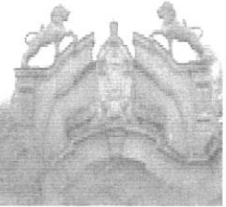


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ADDIS ABABA UNIVERSITY

SCHOOL OF GRADUATE STUDIES

DEPARTMENT OF ACCOUNTING AND FINANCE

**BANK SELECTION DECISION: FACTORS
INFLUENCING THE CHOICE OF BANKING SERVICES**

By: Goiteom W/mariam

**June 2011
Addis Ababa**

24

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INFLUENCING THE CHOICE OF BANKING SERVICES**

**A Thesis Submitted to the School of Graduate Studies of Addis
Ababa University in Partial Fulfillment of the Requirements for the
Degree of Master of Science in Accounting and Finance**

By: Goiteom W/mariam

Advisor: Dr. Ulaganathan S.

**June 2011
Addis Ababa**

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DEPARTMENT OF ACCOUNTING AND FINANCE

Approved by the Board of Examiners

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I am also indebted to all my best friends who had taken the endeavors to voluntarily administer the questionnaire on my behalf; special thanks to all of them for their material and moral support throughout the data collection period. My heartfelt thanks also go to my friends G/yessus G/hiwot (Defo) and Bahre Gebru for their technical, material, and moral supports. For they have devoted unreserved efforts to comment and edit my work before it has sent to advisor, the research time was a lovely moment for me. G/medhin G/silassie (GG) and Berhe W/mariam also deserve thankfulness for participating in the survey study.

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STATEMENT OF CERTIFICATION

This is to certify that the thesis entitled “Bank Selection Decision: Factors Influencing the Choice of Banking Services” submitted by Mr. Goiteom Woldemariam to Addis Ababa University towards partial fulfillment of the requirements for the award of the degree of Master of Science in Accounting and Finance (School of Graduate Studies) is a genuine record of the work carried out by him under my supervision and guidance.

Dr. S. Ulaganathan

Date: 

DEDICATION

Dedicated to MAM!!!

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LIST OF ACRONYMS

AHP	Analytical Hierarchy Process
AIB	Awash International Bank
ATM	Automated Teller Machine
BOA	Bank of Abyssinia
CBE	Commercial Bank of Ethiopia
CBO	Cooperative Bank of Oromia
CP	Customer Preference
CPA	Principal Components Analysis
DB	Dashen Bank
ERCA	Ethiopian Revenues and Customs Authority
KMO	Keiser-Meyer-Olkin
LIB	Lion International Bank
n.a.	no author
n.d.	no date
SPSS	Statistical Package for Social Science
UB	United bank
WB	Wegagen Bank

ABSTRACT

To plan a suitable marketing strategy to keep existing customers and for attracting new customers, commercial banks need to identify the criteria on which customers determine their bank selection decision. Hence, the purpose of this study is to examine the significance of bank selection criteria and how customers rank the factors based on their importance level to patronize banks and banking services. It also intended to present an analysis of gender differences in the relative importance of choice criteria in respect of selecting a bank and to elicit the opinion of bank customers on any extra services needed to be offered by banks. Both quantitative and qualitative methodology, using responses given by 201 customers in Addis Ababa city from different occupation (students, employees and businessmen), is employed in the analysis. A non-probability convenience sampling was used and data was factor analyzed to reduce the number of total variables in to manageable way.

Finding from this study reveal 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. Given this findings, it is recommended that hierarchical information integration may be a potentially useful method for bank managers to study complex decision making problems such as bank choice.

Keywords: *Bank Selection Criteria, Customers, Banks, Banking Service*

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The banking industry has been characterized by increasing competition since the early 1980s (Blankson et al., 2007). This has been the result of a number of interrelated factors such as competition and deregulation that have revolutionized the distribution of many financial services. In other words, an increased competition resulting from a decade of deregulation of the financial services industry has meant that banks find themselves faced with the task of differentiating their organizations and their offerings as a means of attracting customers (Blankson et al., 2007).

The concern of how customers choose banks has been given considerable attention by researchers (for example: Blankson et al., 2007; Mokhlis, 2009; Mylonakis, 2007; Awang, 1997; Boyd et al., 1994 and Almosawi, 2001). Exploring such information will assist banks to recognize the appropriate marketing strategies needed to attract new customers and retain existing ones (Kaynak and Kucukemiroglu, 1992). With growing competitiveness in the banking industry (Grady and Spencer, 1990), and similarity of services offered by banks (Holstius and Kaynak, 1995), it has become increasingly important that banks identify the factors that determine the basis upon which customers choose between providers of financial services. The relevant literature indicates that a great deal of research effort has been expended to investigate bank selection criteria for broad categories of customers (Yue and Tom, 1995).

Modern banking in Ethiopia introduced in 1905. At the time, an agreement was reached in between Emperor Minelik II and a representative of the British owned National Bank of Egypt to open a bank which leads to Bank of Abyssinia launched in Feb.16, 1906 by the Emperor (Abraha et al. 2005). This event marked the introduction of banking in the country. The Bank of Abyssinia was given a 50 years pleasure and was engaged in issuing notes, collecting deposits and granting loans, but its clients were mostly foreign businessmen and wealthy Ethiopians (Mauri, 2003).

Ethiopian banking is flourishing. Financial results for the 2010 fiscal year prove an industry enjoying high growth, high profits, and high dividends. Even in the middle of a challenging situation, all key areas of banking operations: collecting deposits, providing loans, and foreign exchange dealing, showed growth of more than 20 percent. Even though sharing strong expansion, there are of course prominent variations along with banks in terms of their aggregate size, revenue sources, customer focus, loan concentration, and operational efficiency¹. Presently, there are 15 banks in Ethiopia of which 12 are private banks² and the rest are government owned banks. Moreover, looking ahead, banks will surely be confronted by the entry of six new banks (namely: Abay, Enat, Hawassa, Dehub Global, Noah, Zam-Zam) and other financial institutions.

With growing competitiveness in the banking industry (Grady and Spencer, 1990), and similarity of services offered by banks (Holstius and Kaynak, 1995), it has become increasingly important that banks identify the factors that determine the basis upon which

¹ See the survey in access capital (December 2010), where they present their review on Ethiopian investment specifically on the banking sector

² Abyssinia, Awash, Berhan, Bunna, CBO, Dashen, Lion, NIB, OIB, United, Wegagen, and Zemen (April. 2011)

customers choose between providers of financial services. In this regard, the basic aim of the study is to examine the basic motivational factors in customers' bank selection in Addis Ababa city. In order to achieve the research aim, the study has adopted both quantitative and qualitative research approach specifically survey method through personally administered questionnaires (both quantitative and qualitative).

1.2 Statement of the Problem

A number of studies have been undertaken to analyze factors that affect customers' preference in banking services. Among these studies include Mokhlis et al. (2008) who examined the determinants of bank selection criterion in Malaysia considering undergraduate students; while Mokhlis (2009) attempted to analyze gender-based choice decisions. Correspondingly, in Bahrain (Almossawi, 2001), a case of college students and in Greek (Mylonakis, 2007), a research task of customer preferences in the home loans market were done. Other studies are also undertaken in Europe (Bosnia & Herzegovina by Cicic et al., 2003; Greek by Mylonakis, 2007) and Africa (Ghana by Blankson et al., 2007; Nigeria by Maiyaki et al., 2010; Maiyaki, 2011) countries on the issue of bank selection criteria in line with customers' preference: why and how they select a particular bank to be served there. Although such studies have contributed substantially to the literature on bank selection, their findings may not be applicable to other countries like Ethiopia, due to differences in cultural, economic and legal environments.

To the best of the researcher's knowledge, there exists no previous research work in Ethiopia concerning the banking selection criteria of customers. Therefore, this study is particularly intended to examine the determinants of customers' bank selection in Addis Ababa City. Such a study is hopefully expected to fill the gap in literature by scrutinizing the determinants of customers' bank selection in Addis Ababa City.

1.3 Objectives of the Study

The overall objective of the study is to investigate the main determinants that affect customers' selection of banking services.

Specific Objectives

- ❖ To determine the criteria that customers consider important when selecting a bank and how those criteria are prioritized according to their importance.
- ❖ To identify either any significant gender discrepancy among customers in selection of a bank or not.
- ❖ To assess whether customers require additional services apart to the services currently offered by the bank of their choice or not.

1.4 Specific Research Questions

To achieve its objectives, the study has raised the following research questions.

1. What factors do customers consider important in selecting their choice of a bank and what are the most important factors?
2. Which bank(s) are most preferred banks in Ethiopia based on the sample under consideration?

3. Which banking facilities are the most frequently used by customers?
4. Do customers have an intention to continue with their respective bank?

1.5 Significance of the Study

The research has examined the determinants of customers' bank selection criteria as well as evaluated the relationship between personal status of the customers and sound decision of selection. 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 the Addis Ababa region. 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, this study can help bank decision makers (both governmental and private banks) to identify the major factors that may determine bank selection decisions among customers. Such information should help the management of practicable banks in formulating appropriate marketing strategies for reaching and attracting customers.

1.6 Scope and Limitations of the Study

This research focuses on a specific sector of customers and thus the results do not represent the general public. As the survey conducted was only restricted to Addis Ababa region and participated merely some occupations results may vary if research is conducted in other parts of Ethiopia in addition to other occupations. And further if the study is conducted taking all customers of the selected organizations and business area

the results may vary. It is limited only to customers of several banks in Addis Ababa City from different occupations such as students from Addis Ababa University, businesspersons (merchants) from Merkato and employees from the Ethiopian revenues and customs authority. Some distributed questionnaire are left unreturned thus, this has a bit reduced the sample size.

