Relationship Marketing in the Banking Sector: The Impact of New Technologies. *Marketing Intelligence & Planning*, Vol.21, No.1, pp.61-71.
- G/Medihin, M., 2010. *Services and Relationship Marketing*. Module for Graduate Program AAU School of Commerce, Department of marketing Management.
- Gilmore, A., 2003. *Services Marketing and Management*, SAGE Publications Ltd.
- Haas, R. D., Ferreira, D., & Taci, A., 2007. What Determines Customers' Bank Choice? Evidence from Transition Countries. *European Bank for Reconstruction and Development*, Working Paper No. 104.
- Hedayatnia, A., 2011. Bank Selection Criteria in the Iranian Retail Banking Industry, *International Journal of Business and Management* Vol. 6, No. 12.
- Hinson, R., Owusu-Frimpong, N., & Dasah, 2009. Key Motivations for Bank Patronage In Ghana. *International Journal of Bank Marketing*.
- Holmlund, M. & Kock, S., 1996. Relationship Marketing: The Importance of Customer-Perceived Service Quality In Retail Banking. *Service Industries Journal*, Vol. 16, No. 3, pp. 287-304.
- Hoyer, W. D., MacInnis., D. J. 2010. *Consumer Behavior*, Fifth Edition. Cengage Learning, USA.
- Huu, P. T. & Kar, Y. H., 2000. A study of bank selection decisions in Singapore using the Analytical Hierarchy Process. *International Journal of Bank Marketing*, Vo. 18, No. 4, pp. 170-180.

- Idris, A. R., Nik, K., Naziman, M., Januri, S. S., Asari, F. F. H., Muhammad N., Sabiroh, S., & Jusoff, K., 2011. Religious Value as the Main Influencing Factor to Customers Patronizing Islamic Bank. *World Applied Sciences Journal* 12 (Special Issue on Bolstering Economic Sustainability).
- Katircioglu, S. T., Tumer, M. & Kılın, C., 2011. Bank selection criteria in the banking industry: An empirical investigation from customers in Romanian cities. *African Journal of Business Management* Vol. 5(14).
- Keeton, W.R., 2001. The Transformation of Banking and Its Impact on Consumers and Small Businesses. *Economic Review*, (1), 25-53.
- Kothari, C. R., 2004. *Research Methodology, Methods and Techniques*, second edition, new Age International Publishers, India.
- Kotler, P., & Armstrong G, 2012. *Principles of Marketing* 14th edition. Pearson Prentice Hall
- Kotler, P., 2000. *Marketing Management (The millennium ed.)*. Upper Saddle River, NJ. Prentice-Hall.
- Kotler, P., 2001. *Marketing Management, Millennium Edition*. Custom Edition for University of Phoenix.
- Krisnanto, U., 2011. The Customers' Determinant Factors of the Bank Selection. *International Research Journal of Business Studies*, Vol. 4 No.1, 2011.
- Lee, J. & Marlowe, J., 2003."How Consumers Choose a Financial Institution: Decision-Making Criteria and Heuristics. *International Journal of Bank Marketing*, 21 (2), 53-71.
- Lee, J., 2002. A Key To Marketing Financial Services: The Right Mix Of Product, Service, Channel And Customers. *Journal of Service Marketing*, 16 (3), 238-258.
- Lopez, J., Hart, L. K., & Rampersad, A., 2007. Ethnicity And Customer Satisfaction In Financial Services Sector. *Managing Service Quality*, 17(3), 259-274.
- Lovelock, C. H., & Wright, Lauren., 1999. *Principles of Service Marketing and Management*, 1999, Prentice Hall.
- Mansor, N., Abdullah, Z., & Rahim, N. A., 2011. The Significant Role of CRM In Banking Service: Do Demographic Indicators Differs? *Asian Journal of Business and Management Sciences*, 1 (4), 114-127.
- Meidan, A., 1984. *Bank Marketing Management*. London and Basingstoke: Macmillan Publishers Ltd.

- Mokhlis, S., 2009. Determinants of Choice Criteria in Malaysia's Retail Banking: An Analysis of Gender-Based Choice Decisions. *European Journal of Economics, Finance and Administrative Sciences*, 1 (2), 1450-1467.
- Mokhlis, S., 2009. Determinants of Choice Criteria in Malaysia's Retail Banking: An Analysis of Gender-Based Choice Decisions. *European Journal of Economics, Finance and Administrative Sciences* ISSN 1450-2275 Issue 16.
- Mokhlis, S., Salleh, H. S., & Nik Mat, N. H., 2009. Commercial Bank Selection: Comparison between Single and Multiple Bank Users in Malaysia. *Journal of Economics and Finance*, Vol. 1, No.2, 2009.
- Mokhlis, S., Salleh, H. S., & Mat, N.H.N., 2009. Commercial Bank Selection: Comparison Between Single And Multiple Bank Users In Malaysia. *International Journal of Economics And Finance*, 1(2), 263-273.
- Mudie, P., & Pirrie, A. , 2006. *Services Marketing Management*. Elsevier/Butterworth-Heinemann, Britain.
- Parasuraman, A., Zeithaml, V., & Berry, L.,1988. SERVQUAL: a multi-item scale for measuring consumer perceptions of service quality, *Journal of Retailing*, 64(1), 12-40.
- Rao, S., & Sharma, R. K., 2010. Bank Selection Criteria Employed by MBA Students in Delhi: An Empirical Analysis, *Journal of Business Studies Quarterly*, Vol. 1, No. 2, 2010.
- Rashid, M., & Hassan, K., 2009. Customer Demographics Affecting Bank Selection Criteria, Preference, and Market Segmentation: Study on Domestic Islamic Banks in Bangladesh. *International Journal of Business and Management*, Vol. 4, No. 6.
- Rehman, H., & Ahmed, S., 2008. An Empirical Analysis of The Determinants Of Bank Selection In Pakistan: A Customer View. *Pakistan Economic and Social Review*, Volume 46, No. 2.
- Safakli, O. V., 2007. A Research on The Basic Motivational Factors In Consumer Bank Selection: Evidence From Northern Cyprus. *Banks and Bank Systems*, Volume 2, Issue 4, 2007.
- Saleh, M. S., Rahimi, M., Rosman, M., & Nani, N. K., 2013. Bank Selection Criteria in a Customers' Perspective. *Journal of Business and Management*, Volume 7, Issue 6.
- Sanyang, L., 2009. Bank Strategic Positioning and Factors for Bank Selection: A case of the Gambia, a Master thesis. Ming Chuan University.

- Shaher T. A., Kasawneh O., & Salem R., 2011. The Major Factors that Affect Banks' Performance in Middle Eastern Countries. *Journal of Money, Investment and Banking* ISSN 1450-288X Issue 20.
- Siddique, H., 2012. Bank Selection Decision Criteria Employed By Indian Expatriates In Sultanate Of Oman: An Empirical Analysis. *International Journal Of Business And Management Studies*, Vol 4, No 2, 2012.
- Siddique, N., 2012. Bank Selection Influencing Factors: A Study on Customer Preferences with Reference to Rajshahi City. *Asian Business Review*, Volume 1, Issue 1, September 2012.
- Solomon, M., Bamossy, G., Askegaard, S., & Hogg, M., 2006. *Consumer Behaviour: A European Perspective*, Third Edition. Pearson Education Limited, Madrid, Spain
- Tehulu, T. A., & Wondmagegn, G. A., 2014. Factors Influencing Customers' Bank Selection Decision in Ethiopia: The Case of Bahir Dar City. *Research Journal of Finance and Accounting*, Vol.5, No.21, 2014.
- Theofanides, F., & Livas, C., 2010. A Comparative Analysis of Segmentation, Targeting and Positioning in the Greek Banking Sector: The Cases of EFG Eurobank Ergasias and Citibank. University of Piraeus, Piraeus.
- Thwaites, D. & Vere, L., 1995. Bank Selection Criteria - a Student Perspective. *Journal of Marketing Management*, 11 (1-3), 133-149.
- W/mariam, G., 2011. Bank Selection Decision: Factors Influencing The Choice Of Banking Services. Master Thesis, Addis Ababa University.
- Weber, M., 1949. *The Methodology of the Social Sciences*. Free Press, New York, NY.
- Zeithaml, V.A., & Bitner, M.J., 1996. *Services Marketing*, international edition. McGraw Hill, New York, NY and London.
- Zineldin, M., 1996. Bank-corporate client 'partnership' relationship: benefits and life cycle. *International Journal of Bank Marketing*, 14(3).