1.7 Organization of the Paper

The thesis is structured in five chapters as follows. Following introduction in the first chapter, chapter 2 contains a review of the literature including customers' behavior and satisfaction on banking services and bank selection criteria by different groups of people and gender- based selection criteria. The research design and methodology are presented in chapter 3. Specifically, this chapter shows the research sampling method followed by methods used in collecting data and in the study are all outlined. Furthermore, statistical methods used to analyze the data are also discussed. In chapter four, the results and findings of the study are also discussed. Finally, the last chapter enclosed the summary of findings, conclusions drawn and recommendations and areas where further research may be productive.

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CHAPTER TWO

REVIEW OF LITERATURES

This chapter reviews the studies that have been carried out to date. Previous studies conducted in this area are organized based on their chronological context.

2.1 Definition of Terms

Banks are the major type of deposit taking institution; they make their living predominantly by taking deposits which represent their liabilities and loaning these funds to borrowers which represent their assets. They loan out funds at a higher interest rate than the funds, and the difference represents their gross profit margin before expenses and tax. In addition, banks can earn commissions and fees by selling various products such as foreign exchange services, safe custody services, advice, account management charges, credit card facilities, insurance and so forth (Pilbeam, 1998).

Bank is an institution which deals in money and credit. It accepts deposits from the public and grants loans and advances to those who are in need of funds for various purposes. *Banking* is an activity which involves acceptance of deposits for the purpose of lending or investing. In addition to accepting deposits and lending funds, banking also involves providing various other services along with its main banking activity. These are mainly agency services, but include several general services as well. A *banker* is one who undertakes banking activities, accepting deposits and lending money for different purposes³.

³ See business studies in India, n.a., nature and scope of banking number 32

Hart (1931, p.11) defined a banker or bank as a person or a company carrying on the business of receiving money, collecting drafts, for customers subject to the obligation of honoring cheques drawn upon them from time to time by the customers to the extent of the amounts available on their current accounts.

There is no statutory definition of a banker's customer, and so one has to refer to the decisions of the courts in order to discover the principles which determine whether or not a person is a customer. In the United States, Sect. 4-104 (1) (e) (1957 of the Uniform Commercial Code defines as "any person having an account with a bank or for whom a bank has agreed to collect items and includes a bank carrying an account with another bank". As stated by Lord Davey in *Great Western Railway Co. V. London and County Banking Co. Ltd.*, in 1901, "there must be some sort of account, either a deposit or current account or some similar relation, to make a man a customer of a banker".

Role of Banks: The functions of banks are divided into two categories: as primary functions and secondary functions including agency services. The primary functions of banks include: accepting deposits and lending money. The most important activity of banks is to activate deposits from the public. People who have surplus income and savings find it convenient to deposit the amounts with banks. The second important function of banks is to grant loans and advances. Such loans and advances are given to members of the public and to the business community at a higher rate of interest than allowed by banks on various deposit accounts.

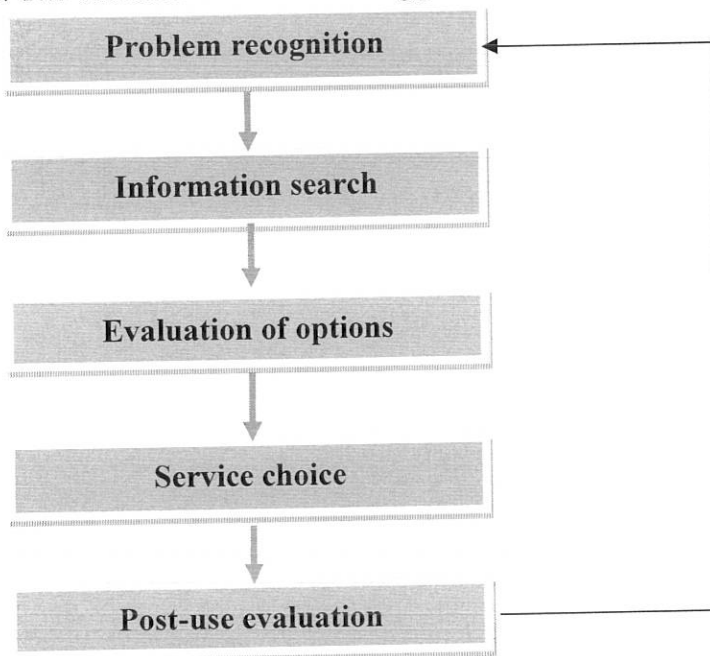
2.2 Customers Behavior

Customer behavior is the process individuals or groups go through to select, purchase, use and dispose of goods, services, ideas or experiences to satisfy their needs and desires (Sells, n.d.). Consumer behavior is not only influenced by external factors, but also by their attitudes and expectations. These attitudes and expectations are constantly changing in response to a continuous flow of events, information and personal experiences (Peer, 2009).

2.2.1 Steps in the Customer Decision Process

Researchers realised that decision makers actually possess a set of approaches ranging from painstaking analysis to pure whim, depending on the importance of what they are utilizing and how much effort the person is willing to put into the decision.

Fig. 1: The customer decision-making process



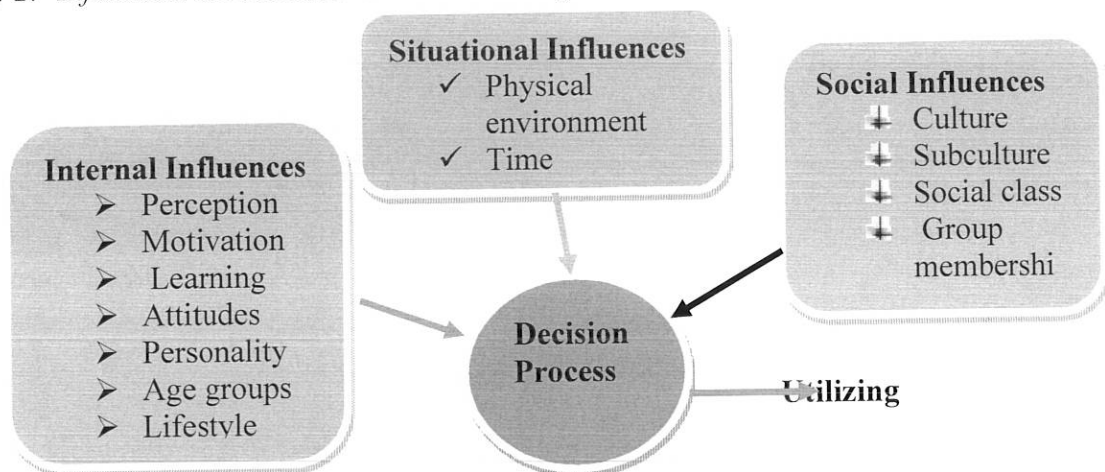
Source: Adopted from Sells (n.d.), *Consumers behavior*, pp. 157)

2.2.2 Influences on Customers' Decisions

Apart from understanding the procedure of the customer decision-making process, industries also try to determine what influences in customers' lives affect this process. There are three main categories: internal, situational and social influences.

A. Internal influences on customers' decisions: Service giving organizations know that one customer's ideal treatment can be quite different from that of another customer. You may think the ideal treatment is a vigorous internet banking, while your best friend dreams of a typical fast customer service and your father is set on having a friendliness of the staff in the organization. Some of these differences are due to the way in which customers internalise information about the outside world such as perception, exposure, attention and interpretation. *Perception* is the process by which people select, organise and interpret information from the outside world (Sells, n.d.).

Fig. 2: Influences on customer decision making



Source: Adopted from Sells S. (n.d.), *Consumers behavior*, pp. 157)

A number of different factors in customers' lives influence the consumer decision-making process. Organizations need to understand these influences and which ones are important in the exploit process to make effective marketing decisions.

B. Situational influences on customers' decisions: these factors can affect what, where and how customers utilize their choices from different organizations. It is no secret that people's moods and behaviors are strongly influenced by their physical surroundings such as advertising. There is one motto by the advertising archives: *"As customers are exposed to more and more advertising, advertisers must work harder than ever to get their attention"*.

In addition to the physical environment, time is another situational factor. Organizations know that the time of day and how much time one has to make a utilize affect decision making. Time is one of consumers' most limited resources. We talk about 'making time' or 'spending time', and are frequently reminded that 'time is money'. They should provide fast service for their customers.

C. Social influences on customers' decisions: Although we are all individuals, we are also members of many groups that influence our utilizing decisions. Families, friends and classmates often influence our decisions, as do larger groups with which we identify, such as ethnic groups and political parties.

2.3 Customers Satisfaction

Attempting to offer all things to all people is difficult, if not impracticable in a competitive marketplace. Many financial institutions are selecting a few key target markets and concentrating on trying to serve them better than their competitors. Generally speaking, customers and business banks have three main targeting choices (Zineldin, 1996). They can attempt to become financial supermarkets, low-cost producers, or market nichers: Financial services supermarket strategy is only appropriate for a few, very large, diversified banks and financial institutions such as Citicorp, American Express. Low cost producers offer limited services at discount prices and compete on price. The most obvious examples are discount brokerage firms and money market funds that offer limited services efficiently.

Specialty or niche banks primarily focus on the needs and desires of a particular market segment with a particular product mix such as mortgage loans, venture financing, special trade markets and industry sectors. Many regional and national banks have adopted niching strategies, targeting market segments where they have key strengths and experience. Not surprisingly, many small and medium-size institutions are targeting commercial customers and prospects and avoiding intense competition for consumer business.

The customers-needs approach requires that banks target their business towards one or all customers, and towards satisfying some or all of their needs and wants. A bank has to analyze and consider its strengths and weaknesses, its market opportunity, and its competitors.