## APPENDIXES

### Annex 1: Survey Questionnaire

Dear Sir/Madam,

My name is Faysel Yassin, I am a graduate student in the field of Marketing Management at Addis Ababa University School of Commerce. I would like to seek your assistance in completing the attached questionnaire which forms a basic part of my MA thesis. The purpose of this research is to study the “Determinants of Bank Selection Choice by Customers in Addis Ababa City”.

I hope this study will contribute to the limited literature on factors customers consider in selecting a bank. This questionnaire will provide relevant information that is needed to complete the research project. The questionnaire will require approximately 15 to 20 minutes of your time to complete.

Kindly be assured that all information that you provide will be kept strictly confidential and anonymity of your identity is guaranteed.

Should you require any further information, want feedback on the study or need to contact the researcher about any aspect of this study, please contact the researcher by the following address; email: [faysely2001@gmail.com](mailto:faysely2001@gmail.com), Cell Phone 0911 467625.

I would like to thank you in advance for your cooperation and timely response to this survey.

Sincerely Yours

Faysel Yassin

## Part I: Demographic and General Information Questions

Please **CIRCLE** the appropriate items that best describes your answer

1. Your gender is:

- A) Male                      B) Female

2. Which one of the following age categories do you currently fall in:

- A) Below 20 Years                      D) 41-50 Years  
B) 20-30 Years                      E) 50 Years and above  
C) 31-40 Years

3. What is your marital status?

- A) Single                      C) Divorced  
B) Married                      D) Widowed

4. What is the highest educational level you have attained?

- A) Below high school                      D) College Diploma  
B) High school                      E) First Degree  
C) Some College courses                      F) Second degree & above

5. What is your average monthly Income in Birr?

- A) Below Birr 3,000                      E) Birr. 13,001 – 18,000  
B) Birr. 3,001 – 8,000                      F) Above Birr. >18,000  
C) Birr. 8,001 – 13,000

6. Your Occupation Type:

- A) Self Employed                      D) Student  
B) Private Organizations Employed                      E) Others (Contract works; Part time jobs)  
C) Government Employed                      F) Not employed

## Part II: Banking Behavior of Respondents

Please **CIRCLE** the appropriate item that best describes your answer

1. How long have you been using banking services?

A) Less than one year      B) 1 – 2 Years      C) 2 years and above

2. Which bank service do you use most the time?

- A) Deposit service
- B) Credit / Loan service
- C) International banking services
- D) Local Money transfer services
- E) International Remittance Services
- F) Guarantee / CPO etc
- G) ATM services
- H) others, please, specify.....

3. How frequently do you visit the bank?

- A) Daily
- B) Weekly
- C) Every two weeks
- D) Once in a month
- E) Occasionally

4. How many banks do you use for your banking services?

- A) I use a single bank
- B) I use multiple banks (2 and above banks)

5. What is your level of satisfaction with respect to the banking services provided by your existing main bank?

- A) Very satisfied
- B) Satisfied
- C) Dissatisfied
- D) Very dissatisfied

6. What service attributes of banking services do you prefer most?

- A) Quality Service
- B) Speed of service provision
- C) Economy (financial benefits)
- D) Location convenience of branches
- E) Availability of e-banking (ATMs, internet banking etc)

7. How do you evaluate the loyalty status that you have for your main bank?

- A) I show no loyalty to any bank. I want excellent services each time I visit a bank
- B) I favor my main bank while I sometimes use other banks
- C) I use my main bank all the time

### **Part III: Bank Selection Criteria**

If you had to choose your first choice bank, what importance would you place on the following factors? Please rate which factors you consider as important on the following scale by **CIRCLING** one number of each statement ranging from “**4=most important**” to “**1=not important at all**” based on the degree of their importance.