Customer satisfaction is a strategic support to obtain a long term profitable growth. This may have its own advantages and main results. For instance, more loyalty of customer can create a cross selling & up selling of services/ products of one organization, great customer retention can result in a long customer lifetime value for the institution, better short and long term business performances may also consequence a higher stock returns, stock value and cash flow less volatile and long period strong competitive positioning can consequence a market leadership in one institution (Unicredit Group, 2008). Unicredit group has a strong commitment to be the customer satisfaction leader in Italy. Regarding the customer satisfaction in the leadership meeting in January 2007 at Turin Lisbon, Alessandro Profumo quotes:

*What is really important is to build a Group where people recognize themselves, where our employees are happy of being part of the team, **where our customers are satisfied of being our customers because we are the best in terms of service - or at least because they perceive that we are making a lot of efforts to be the best at a service level.***

Although customer withholding is the goal of the service provider, substitute measures are typically used owing to the constraints involved in longitudinal studies. These measures relate to attitudes or future intentions towards the service provider (Levesque et al., 1996). There are three regularly used measures of generally service quality, meeting expectations and customer satisfaction (Hausknecht, 1990; Heskett *et al.*, 1994; Jones and Sasser, 1995 cited in Levesque et al., 1996).

The customers' contentment begins with obvious, operational definitions from both the customer and the organization. Understanding the inspirations, expectations and requirements of both provide a foundation in how to provide best service to the customer. It may even provide information on making improvements in the nature of business (Haque et al., 2009). This is the heart of research into customer satisfaction. Service quality is one of the customers' judgments about an entity's overall excellence or superiority. It is a form of attitude and results from a comparison of expectations to perceptions of performance received. As Mols defined service quality is a measure of how well the service level delivered matches customer expectations (Mols et al. 1997).

A study carried out by Haque et al. (2009) found that customer satisfaction arbitrates the effects of automated bank service quality on financial performance. Customer satisfaction can thus be considered as the key construct to bank financial performance. However, this research found that internet service quality had no significant relationship with customer satisfaction; improvement in the quality aspects of this dimension could enhance overall satisfaction and thus financial performance.

A study was conducted on the Pakistan customers by Khattak et al. (2010). They analyzed the customer's satisfaction and awareness level towards the Islamic banking system and investigated the relationship between different demographic variables and the satisfaction and awareness of customers by taking a sample of 156 customers. They go to the point that the major factors were management proficiency, bank's personal knowledge, cost of services, efficiency of transactions, and facilities of parking. In

contrast, advertising campaign, working hours and financial counseling were selected by the customers as least important factors in choosing banks.

Recently in Malaysia, Munusamy et al. (2010) conducted a study on service quality delivery and its impact on customer satisfaction in the banking sector. They found that assurances, tangibles, understanding and responsiveness are the most important factors that generate customers' satisfaction and these factors have a positive relationship with customer satisfaction. Their finding also indicates that measuring the level of performance and satisfaction when it comes to the intangible expectations are the most difficult things for the customers.

2.4 Bank Selection Criteria

Financial industries, especially banks, are becoming highly competitive day by day due to service differentiation, easiness of service availability, culture based products offering and technology used in service delivery. Customers are selecting banks considering various features of the service proposition. Thus, to attract customers, banks are facing challenges more than ever. But to attract customers it is crucial to know what selection criteria customers are adopting in selecting banks. Such selection criteria of the customers open an area of research on bank selection criteria of customers.

Various empirical research using different methodologies and approaches have been conducted in various parts of the world to investigate the bank selection criteria of the customers. Frequently these studies examined the question of why people prefer a specific bank. Among the researchers who did a scientific study on this topic were in

Malaysia (Mokhlis et al. 2008, 2009 & 2010; Haque et al., 2009), Nigeria (Maiyaki, 2008 & 2011; Omar et al., 2006), Singapore (Ta et al., 2000), Canada (Levesque et al., 1996) and India (Rao et al., 2010). Eventually the importance of the studies started more in direction of other features of bank choice, like the comparison of customers choice criteria for single and multiple bank users (Mokhlis et al., 2009) and an analysis of gender-based choice decision in banking (Omar et al., 2006; Mokhlis, 2009). And recently the variation in bank choice criteria between distinct cultural groups in Malaysia was investigated by Mokhlis et al. (2010).

Anderson et al. (1976) studied on customers' bank selection decision in USA. He found that: friends' recommendations, reputation of the bank, availability of credit, friendliness of staff and service charges on accounts are the most important criteria in selecting banks. The authors' study was, however, criticized by Laroche (1986) who claimed that the authors' work was contradictory with previous research that identified location (i.e. convenience) as an important factor in bank selection. Laroche (1986) findings were later maintained by Gerrard and Cunningham (2001) and Lee and Marlowe (2003) who confirmed convenience as important in the choice of banks. Anderson et al. (1976) findings have however been supported by Kaynak (1991), Ta and Har (2000), Almosawi (2001) and recently by Rao (2010), who conclude that recommendation by parents and friends, i.e. peers, was the most important criterion.

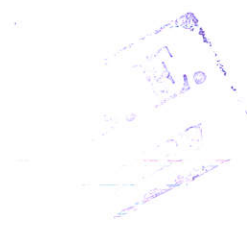
In his article about American college students, Schram (1991) found that convenience remains the primary reason why most college students choose their banks. Family tradition also seemed an important factor for college students. He noted that sometimes it

takes very little effort to keep the account of a student whose family has been with the bank for some time. Thus, family loyalty to banks appears to be exhibited among students.

In their article about American university students, Khazeh and Decker (1992-93) investigated the consumers' decision-making criteria in the United States of America (USA), considering also the degree of dissimilarity among banks with respect to these criteria and found that service-charge policy, reputation, competitiveness of loan rates, time required for loan approval and friendliness of tellers, are the most important factors in explaining how customers choose banks. In contrast, availability of financial advice was among the lowest ranking determinant attributes.

In the paper of Boyd et al. (1994), the results of the study reveal that reputation, interest charged on savings accounts, interest charged on loans, quick service, location on city and hours of operation are viewed as having more importance than other criteria such as friendliness of employees, modern facilities, and drive-in-service. However, a research by Awang (1999) examined that customers preferred to deal with banks that can provide quality services such as fast and efficient service, staff work accuracy, friendliness of bank personnel and warm reception.

A study by Haron *et al.* (1994) in the Malaysia, was conducted a survey on 301 Muslim and non-Muslim commercial bank customers to determine the bank selection criteria. They found that "fast and efficient service", "speedy of transactions", "friendliness of bank personnel" and "confidentiality of bank" was the four most important factors by



Muslim customers. On the contrary, non-Muslim customers four most important factors were “friendliness of bank personnel”, “fast and efficient service”, “reputation and image of bank” and “speed of transactions”.

According to Thwaites and Vere (1995), the student group in British is an important target audience that is being overlooked by marketing practitioners in the banking sector. The authors go on to emphasize that the limited information available on students’ selection criteria of retail banks makes it difficult to be precise about the key drivers determining the choice of a particular financial service supplier. Their finding revealed that ATM service is the most important factor in selecting which bank to patronize. Furthermore, Thwaites and Vere (1995) affirm that college students are less loyal than the public, expensive to attract, and difficult and challenging for positioning and differentiation strategies. In view of the fact that students can be perceived to be living on future income, it is important that retail banks develop marketing strategies attractive to them as potential customers.

In Finland, Holstius et al. (1995) investigated the determinant factors used in bank selection decisions by customers. They found that the most influential factors reported by customers were location near home or work, fast and efficient service, recommendations of friends and relatives, external appearance, interior comfort of the bank counter partitions and mass media advertising of the services. Since the least important factors listed by the respondents were financial counseling services provided, confidence in the bank manager and a wide range of services offered.

One earlier study reported by (Zineldin, 1996) guides to a well-integrated application of technology and staff through operations that respond to customer needs encourage customers to use a whole range of banking products/ services rather than just a few. It also helps to build loyalty by creating deeper and fuller customer relationships. Additionally, he found that convenience of location, price and advertising had a minor impact on bank selection for the customers in Sweden. In Poland, Kennington et al. (1996) studied on costumers selection criteria for banks. The findings of their survey disclosed that, as in other countries, the most important variables influencing customer choice are reputation, price/ cost, convenience and service but with certain variations related to the Polish context.

With the intention of identifying the determinant factors used by customers in making bank selection decisions, it was suggested to take into consideration two dimensions, (Anderson et al., 1976; Khazeh & Decker, 1992; Laroche & Manning, 1984; Edris & Almahmeed, 1997). First, bank attributes to which customers react in terms of their importance in choosing a bank. Second, the perceived degree of similarity/dissimilarity among banks with respect to each of these attributes. This means that the true underlying determinants of bank selection decisions are functions of both their relative importance and the perceived degree of dissimilarity among banks (Khazeh and Decker, 1992).

The relative importance of banking services to business customers' needs and the true determinants of bank selection. Ultimately, Edris and Almahmeed (1997) found that the highest-ranking determinant factors of selecting a bank in Kuwait are: size of bank assets, efficiency of personnel help in financial emergencies, banking experience, friendliness of

staff, reputation, communications with staff, knowledge of firm's business, prompt provision of services, and availability of branches abroad.

In Ghana, Owusu-Frimpong (1999) has conducted a survey on patronage behavior of bank customers using an informal telephone interview with six senior bank managers. Findings from 225 respondents discovered that convenient location and friendly employees are the most important attributes determining the image of the banks for their selection decision pursued by size of the bank and profit minded services.