**1= not important at all      2= Less important      3= important      4=most important**

	Factors	Level of Importance			
		1	2	3	4
1	Attractive external and/or internal appearance of bank	1	2	3	4
2	Modern looking ( <i>Pleasant bank atmosphere and Interior comfort</i> )	1	2	3	4
3	Bank’s reputation and its image	1	2	3	4
4	Size of the bank	1	2	3	4
5	attractive counter partition in the branch	1	2	3	4
6	Interior layout of the branch	1	2	3	4
7	Employees dress & appearance	1	2	3	4
8	Respect and consideration shown to customers by bank employees	1	2	3	4
9	Friendly / pleasing manners of bank employees	1	2	3	4
10	Willingness of employees to help customers and provide prompt service	1	2	3	4
11	Bank employees' knowledge and courteousness to inspire trust and confidence	1	2	3	4
12	Bank staffs give adequate explanation of services and products ( <i>the availability of information in the branch</i> )	1	2	3	4
13	Bank employees’ ability and competence to perform the promised service dependably and accurately	1	2	3	4
14	Caring and individualized attention given to customers by bank employees	1	2	3	4
15	Confidence in the branch manager of the bank	1	2	3	4
16	Bank offers variety of banking services to customers	1	2	3	4
17	Reception shown at the branch	1	2	3	4
18	Quick and prompt service in the branch	1	2	3	4
19	Minimum waiting time	1	2	3	4
20	Fast response to customer complaint	1	2	3	4
21	Confidentiality in keeping customers’ records	1	2	3	4

Factors		Level of Importance			
22	Proximity of bank branch location to home / work place etc.	1	2	3	4
23	Availability of several branches	1	2	3	4
24	Availability of parking space in the branch	1	2	3	4
25	Interesting and informative advertising	1	2	3	4
26	The bank recommended by friends or relatives	1	2	3	4
27	Availability of ATMs in several locations	1	2	3	4
28	Availability of Internet banking facility	1	2	3	4
29	Bank branches are networked electronically and accessibility of my account from any branch of the bank ( <i>I can easily access my account in all bank branches</i> )	1	2	3	4
30	Availability of one window banking ( <i>the branch provides all type of service through one window</i> )	1	2	3	4
31	ATMs of the bank have connectivity to other bank's ATMs ( <i>I can use other banks ATMs once I have ATM of the bank</i> )	1	2	3	4
32	Bank charges lower interest rates on loans relative to other banks	1	2	3	4
33	Bank provides Lower commission and service charges relative to other banks	1	2	3	4
34	Higher interest payment on savings deposits	1	2	3	4
35	Ease of obtaining loans / credit	1	2	3	4
36	Ease of obtaining Foreign currency	1	2	3	4

## Annex 2: Total Variance Explained extracted from SPSS

### Total Variance Explained

Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	8.080	22.444	22.444	8.080	22.444	22.444	4.601	12.779	12.779
2	3.316	9.210	31.655	3.316	9.210	31.655	2.611	7.252	20.032
3	2.721	7.559	39.214	2.721	7.559	39.214	2.430	6.750	26.782
4	1.909	5.304	44.517	1.909	5.304	44.517	2.401	6.668	33.450
5	1.791	4.976	49.494	1.791	4.976	49.494	2.371	6.587	40.038
6	1.447	4.018	53.512	1.447	4.018	53.512	2.351	6.530	46.567
7	1.417	3.936	57.448	1.417	3.936	57.448	2.324	6.454	53.022
8	1.220	3.389	60.837	1.220	3.389	60.837	1.719	4.774	57.796
9	1.123	3.121	63.958	1.123	3.121	63.958	1.672	4.643	62.439
10	1.078	2.994	66.952	1.078	2.994	66.952	1.354	3.761	66.200
11	1.022	2.838	69.791	1.022	2.838	69.791	1.292	3.590	69.791
12	.990	2.750	72.540						
13	.862	2.395	74.936						
14	.761	2.113	77.048						
15	.739	2.052	79.101						
16	.687	1.910	81.010						
17	.663	1.842	82.853						
18	.613	1.703	84.556						
19	.530	1.471	86.027						
20	.494	1.372	87.399						
21	.453	1.259	88.658						
22	.436	1.211	89.870						
23	.414	1.151	91.021						
24	.385	1.070	92.090						
25	.373	1.037	93.127						
26	.341	.947	94.074						
27	.312	.865	94.939						
28	.297	.825	95.765						
29	.278	.773	96.538						
30	.266	.738	97.276						
31	.208	.578	97.854						
32	.200	.554	98.408						
33	.177	.491	98.899						
34	.146	.407	99.306						
35	.136	.378	99.684						
36	.114	.316	100.000						

Extraction Method: Principal Component Analysis.

### Annex 3: Extraction Method: Principal Component Analysis (PCA)

#### Communalities

	Initial	Extraction
Attractive external and/or internal appearance of bank	1.000	.571
Modern looking (Pleasant bank atmosphere and Interior comfort)	1.000	.560
Bank's reputation	1.000	.157
Size of the bank	1.000	.423
attractive counter partition in the branch	1.000	.506
Interior layout of the branch	1.000	.656
Employees dress & appearance	1.000	.457
Respect and consideration shown to customers by bank employees	1.000	.612
Friendly / pleasing manners of bank employees	1.000	.650
Willingness of employees to help customers and provide prompt service	1.000	.614
Bank employees' knowledge and courteousness to inspire trust and confidence	1.000	.515
Bank staffs give adequate explanation of services and products	1.000	.693
Bank employees' ability and competence to perform the promised service dependably and accurately	1.000	.726
Caring and individualized attention given to customers by bank employees	1.000	.593
Confidence in the branch manager of the bank	1.000	.517
Bank offers variety of banking services to customers	1.000	.455
Reception shown at the branch	1.000	.416
Quick and prompt service in the branch	1.000	.594
Minimum waiting time	1.000	.595
Fast response to customer complaint	1.000	.653
Confidentiality in keeping customers' records	1.000	.596
Proximity of bank branch location to home / work place etc.	1.000	.671
Availability of several branches	1.000	.534
Availability of parking space in the branch	1.000	.591
Interesting and informative advertising	1.000	.393
The bank recommended by friends or relatives	1.000	.606
Availability of ATMs in several locations	1.000	.564
Availability of Internet banking facility	1.000	.665
Bank branches are networked electronically and accessibility of my account from any branch of the bank	1.000	.652
Availability of one window banking	1.000	.654
ATMs of the bank have connectivity to other bank's ATMs	1.000	.525
Bank charges lower interest rates on loans relative to other banks	1.000	.684
Bank provides Lower commission and service charges relative to other banks	1.000	.695
Higher interest payment on savings deposits	1.000	.573
Ease of obtaining loans / credit	1.000	.746
Ease of obtaining Foreign currency	1.000	.572

Extraction Method: Principal Component Analysis.