A study conducted by Awang (1999) discovers the factors affecting customers' preference in services rendered by various banks in Malaysia. His study showed that customers prefer quality services than the other factors mentioned. They rank fast and efficient services and bank image/reputation as their first and second preferences, respectively. Convenience location and the availability of parking space nearby were found to be significant in bank selection decision. Thus, opening of more service centers at strategic location would be to customers' convenience. Confidence in bank manager, external appearances of bank, mass media advertising and recommendation from friends and relatives were found to be less significant factors in bank selection decision.

In Singapore, Ta and Har (2000) undertook a study on bank selection decision in Singapore using the analytical hierarchy process (AHP) to access the principal decision factors used and their relative determinant in bank selection decisions. They concluded that results of the analysis for the total sample indicated that the bank section decision process is based primarily on nine determinant selection criteria: high interest rate,

convenient location, and quality of service, self-banking facilities, low charges, low-loan rates, long operating hours, undergraduate privileges and recommendations.

A study in Bahrain by Almosawi (2001) focused on examining the bank selection criteria being employed by college students. He used 1,000 sample students from University of Bahrain. His findings reveal that the chief factors determining college students' bank selection are: bank's reputation, availability of parking space near the bank, friendliness of bank personnel, and availability and location of automated teller machines (ATMs), such as their availability in several convenient locations and 24-hours availability of ATM service. The paper suggests that it may be necessary to deal with male and female students as distinctive segments with different priorities in their bank selection process.

Lee and Marlowe (2003) investigated how customers choose a financial institution for their checking accounts on 32 participants using both qualitative and quantitative approach with focus group discussion technique. They were found that, although most customers' value convenience as one of the most important decision-making criteria, their definitions of convenience varies across customers. The results indicated that convenience, retail fees and minimum balance requirements, range of the service, personal relationship and safety are the most important criteria to the US customers. Another important finding of the study is that the participants facing new financial needs start their search process from the institution where they have their checking accounts.

Cicic et al. (2004) investigated the attitude of 300 students aged 19-24 years of the University of Sarajevo in Bosnia and Herzegovina to examine the customers' bank selection criteria. Their findings disclose that the main factors determining students' bank selection are: reception at the bank, friendliness of bank personnel, low services charges, ease of opening a current account, and confidence in bank management. In their conclusion also they suggest that there are some differences compared with bank selection process employed by students in developed countries.

Other research literatures Lympelopoulos et al. (2006) examined the importance of service quality in bank selection and found four distinct factors as the main choice criteria that influence consumers' bank choice. Bank service quality is the most important element that customers consider in order to select their mortgage providers and establish a long-term relationship with them. The other three refer to product attributes, access, and communication.

Mylonakis (2007) studied on customer preferences in the home loans market experience of the bank customers in Greece. He was used 200 customers in which data was collected using structured questionnaire. His findings showed that in addition the mortgage product mix and some cost elements (interest rate, prepayment penalty) other important influential factors appear, such as the various offers of banks, the bank's reputation, existing cooperation, as well as bank staff. Bank branches proved to continue constituting the primary distribution channel for mortgage products and services. Promotion through television plays an important role and seems to affect the customer bank selection.

In Malaysia, Dusuki (2007) studied using self-administered questionnaires involving a sample of 750 respondents from four different regions. He used banking criteria ranking as perceived by the respondents are analyzed using Friedman Test. The most significant determinants perceived to be important for selecting banks were comprise: convenient location, friendly employees, large, profit minded, slow service and efficient service.

Blankson et al. (2007) conducted a study in three varied cultural settings of industrialization. Their research was based on the college student group and thus the results do not represent the public. The study reveals three key dimensions, factors, strategies that are consistent across all three economies. The paper concludes that open and liberalized business climate appear to explain consumers' decisions. This poses generalize-ability questions without further replications and validations. This study did not examine whether there were consumers' switching behaviors involving banks.

Survey results of 350 respondents show that bank selection criteria in overall significantly differ between Turkish and Greek Cypriots. Besides, priorities of bank selection factors are also generally different between two communities. Senyücel (n.d.) found from his study on bank selection criteria on these different geographical area reveal that the most important bank selection criteria for Turkish Cypriots are availability of internet banking, where it is paying higher interest on saving accounts for Greek Cypriots. On the other hand, the least important factor of bank selection for Turkish Cypriots is recommendation of friends, where it is family tradition for Greek Cypriots.

Rehman and Ahmed (2008) in their study conducted in the city of Lahore (Pakistan) found that the four most important variables influencing customers' choice in selecting a bank were customer services, convenience, online banking facilities and overall bank environment. Availability of internet banking was also found to be an important bank selection factor in another survey conducted by Senyücel (n.d.).

Mokhlis et al. (2008) sampled 350 undergraduate students in Malaysia to identify factors which influence their bank selection decisions and to examine whether undergraduates constitute a homogeneous group in relation to the way they select a bank. Using "factor analysis" they found that undergraduates secure feelings was the most important factor in influencing the students in selecting a bank. ATM service was the second prioritized factor followed by financial benefits. The next three criteria, ranked fourth, fifth and sixth, respectively, were service provision, proximity and branch location that can be grouped as moderate factors. By contrast, the students considered non-people influential, attractiveness and people influences which were ranked seventh, eighth and ninth, respectively, did not play significant roles in influencing their decision in selecting the bank. It is interesting to note that their finding also shows the responses did not constitute a homogenous group since gender, stream of study, ethnicity and number of saving accounts held produced different prioritized factors in bank selection.

According the study of Khan et al. (2008), an investigation on 100 customers of Islamic bank customers in Bangladesh, religious principles is the key bank selection criterion of the Islamic bank customers, while customers' demography plays some role in determining which selection criteria matter more than others do. Additionally, findings

for the relationship between bank selection criteria and level of income shows that the choices of 'family and friends' and convenient location depend significantly (at 5% level) on level of income.

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 with low service charge and availability of ATM services to be the most important criteria in patronizing banks. The findings of this study are different from all other studies surveyed so far, in which, low service charge is the most important factor for bank selection decision. 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.

A study conducted by Kumar et al. (2009) identified eight determinates- branding, convenience, recommended by peers, required by the company, variety of products and services, rate charges, flexibility in accounts handling and customer-friendly environment are the most important factors affecting the decision of the customers on making the choice of the bank in Malaysia. This paper recommended to banks to be innovative in creating more types of channels by riding on technological advancement; reducing customers' waiting time and effort should be their main priority and objective.

Similar to the earlier studies of Gerrard and Cunningham (2001) and Lee and Marlowe (2003), Blankson et al. (2009) was found convenience as the most important factor in selecting banking services by students in Ghana and United States. They used comparative

cross-national study aimed at revealing the factors determining retail bank selection among students in different environmental settings. Other findings of the study were competence, recommendation by parents and free banking and/ or no bank charges.

In India, Rao (2010) conducted research in the area of student banking focusing on factors that influence their selection of banks. A sample of 312 respondents took part in this study. The responses were shows 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.

A study was conducted by Abduh et al. (2010) on the Indonesian customer's attitude. They targeted the customers of Islamic banks. Finding of his study were that most customers prefer banks based on announcements of the country's council on interest rates is their first consideration in patronizing a particular bank and puts reason of safety of fund during the financial crisis, has greater possibility to patronize Islamic banks in Indonesia. In addition, bank's marketing and advertisement also highly influences individuals to patronize Islamic banks.

In Afghanistan, Farooq et al. (2010) studied the section criteria of Islamic customers in patronizing a particular bank. They found that the most important factors leading to the customers' choice for selection of Islamic banking products/services are: religious

inclination, recommendation of family and friends, easy access to branch and profitability of the bank. As the degree of importance of selection criteria of banks is concerned the results shows quite significance in the educational level and the degree of religious regulations in the selection of banks. The examination of the results revealed that those respondents having graduate degrees in diverse avenues are more influenced from the Islamic teachings and principles in selecting bank in comparison with other respondents having other academic qualification. The results also show that the less educated respondents are comparatively more influenced form friends and family.

In their recent study, Shaher et al. (2011) evaluated the major factors that affect the commercial banks' performance in the Middle East region. They based 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 bank's 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.

A recent study conducted by Katircioglu et al. (2011) investigates the bank selection criteria of undergraduate students who are future potential customers of banks from different regions of the world in a small island economy. They found that availability and convenient location of ATM services and speed and quality of services are the most important factors for considering banks and their services for both Turkish and non-Turkish undergraduate students. Afterward, they conclude that there are not massive

differences in the bank selection factors between Turkish and non-Turkish international students in the case of a state University in North Cyprus.

Most recently, Maiyaki (2011) in his survey in Nigeria obtained information about the factors determining the selection and preference of banks by retail customers. He used 417 sample bank customers using multi-stage sampling procedure and found that size of bank total asset, has the greatest influence on customer choice of banks, followed by availability of large branch network across the country, then reputation of the bank, personal security of customer, and then convenient access to bank location. On the other hand, recommendations of friends/relatives, attractiveness of bank's physical structure, opportunity of telephone banking, availability of assorted retail bank services and reasonable terms of credit/loans repayment were the factors that have the least influence on customer choice of banks. Finally he recommended banks management should pay attention to factors that have significant effect on the choice of banks.

2.5 Gender-Based Difference in Bank Choice

Previous studies listed gender differences as one of few demographic characteristics that determine the selection criteria employed by customers when selecting a bank. In the first major study of note, Laroche et al. (1986) found that there are some significant differences in choice criteria for retail banks in Canada with respect to basic demographic factors. Among the more interesting findings of this study were that males attached greater emphasis on overdraft privilege whereas females are more concerned with friendliness of staff and safety of funds.

A study by Boyd et al. (1994) in the USA reported that males are more interested in quick service and convenience of location, as opposed to females, who placed a greater emphasis on availability of current accounts and interest on saving accounts. However, the importance of the differences found was unclear because the authors did not test for significance.

In Bahrain, Almosawi (2001) conducted a survey on bank choice criteria and reported that male and female college students exhibited significant differences in 22 out of 30 bank selection factors. According to his findings, male students prefer banks based on: availability of parking space nearby, availability of ATM in several locations and convenient ATM locations conversely banks' reputation and 24 hours availability of ATM service are the most important factors in selecting banks by female respondents. In the study of Gerrard and Cunningham (2001) using a sample of Singapore's undergraduates, it was found that males placed greater importance on 'appearances' than their female counterparts.

Cicic et al. (2004) conducted a study under the title of bank selection criteria employed by students in a southeastern European country specifically in Bosnia and Herzegovina and they found that 52% of the respondents already have bank accounts. The male proportion of the population has more bank accounts opened (66.4%), in comparison with the female proportion of the population (33.6%).

Another study done by Omar (2008) analyzes the factors that affect the choice of retail banks by men and women customers in Nigeria. He found that the most important factor considered by male customers was safety of funds, followed by efficient service and speed of transaction. Female customers on the other hand, considered speed of transaction as the most important factor, followed by safety of funds and recommendation by relatives and/or friends.

In a more recent study conducted in Malaysia, Mokhlis (2009) found that six factors influence bank preference to both male and female are: attractiveness, marketing promotion, Automated teller machine (ATM) service, proximity, people influences and financial benefits. To sum up, the results generate an interesting point in the researchers that gender differences do not discriminate the attitudes toward banking services and selection of bank.

In general, it can be concluded that even though there have been studies on bank selection criteria's in some developed and developing nations, as per the knowledge of the researcher, there appear to be no studies that examine the factors affecting customer preferences in banking services in Ethiopia. It is, therefore, not known whether the customers of the Ethiopian banks choose a bank based on proximity, effective service, bank's reputation, friendliness of bank personnel, or any other criteria. In this context, the purpose of this study is to investigate the determinants affecting customers' section in banking services in Addis Ababa City.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This chapter gives an outline of the research methodology used in the study. Therefore, the source of data for the study, data and sampling technique, design of the research, a description of the method of data collection techniques is given. In the last part of this chapter the statistical method used to analyze the data, was discussed.

3.1 Source of Data and Sampling

The target population for the study was included students, businessmen and employees dwelling in Addis Ababa City. Forty two percent of the respondents are students of Addis Ababa University because of their convenience, 36 percent are employees from different regions of the Ethiopian revenues and customs authority, namely Mexico, Kaliti and Megenagna branches)⁴. These employees were selected based on the assumption that they have the capacity to save and deposit money in banks because their salary is relatively attractive. While the remaining are businessmen from Merkato⁵. These groups are expected to represent all types of population categories in the city, while conducting assessment of the determinants that affect customers' preference in banking services. The sample targets are presumed to often use bank services to save, receive and transfer money to and from different corners of the country. Given the nature of the study (due to the unavailability of sampling frame of banks' customers or infinite population), a non-

⁴ A name of places found in different regions of Addis Ababa where Ethiopian revenues and customs authority is situated (Megenagna- Head office & Eastern region, Mexico- Western region).

⁵ The largest market place in Addis Ababa, Ethiopia as well as in Africa (See <http://wikimapia.org/3616123/Merkato-one-of-the-largest-open-market-in-Africa>).

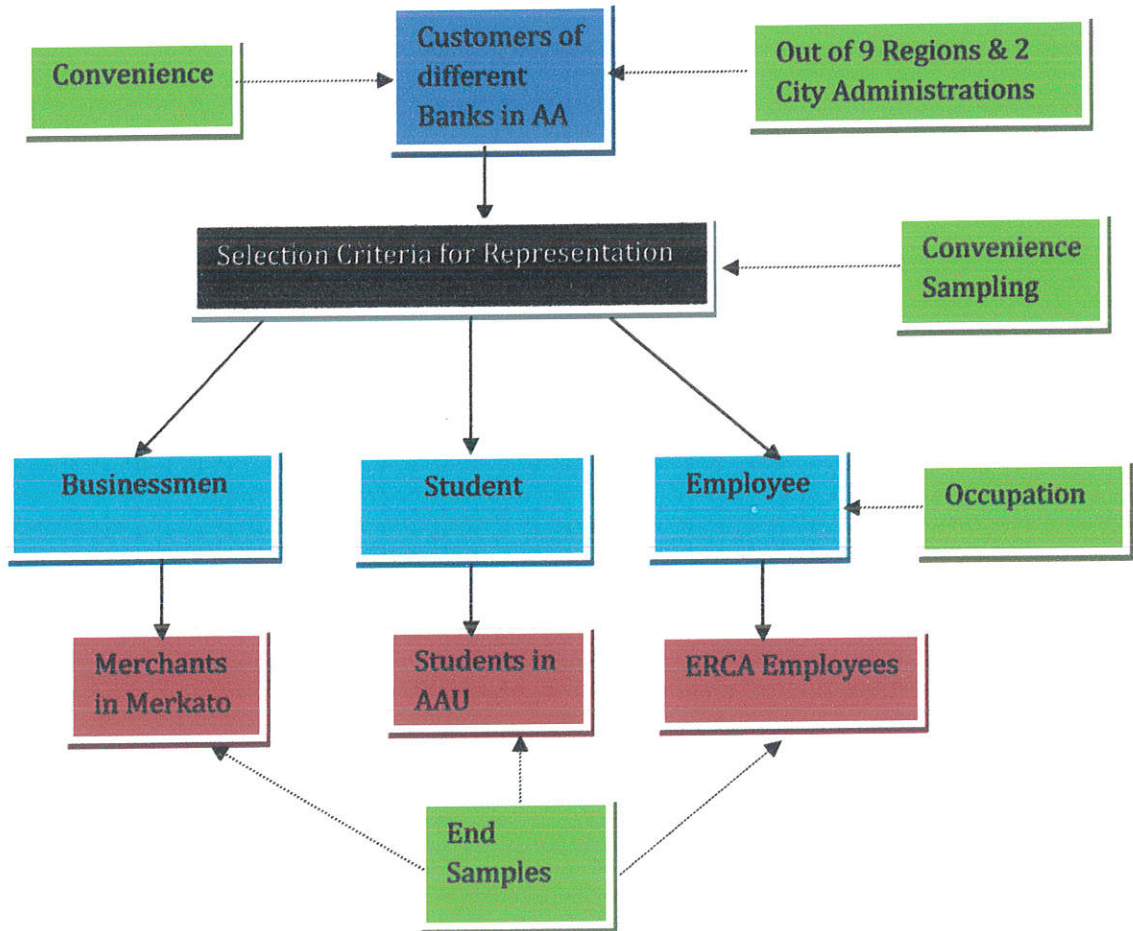
probability (convenience) sampling was chosen. Therefore, a sample size of 201 customers was selected from the defined target population. The Convenience sample selection of the respondents has been accomplished by distributing the questionnaires to the available customers of the sampled occupations. However, an attempt was made to achieve gender balance in the selection of the respondents.

3.2 Research Design

The research design depicted below was used to study the determinants that affect customers' preferences in banking services among several banks, and the quantitative and qualitative data has been used to assess those factors. Survey questions of the questionnaire form were gathered from various studies (Maiyaki, 2011; Katircioglu et al., 2011; Rao, 2010; Mokhlis, 2009; Blankson et al., 2007; Cicic et al., 2004; Almosawi, 2001) in the relevant literature and revised and adopted to the Ethiopian banking system. For the sample design to be employed AA⁶ customers, see figure below.

⁶ Addis Ababa, the capital city of Ethiopia

Fig. 3: Study sample design



Source: Developed by the researcher

3.3 Data Collection

It is the purpose of this study to understand determinants that affect customers' selection of banks using the above design. In order to achieve the research aim, the study was adopted both quantitative and qualitative research approach specifically survey method through personally administered questionnaires including close-ended and open-ended questions. This study was used the cross-sectional survey method because the data was collected at a point in time. The quantitative and qualitative measurement approach was

employed in this study in view of the popularity of the previous studies (see among others Lee and Marlowe, 2003; Blankson et al., 2007; Khan, 2008 and Mokhlis, 2009).

The adoption of the survey design, in this study, is to gather information that was not available from document records and make conclusions about the determinants that affect to customers in selecting a particular bank, and their significance in banks based on responses of a sample of respondents. In this regard, Fowler (1984) noted that the strengths of survey methods that result in their wider use included the value of statistical sampling, consistent measurement, and the ability to obtain information not systematically available elsewhere or in the form needed for analysis.

The questions were organized into three sections as follows: The first section of the questionnaire asked respondents to obtain their personal background, questions regarding their gender, age, occupation, level of income and so forth. The second section of the questionnaire sought to obtain information on the banking behavior of respondents. The respondents were asked for the name of banks at which banking services were used; which bank was the respondent's main bank⁷ and which was the respondent's subsidiary bank(s). The length of time that customers have been with their banks was also measured.

The final section of the questionnaire was designed to rate the relative importance of 24 bank attributes when choosing which banks to patronize. They were measured on a four point Likert-type scale of importance ranging from (4=most important) to (1=not important at all). The list of criteria was based on previous similar studies (Omar et al.,

⁷ In the present study, the term "main bank" was defined as the bank with which the respondents conducted most of their transactions

2006; Mokhlis et al., 2008; Mokhlis et al., 2010; Maiyaki, 2011), and personal experience of the researcher.

To determine the probable usefulness of the questionnaire and whether further revision is needed prior to conducting the survey, the questionnaire was pilot tested. The researcher distributed the questionnaire to 10 postgraduate students and 5 employees as a sample group. The subjects were asked if they had any problems understanding the questionnaire or have specific comments regarding the questionnaire. The format for responding was through both open-ended and close-ended questions. The subjects were encouraged to be very free with their responses, make suggestions for improvement and outline any difficulties they found.