## Annex 4: Rotated Component Matrix Extraction Method: Principal Component Analysis (PCA)

Rotated Component Matrix<sup>a</sup>

	Component						
	1	2	3	4	5	6	7
Bank employees' ability and competence to perform the promised service dependably and accurately	.768	.000	-.009	-.016	.266	.218	.134
Willingness of employees to help customers and provide prompt service	.757	.107	.085	.020	.104	.098	.021
Respect and consideration shown to customers by bank employees	.749	.142	.034	.162	-.003	.033	-.034
Bank staffs give adequate explanation of services and products	.727	-.010	.078	-.001	.369	.077	.129
Friendly / pleasing manners of bank employees	.711	.081	-.041	.300	.005	-.088	.198
Caring and individualized attention given to customers by bank employees	.674	.186	.137	.195	.098	.015	-.192
Bank employees' knowledge and courteousness to inspire trust and confidence	.593	.152	.084	.069	.267	-.233	.054
Ease of obtaining loans / credit	.254	.725	-.118	.142	.173	-.296	.063
Higher interest payment on savings deposits	.121	.722	.074	.098	.121	.005	.087
Ease of obtaining Foreign currency	.176	.684	-.225	.057	.006	-.097	.100
Availability of parking space in the branch	.060	.558	.151	-.320	-.013	.380	-.078
Bank provides Lower commission and service charges relative to other banks	-.018	.520	-.120	.418	-.191	.352	.273
Bank charges lower interest rates on loans relative to other banks	.126	.496	-.177	.360	-.156	.243	.422
Interior layout of the branch	.119	.052	.765	.027	-.004	-.177	.152
attractive counter partition in the branch	-.001	-.038	.694	.127	-.013	.085	-.012
Employees dress & appearance	.286	.015	.576	.001	.202	-.019	-.045
Attractive external and/or internal appearance of bank	.098	-.173	.564	.195	-.092	.222	.343
Size of the bank	-.293	.228	.490	-.188	-.033	-.003	.088
Modern looking (Pleasant bank atmosphere and Interior comfort)	.409	-.023	.428	-.086	-.128	-.088	.195
Availability of one window banking	.091	.022	.082	.709	.353	.094	.053
ATMs of the bank have connectivity to other bank's ATMs	.184	.123	-.018	.686	-.015	.068	.034
Availability of ATMs in several locations	.179	.157	.179	.685	.032	.052	-.047
Bank branches are networked electronically and accessibility of my account from any branch of the bank	.298	.283	.076	.429	.338	-.422	.029
Availability of Internet banking facility	-.074	.123	.274	.404	.281	-.026	-.017
Fast response to customer complaint	.400	-.037	-.065	.099	.690	.045	.002
Confidentiality in keeping customers' records	.171	.289	.020	-.166	.571	.277	.229
Quick and prompt service in the branch	.440	.022	-.088	.230	.515	-.014	.271
Confidence in the branch manager of the bank	.268	.302	.299	.188	.441	.172	.066
Minimum waiting time	.409	-.019	-.334	.206	.435	.064	.282
Bank offers variety of banking services to customers	.124	.404	.220	.198	.426	.032	-.076
The bank recommended by friends or relatives	-.069	.142	.168	.194	.100	.710	.026
Interesting and informative advertising	.010	.252	.307	.131	-.030	.454	-.109
Reception shown at the branch	.363	.186	.049	.104	.221	.433	.002
Bank's reputation	.068	-.097	-.098	.009	.052	.357	.050
Proximity of bank branch location to home / work place etc.	.090	.028	.199	.096	.174	.091	.758
Availability of several branches	-.019	.405	.082	-.116	.218	-.031	.549

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 8 iterations.

**Annex 5: One-Sample Test (Test Value = 3) for motivational items in customers' bank selection decision**

<b>motivational items</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Std. Error Mean</b>	<b>t-value</b>	<b>p-value*</b>
Attractive external and/or internal appearance of bank	311	3.23	.683	.039	5.891	.000
Modern looking (Pleasant bank atmosphere and Interior comfort)	311	3.30	.656	.037	8.120	.000
Bank's reputation and its image	311	3.65	1.782	.101	6.427	.000
Size of the bank	311	2.96	.948	.054	-.658	.511
attractive counter partition in the branch	311	3.12	.731	.041	2.791	.006
Interior layout of the branch	311	3.10	.670	.038	2.540	.012
Employees dress & appearance	311	3.20	.704	.040	4.994	.000
Respect and consideration shown to customers by bank employees	311	3.66	.568	.032	20.480	.000
Friendly / pleasing manners of bank employees	311	3.65	.624	.035	18.349	.000
Willingness of employees to help customers and provide prompt service	311	3.78	.488	.028	28.145	.000
Bank employees' knowledge and courteousness to inspire trust and confidence	311	3.69	.596	.034	20.563	.000
Bank staffs give adequate explanation of services and products	311	3.65	.564	.032	20.422	.000
Bank employees' ability and competence to perform the promised service dependably and accurately	311	3.62	.610	.035	17.951	.000
Caring and individualized attention given to customers by bank employees	311	3.62	.610	.035	17.839	.000
Confidence in the branch manager of the bank	311	3.38	.699	.040	9.654	.000
Bank offers variety of banking services to customers	311	3.56	.540	.031	18.363	.000
Reception shown at the branch	311	3.41	.665	.038	10.827	.000
Quick and prompt service in the branch	311	3.65	.552	.031	20.849	.000
Minimum waiting time	311	3.66	.638	.036	18.131	.000
Fast response to customer complaint	311	3.61	.621	.035	17.430	.000
Confidentiality in keeping customers' records	311	3.60	.581	.033	18.258	.000
Proximity of bank branch location to home / work place etc.	311	3.42	.617	.035	12.133	.000
Availability of several branches	311	3.43	.563	.032	13.588	.000
Availability of parking space in the branch	311	3.11	.805	.046	2.464	.014
Interesting and informative advertising	311	3.12	.717	.041	3.005	.003
The bank recommended by friends or relatives	311	2.87	.748	.042	-3.107	.002
Availability of ATMs in several locations	311	3.60	.591	.034	18.032	.000
Availability of Internet banking facility	311	3.25	.869	.049	5.026	.000
Bank branches are networked electronically and accessibility of my account from any branch of the bank	311	3.67	.630	.036	18.618	.000
Availability of one window banking	311	3.45	.817	.046	9.783	.000
ATMs of the bank have connectivity to other bank's ATMs	311	3.52	.798	.045	11.506	.000
Bank charges lower interest rates on loans relative to other banks	311	2.96	.886	.050	-.768	.443
Bank provides Lower commission and service charges relative to other banks	311	3.11	.843	.048	2.287	.023
Higher interest payment on savings deposits	311	3.15	.855	.048	3.184	.002
Ease of obtaining loans / credit	311	3.26	.872	.049	5.265	.000
Ease of obtaining Foreign currency	311	3.29	.846	.048	6.031	.000