After each questionnaire was accomplished, every question was asked what he/she meant in checking various answers. Comments were solicited on the intelligibility of the questions and what the changes should be done in order to make the questions simpler. These respondents also gave their comments on understanding the instructions about the scaling and the time taken to answer the questions. The test found no grave problems and minor modifications were made to the survey questions based on the verbal opinion received from the interview.

In addition, the pilot study was conducted to ensure the validity, sequence and relevance of the questionnaire to this study. The questionnaire was originally written in English and then translated into Amharic to ensure clarity and interpretation of meaning. The translated version was included in the Appendix.

3.4 Data Analysis and Interpretation

To determine the underlying dimensions in the set of bank selection criteria, the importance ratings for the evaluative criteria was factor analyzed. Factor analysis is a technique which is used to “reduce a large number of variables to some smaller number by telling the researcher which belongs together and which seems to say the same thing” (Field, 2005). This technique was believed to be appropriate for this particular analysis because banking selection determinants have many implications.

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.

The study was finally organized, summarized and analyzed using Statistical Package for the Social Sciences (SPSS version 15 for windows). SPSS was used for the simple descriptive data to compute the mean score of factors and to the advanced statistical procedures of factor analysis. This was done with the help of analytical tools like the tabular system. Having done such analysis, it was presented using figures, tables and percentages. Eventually, interpretation of data and discussions of the findings follows suited.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSIONS

This chapter basically provides the data analysis and discussion part of the study. The descriptive and factor analysis are provided in the subsequent sections.

4.1 Descriptive Analysis

This section presents the descriptive analysis of customers' responses to each item in section one (general information of respondents) and section two (their banking behavior) on the survey questionnaire.

From a total of 220 questionnaires distributed, 208 are returned. The returned questionnaires are carefully checked, and those with excessive missing data were discarded, resulting in 201 usable as most items are sufficiently responded. The response rate is 91.4 percent. Such a response rate is considered sufficient for statistical reliability and generalizability (Mokhlis, 2009) and most satisfactory especially when compared with earlier research works on bank selection decisions (Khazeh & Decker, 1992-93 and Gerrard & Cunningham, 2001). This relatively high response rate was attributed to the self-administered approach undertaken in distributing questionnaires.

4.1.1 Customers Profile

A summary of findings on customers profile along three variables: age, level of income (average monthly income of the respondent), and level of education has been presented in table 1. The reason for using monthly income is that in Ethiopia salaried employees are contracted on the basis of monthly payment and merchants are asked to put their average

income per month. So, people have a propensity to memorize their salary on a monthly basis that's why convenient to respond during surveys. In terms of customers' marital status, the results of this study showed that, the majority of respondents (about 64 percent) are single, 34 percent are married and the rest are both divorced and widowed.

As revealed in table 1, 155 are males and 46 are females which comprise 77 percent and 23 percent of the customers respectively. This is somewhat may be the fact that in Ethiopia similar to numerous African nations, financial decision making is the task of the male parent because they are seen as the chief income earners in the family.

The results for respondents' age as depicted on table 1 specifies that the majority of the vigorous customers (about 53 percent) range below 27 years of age, while 28.4 percent fall between the age bracket 27 to 35 and 18.9 percent are placed above 36 years. This might be related to the reality that the age brackets structure the young and dynamic population of Ethiopia who are in vital services and can therefore hold bank account. It also shows that the youth populations are superior users of the various banking services than the aged population.

Table 1: Results of profile data of the respondents

Variable	Categories	Frequency	Percent	Valid %	Cumulative %
Sex	Male	155	77	77	77
	Female	46	23	23	100
Age	Below 27 years	106	52.7	52.7	52.7
	27-35 years	57	28.4	28.4	81.1
	36-45 years	32	15.9	15.9	97
	Above 45 years	6	3	3	100
Level of education*	Below preparatory	9	4.5	4.5	4.5
	Preparatory completed	20	10	10	14.5
	Diploma	17	8.5	8.5	23
	Bachelor degree	118	58.7	58.7	81.7
	Master and above	37	18.3	18.3	100
Level of income**	Lower than Br. 2, 000	42	20.9	20.9	20.9
	Br. 2, 001 to 4, 000	119	59.2	59.2	80.1
	Br. 4, 001 to 7, 000	33	16.4	16.4	96.5
	More than 7, 000	7	3.5	3.5	100

Source: *Computation from field survey data, 2011*

Note: *In Ethiopia, completion of preparatory school means accomplishment of 12 years of schooling starting with class/grade 1.

**1 US Dollar = 16.7952 ETB (as of May 9, 2011 as in all banks of Ethiopia, 2011)

Moreover, the results for the income level of customers show that majority of the respondents (about 59 percent) have an average monthly income ranging between ETB 2, 001 to ETB⁸ 4, 000. There are 21 percent respondents who fall below this range and 20 percent respondents who fall above this monthly income range.

⁸ ETB is Ethiopia's currency name, birr.

The respondents possess a high level of education. While about 59 percent of the respondents have a bachelor degree, about 18 percent have attained either a Master or a PhD degree. About 15 percent of the respondents have education at or below preparatory school level. A similar study in Bangladesh (Khan et al., 2008) found about 17 percent of the sample falling below high school category.

The next table shows the proportion of customers' occupation based on their age distribution within each profession.

Table 2: Distribution of respondents' Age by occupation

Occupation	Number	Percentage
Students: Male	74	87%
Female	11	13%
Employees: Male	48	66.7%
Female	24	33.3%
Businessmen⁹: Male	33	75%
Female	11	25%
Total	201	100%

Source: *Computation from field survey data, 2011*

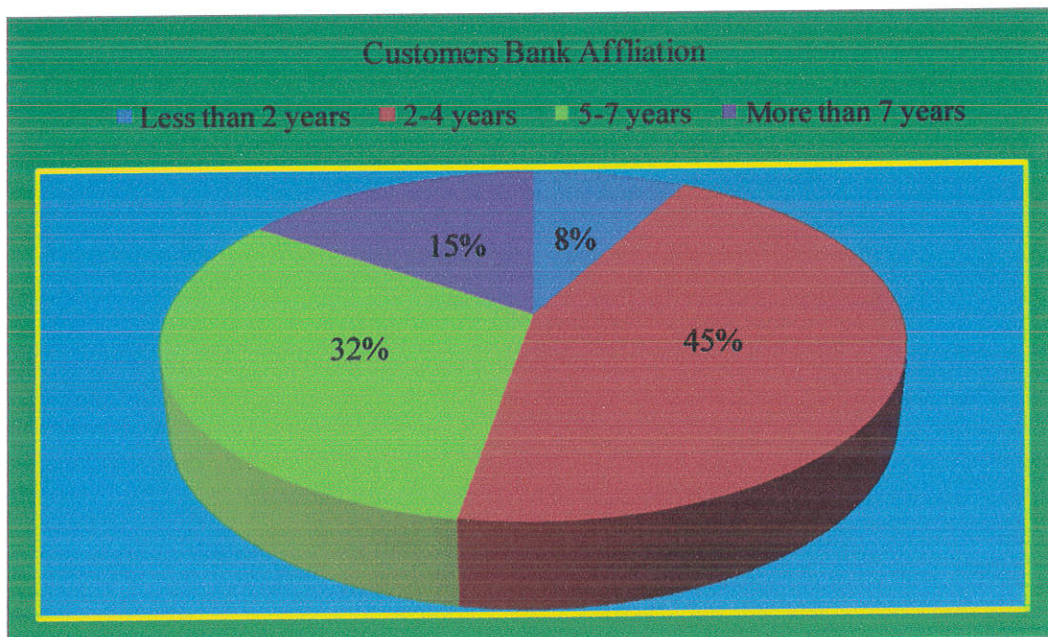
As shown above, males account for about 67 percent, 75 percent and 87 percent of the employee, businessmen and student respondents respectively.

⁹ *In this study, businessmen and merchants are used interchangeably.

4.1.2 Banking Behavior of Customers

Either in the public or private banks, all respondents are users of banking services. Some customers, as represented by the survey population, also rely on a mix of financial services provided by both bank and non-bank institutions. For example, about 3 percent of the sampled customers that is banked still use non bank services, ranging from microfinance institution and other traditional saving ways (Edir & Equib).

Fig. 4: Respondents bank affiliation period



Source: Computation from field survey data, 2011

The customers' practice of banking relationship can be interpreted in the following ways. As demonstrated in figure 4, about 47 percent of the respondents have more than five years of banking relationship with their main bank. Such a long permanent status of relationship indicates the capability of customer retention by the banks. This is followed by 45 percent of the customers with an experience of two to four years. Eight percent of

the customers have a short period relationship (less than two years) with their respective banks.

The respondents are asked the number of bank(s) at which their banking services are used. In this regard, about 55 percent and 45 percent are reported as single banking and multiple banking users respectively. Dealing behavior with various public and private Ethiopian banks is apparently different. Table 3 revealed that Commercial Bank of Ethiopia (CBE), Dashen Bank (DB) and Wegagen Bank (WB) are the most three preferred banks by the respondents in Addis Ababa respectively. About 72 percent and 30 percent of the respondents are performing their banking activities with CBE and DB respectively. CBE is most preferred probably due to its several branches. Also, about 13 percent and 12 percent of the interviewee respectively use WB and AIB.

Table 3: Rank of banks used by the respondents

List of Banks	Frequency	Percentage	Rank
Commercial Bank of Ethiopia(CBE)	146	72.6	1
Dashen Bank (DB)	60	29.9	2
Wegagen Bank (WB)	26	12.9	3
Awash International Bank (AIB)	25	12.4	4
Nib International Bank (NIB)	15	7.5	5
United Bank (UB)	14	7	6
Bank of Abyssinia (BOA)	14	7	6
Lion International Bank (LIB)	3	1.5	8
Cooperative Bank of Oromia (CBO)	2	1	9
Construction and Business Bank (CBB)	1	0.5	10

Source: Computation from field survey data, 2011

The respondents are asked whether they were in need of other services than the services already currently rendered by the banks. The results show that about 50 percent of the respondents need other services than the services offered now.

4.1.3 Customers' Usage of Banking Services

Table 4 shows the proportion of respondents that are using different bank products or services as accessible in Addis Ababa. High level of customer awareness and tradition of saving account and local money transfer services has been observed as the basic types of customers' habit of banking services.

About 71 percent and 42 percent of the sample respondents are beneficiaries of the saving deposit and money transfer services. Besides, they are aware of and are using the other services of banks like current account and ATM services.

Table 4: Respondents Usage of Banking Services¹⁰

Type of Service	Number of Users	Percentage
Current account	58	28.9
Saving account	142	70.7
Loan facilities	1	0.5
Money transfer services	87	42.3
ATM services	25	12.4

Source: *Computation from field survey data, 2011*

As for various credit facilities currently offered with flexible borrowing options in banks, customers do not have a high habit for any particular one. These are the possible reasons. First, customers' needs for borrowing are different and hence, different services are

¹⁰ One respondent may used more than one service offered by the banks

offered to meet such needs. So, no individual borrowing product has sole high usage. Second, customers may need to have a loan of money from banks in low interest rate, but banks may not perform this. Third, the majority of the borrowing products are particularly applicable for corporate customers. The study focuses on individual customers instead of corporate treasuries. So individuals may not need to borrow money for their spending purpose.

Services offered by banks such as accepting of diverse types of deposits, granting variety of credit facilities, international banking services and rendering of local and international money transfer services are very similar in most banks (excluding ATM services, mobile banking, internet banking facilities, service charges and implications of interest).

4.1.4 Customers Service Needs

The basic bank services needed by the customers are saving account, current account, and domestic and international money transfers.

Table 5: Respondents need of additional bank service

Question	Response	Number (N= 2001)	Percent
Do you need any other facility to add other than the services currently offered from your customer bank?	Yes	99	49.3
	No	102	50.7

Source: Field survey data, 2011

As portrayed in table 5, customers who need additional service are more or less identical to those who did not need other services. About 49 percent of the respondents need extra service from banks. Additional bank services are needed for the customer; including e-

banking facilities (such as, internet banking facilities, telephone banking facilities, ATM services in all branches, and other credit card banking services), inter-bank networking and widening their branches in different areas. In addition, provisions of services in weekends, inter-branch network and special attention for blind customers are also among the listed needed services.

4.1.5 Customers Satisfaction with Banking Services

Customer satisfaction involves an orientation that says, “take care with all parts of the process that develops a product or service for the ultimate customer”. In most settings that customer will be the one who pays to use the service¹¹.

Table 6: Respondents degree of satisfaction with the bank services

Question	Response	Number (N= 201)	Percent
Are you satisfied with the banking services offered by your main customer bank?	Yes	123	61.2
	No	78	38.8

Source: Computation from field survey data, 2011

Table 6 presents expressive statistics on the satisfaction of bank customers with bank services. It has been observed that more than 60 percent of the respondents feel either very satisfied or just satisfied with the services offered in their main banks. Nevertheless, 38.8 percent of the respondents are not satisfied by the services provided in banks. Unsatisfied customers were inquired to give their feeling that banks should to take as a

¹¹ See the survey of organizational excellence at the school of social work in University of Texas, 1925, San Jacinto Blvd.

solution for their dissatisfaction in services offered by banks. They forwarded the following ideas to be taken by the banks to satisfy their customers. Banks may satisfy their customers if they: provide quick services to their customers, recruit dedicated employees in their organization and encompass adequate windows and employees to offer fast and efficient service.

Other respondents feel that, if banks introduce and apply modern technological working facilities (e-banking facilities), handle their existing customers properly instead of trying to attract new ones, and extending their operation hours in the working days till the night 2:00 pm and others need in weekend entire day service. Awarding of high interest rate on savings, granting of loans on a lowest interest rate and lower service charge are also suggested as a solution for their satisfaction by the respondents. Finally, most respondents agreed that, customers may be satisfied successfully if banks shortened their bureaucracy.

The results on customer satisfaction with bank services have some resemblance with the results of Khan et al. (2008). They found a very low customer satisfaction with various financing facilities and an above average mean on satisfaction with 'current account' and 'savings account'. However, they reported an above average mean on ATM services.

As money transfer better satisfies customers, this study notes that the ATM services scored below the average mean of satisfaction.

4.1.6 Intention of Customers to Continue Dealing with their Customer Banks

Customer retention, simply defined, is the ability for a company to keep its existing customers. It is the measure of a company's ability to provide enough value with its products or services for customers to keep them coming back for more¹².

Table 7: Future intention of customers with their customer banks

Question	Response	Number (N= 201)	Percentage
Do have an intention to continue with your customer bank in the future?	Yes	138	68.7
	No	63	31.3

Source: Field survey data, 2011

Table 7 dictates that the majority (68.7 percent) of the customers do not have a plan to change their customer banks, thus, determined to continue dealing with their main banks in the future. Nonetheless, there are some customers who have no intention to persist with their main customer banks for many reasons. Among the reasons; including delay in service delivery (specially in CBE), high service charge, unavailability of ATM service, dissatisfaction with some services (such as loan, blocking etc), unpleasant customer concern and handling, availability of other better banks, and fear of hesitation in the private banks.

4.2 Factor Analysis

Factor analysis 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

¹² See the survey of Vindicia 2009, best practices for customer retention in US

technique and 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).

The sample size necessary for factor analysis depends on many things. As a general rule, factor analysis requires a minimum of around 150 participants (Jeromy, 2007) and communalities after extraction should be above 0.5 (Field, 2005) in order to get a reliable solution. Such analysis is useful in gaining understanding on the main dimensions that inspire the observed sets of items (Hair et al., 2005). Varimax-rotated factor analysis is, therefore, performed on the constituent items representing the different constructs to validate empirically the theoretical structure of the scale. Factoring ceased when all eigenvalues of greater than one were obtained and when a set of factors explained a large percentage of the total variance was achieved (Hair et al., 2005).

Exploratory factor analysis is used in order to identify constructs and investigate relationships among key interval scaled questions regarding reasons for choosing a bank services from 201 respondents. This factor analysis summarizes data by grouping correlated variables and investigates sets of measured variables related to theoretical constructs.

After the standards indicate that data is suitable for factor analysis, principal components analysis (PCA) is employed for extracting the data, which allows determining the factor underlying the relationship between a numbers of variables. The total variable explained

box is suggesting that it extracts one factor accounts for 59.69% of the variance of the relationship between variables. (See table C2 in the appendix)

Loading on factors can be positive or negative. A negative loading indicates that the variable has an inverse relationship with other factors. The higher the loading, the more important is the factor. 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). Jeromy (2007) suggested that any value with loading of 0.5 and increased loading becoming more vital while value with less than this is very low in determining the factor. (See table C3 in the appendix)

Rotation is necessary when extraction technique suggest there are two or more factors. The rotation of factors is designed to give an idea of how the factors initially extracted differ from each other and to provide a clear picture of which item load on which factor.

4.3 Factor Formulation

All analysis is conducted using SPSS statistical software version 15 for Windows. As an introduction step, evaluative criteria items were factor analyzed to reduce the variables to a manageable number of components. 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., 1998).

Factor analysis deemed appropriate for the items because the Keiser-Meyer-Olkin (KMO) measure of sampling adequacy test index equaled .802 in which Keiser's measure of sample adequacy above .5 is good enough to perform a factor analysis. Moreover, the

Bartlett's test gives a significance level of less than 0.0001 confirming the appropriateness of the factor model. (See table C1 in the appendix)

4.4 Explanation of Bank Selection Factors

Using the Eigenvalue greater than one rule, seven factors are identified. All characteristics with factor loadings of 0.40 and above are retained. In addition, means were computed for all attributes retained within each factor to identify the relative importance of such attributes to the customers in their bank selection process. In terms of overall factor means, the sixth factor is the most important in terms of bank selection and the first factor is (slightly) the least important.

The *first* factor in Table 8 delineates a selection factor based on low interest rate on loans, high interest rate on savings, attractive interest within short period of time and the e-banking facilities. This factor accounts for 15.70 percent of the total variance. This factor may be labeled a financial benefits/ technology factor. Here, it can be noticed that low service charge (mean = 2.0945) and attractive interest within short period of time (mean = 2.0896) have the two highest means in this factor, indicating the vast importance of service charges and interest rate in determining bank selection for customers.

The *second* factor identifies a dimension based good customer services, speedy services, reception at the bank and variety services offered. This factor accounts for 10.067 percent of the total variance. This factor may be categorized service provision factor. Within this factor, the most important attributes are speedy services (mean = 3.2687) and

reception at the bank (mean = 3.2189), while the least important item is variety of service offered (mean = 2.7463).

The *third* factor, containing items related to my employer uses the same bank and services offered by banks including extended operation hours and availability ATM services, has been named employers' influence. Attributes falling within this factor accounts 8.197 percent of the total variance. Within this factor, extended operation hours is the most important determinant item (mean = 2.9154) in customers' bank selection process. On the other hand, the least important item in this respect is my employer uses the same bank (mean = 2.3184).