Significant at: \*p<0.05

### Annex 3: Item-Total Statistics

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item- Total Correlation	Cronbach's Alpha if Item Deleted
Attractive external and/or internal appearance of bank	119.11	119.985	.248	.858
Modern looking (Pleasant bank atmosphere and Interior comfort)	119.03	119.309	.309	.857
Bank's reputation and its image	118.68	119.552	.037	.881
Size of the bank	119.37	122.834	.021	.866
attractive counter partition in the branch	119.22	120.681	.184	.860
Interior layout of the branch	119.24	119.634	.279	.858
Employees dress & appearance	119.14	118.524	.336	.856
Respect and consideration shown to customers by bank employees	118.68	118.072	.468	.854
Friendly / pleasing manners of bank employees	118.68	116.920	.508	.853
Willingness of employees to help customers and provide prompt service	118.56	118.628	.500	.854
Bank employees' knowledge and courteousness to inspire trust and confidence	118.64	117.773	.467	.854
Bank staffs give adequate explanation of services and products	118.68	117.631	.509	.854
Bank employees' ability and competence to perform the promised service dependably and accurately	118.71	116.992	.516	.853
Caring and individualized attention given to customers by bank employees	118.72	117.094	.508	.853
Confidence in the branch manager of the bank	118.95	114.665	.602	.851
Bank offers variety of banking services to customers	118.77	117.854	.514	.854
Reception shown at the branch	118.93	117.488	.433	.854
Quick and prompt service in the branch	118.68	117.785	.507	.854
Minimum waiting time	118.68	118.645	.368	.856
Fast response to customer complaint	118.72	118.221	.412	.855
Confidentiality in keeping customers' records	118.73	118.332	.436	.855
Proximity of bank branch location to home / work place etc.	118.91	118.843	.368	.856
Availability of several branches	118.90	119.755	.332	.857
Availability of parking space in the branch	119.22	119.289	.241	.859
Interesting and informative advertising	119.21	118.258	.346	.856
The bank recommended by friends or relatives	119.47	119.159	.273	.858
Availability of ATMs in several locations	118.73	118.436	.419	.855
Availability of Internet banking facility	119.09	114.118	.501	.852
Bank branches are networked electronically and accessibility of my account from any branch of the bank	118.67	117.558	.455	.854

Availability of one window banking	118.88	116.060	.423	.854
ATMs of the bank have connectivity to other bank's ATMs	118.81	117.101	.372	.856
Bank charges lower interest rates on loans relative to other banks	119.37	114.777	.453	.853
Bank provides Lower commission and service charges relative to other banks	119.23	116.369	.390	.855
Higher interest payment on savings deposits	119.18	114.509	.488	.853
Ease of obtaining loans / credit	119.07	114.546	.475	.853
Ease of obtaining Foreign currency	119.05	116.850	.361	.856

**Figure 3: Screen plot adopted from SPSS**