The *fourth* factor has been labeled as "Reputation factor". Items load positively on this factor are establishment period of the bank (being established be for others), bank's reputation and being a government owned bank. Among the items in this factor, reputation is the highest ranked (mean = 2.4279). An implication of this is that customers consider reputation to be an important measurement in their bank selection process.

The *fifth* factor comprises items related to promotion including advertising services via mass-media, availability of several branches and parking facilities. Hence, these items are considered as promotion strategy. Availability of several branches is the most significant attribute within this factor whereas accessibility of parking space nearby is the least important.

The *sixth* factor encompasses proximity to home and/ or workplace and security arrangement in which proximity is the most important item with a mean score of 3.6567. This factor may be considered as convenience.

Finally, the *seventh* factor includes items associated to bank image like pleasant bank atmosphere and external appearance of the bank. Pleasant bank atmosphere is the most important item (3.1592). Here, in the seventh component most of the variables scored the lowest loading (i.e below .4) except that of the pleasant bank environment (see table C3 in the appendix).

However, it is worth mentioning that among the seven factors reported above, the sixth and the second two factors are characterized by much higher mean importance ratings than the other characteristics, emphasizing the importance of convenience and service provision for bank selection decisions by this market segment.

Recommendation from family and/ or friends is not included in any one of the components (factors) because of lowest score in its loading factor. This implies that customers did not choose banks and banking services depending on suggestion of other peoples rather they select based on other criteria. On the contrary, this factor was the first most important factor for commercial bank selection in the study conducted by Anderson et al. (1976) and Kaynak (1991), for the customers in America and Turkey, and ranked as second most important factor in the study of Farooq et al. (2010) by Islamic customers in Afghanistan. Finally, the criteria listed in table 9 include only those which had factor loadings of 0.5 and above. Results are summarized in table 8 based on their factor loading scored.

Table 8: Results of factor analysis

Factors and Items	Factor loadings	Eigen values¹³	% of Variance¹⁴
Factor 1: <i>Financial benefits/ technology</i>			
Low interest rate on loans	.787	5.667	15.700
High interest rate on savings	.784		
Attractive interest within short period of time	.635		
Phone banking facility	.613		
Internet banking facility	.593		
Low service charge	.561		
Factor 2: <i>Service provision</i>			
Good customer services	.831	2.163	10.067
Bank has speedy services	.745		
Reception at the bank	.633		
Variety of services are offered	.417		
Factor 3: <i>Employer's influence</i>			
My employer used the same bank	.651	1.624	8.197
Extended operation hours	.643		
Availability of ATM services	.591		
Factor 4: <i>Reputation</i>			
Establishment time of the bank (oldest)	.695	1.470	7.994
Bank's reputation	.633		
Being a government owned bank	.585		
Factor 5: <i>Promotion strategy</i>			
Advertising via mass media	.698	1.221	6.697
Availability of several branches	.546		
Availability of parking space nearby	.511		
Factor 6: <i>Convenience/ security</i>			
Proximity to home and/ or workplace	.792	1.167	5.791
Security arrangement of the bank	.411		
Factor 7: <i>Bank image</i>			
Pleasant bank environment	.778	1.014	5.245
External appearance of the bank	.528		

Source: *Computations from the field survey data, 2011*

¹³ The average variance explained in the items by a component multiplied by the number of components. An eigenvalue of 1 is equivalent to the variance of 1 item.

¹⁴ These represent the percentage of total variance in the items explained by a component. This is equivalent to the eigenvalue divided by the number of items.

The analysis from the above table yielded a seven principal components solution, which together explained more than half of the variance observed in the variables (59.69 percent), that satisfies the percentage of variance criterion for social science research. (See table C2, total variance explained, in the appendix)

4.5 Reliability Test

Reliability refers to the property of a measurement instrument that causes it to give similar results for similar inputs. Mathematically, reliability is defined as the proportion of the variability in the responses to the survey that is the result of differences in the respondents. Thus, to evaluate the internal consistency of each factor group obtained, the factors were subjected to reliability test. The assumption behind this approach is that the items of a measure work collectively as a set and should be competent of independently measuring the same construct. The items should be reliable in what they indicate about the concept being measured. The Cronbach alpha was used to measure internal reliability by unit weighting items with salient loadings in a factor where Cronbach's alpha coefficient at 0.5 or higher was considered acceptable (Mokhlis et al., 2008, 2009). These factors produced alpha coefficients of .833 indicating high internal consistencies and reliability. (See table C4 in the appendix)

4.6 Ranking Importance of Bank Selection Factors

In order to analyze differences in the importance of bank selection criteria employed, a ranking table was produced showing the mean score of each factor. Table 9 presents findings with respect to relative importance of bank selection criteria factors. The top two factors that found in the listing were "convenience/ security" (mean= 3.2513) and

“service provision” (mean= 3.1008). The significance of the convenience factor has been seen in previous studies which have used students and other customers as their sample (Schram, 1991; Holstius et al., 1995; Owusu- Frimpong, 1999; Lee and Marlowe, 2003; Dusuki, 2007 and Katircioglu et al., 2011). On the contrary, in the study conducted by Mokhlis et al. (2008), this factor was ranked as fifth factor for the selection of banking services by the customers. Whereas, Almosawi (2001) ranked convenience as second most important factor for bank selection decision in Bahrain customers.

Similar to this study, in Gerrard and Cunningham’s (2001) study, the service provision factor was ranked third most influential out of seven factors. Whereas, in the study of Mokhlis et al. (2008) this factor was ranked as the fourth most important criterion out of nine factors. The “Employers’ influence” (mean= 2.5937) factor was rated as the third most important decisive factor influencing customers when deciding which bank to patronize. This factor was ranked least (seventh and ninth) important factor in the studies conducted by Gerrard and Cunningham’s (2001) and Mokhlis (2009) respectively.

The “promotion strategy” factor (mean= 2.2604) which involve in advertising the various services offered in banks and availability of several branches, came next in terms of relative importance. This is consistent with the previous findings in the literature (Gerrard and Cunningham, 2001; Mokhlis et al., 2008); Mokhlis, 2009; Katircioglu, 2011). This factor was ranked as the second most important criterion for bank selection decision by the Nigerian and Malaysian customers respectively (Maiyaki, 2011; Abduh, 2010). The “reputation” factor (mean= 2.1841) is ranked as least important by the customers. Likewise, in the previous studies Mokhlis (2009) and Gerrard and Cunningham (2001),

this finding was ranked eighth out of the nine factors and sixth of seven factors correspondingly.

Table 9: Ranking importance of bank selection criteria factors

Factors	Mean	Rank
Convenience/ security	3.2513	1
Service provision	3.1008	2
Employers' influence	2.5937	3
Bank image	2.5538	4
Promotion strategy	2.2604	5
Reputation	2.1841	6
Financial benefits/ technology	1.9544	7

Based on a four-point Likert scale 4 = very important; 1 = not important

As opposed to the study by Almosawi (2001) in which technology related facilities and financial benefits ranked as the top most important selecting criteria for banks, in this study, these factors (mean= 1.9544) was found to be the last and least important criteria in selection of banks by the customers. The insignificance of the factors has been seen in previous studies (Anderson et al., 1976; Boyd, 1994; Devlin, 2004). However, in the study by Mokhlis (2009) financial benefits was ranked third important factor.

4.7 Gender Based Description of Factors

While the survey data is analyzed based on gender separately to male and female customers, it provides different components than the result found in the above analysis for the total sample. The analysis for male customers produced seven factor groups whereas female customers' analysis produced eight factor groups. (See table C5 and C6 in the appendix)

Factor 1: The *first* component for both male and female customers was items related to financial benefits/ technology in which well-organized and ranked based on their factor loading. Items with high loading for instance; high interest rate on savings (.855 for females and .649 for males), low interest rate on loans (.793 for females and .658 for males), attractive interest rate within short period of time (.828 for females and .429 for males), internet banking facilities (.681 for males and .630 for female respondents) and phone banking facilities (.737 for male respondents and .649 for females) are grouped under this common denominator.

Factor 2: The *second* component was related to service provision for male customers (good customers' services, speedy services, and variety services offered) and items related to bank image (pleasant bank atmosphere and availability parking facilities) were the second factor for female customers.

Factor 3: The third component for male customers was items related to the reputation and others' influence while service provision was the third component for female customers. Employer's influence/additional services were *forth* component for both gender customers. Convenience/security was the fifth component for male customers and *sixth* component for female customers. Attractiveness is the sixth component for males and *seventh* factor for females while branches location was the fifth for the female customers. Finally, low service charge was the *eighth* factor for female customers. (See table C7 and C8 in the appendix)

4.8 Gender Based Ranking of Importance

Table 10 shows the choice criteria for both male and female customers ranked in order of mean importance of each factor. Optical examination of the table reveals that 'convenience' is most important in the selection decision of both male and female respondents, being in the top criteria in each case. Male respondents ranked 'bank image' as a second most important factor but ranked third by female respondents. On the other hand, 'service provision' is ranked second by female respondents while male respondents ranked this factor as third. Female respondents ranked 'secure feeling' as their fourth most significant factor in selecting banks and banking services. Both male and female respondents ranked 'reputation' the same as third least important factor. The two least important factors in selecting a bank for both male and female respondents are attractiveness (ranked sixth by males; seventh by females) and financial benefits (ranked seventh by males; eighth by females). The subsequent table explains the analysis results of the importance level of bank selection criteria, beside with the mean scores for the sample distribution by gender.

There are some similarities between the findings of this study and the findings of earlier studies. The selection of 'convenience' as most important factors in selection decision by male and female respondents is acknowledged in the literature (Holstius and Kaynak, 1995; Owusu-Frimpong, 1999; Lee and Marlowe, 2003). On the contrary, Ta and Har (2000), Almossawi (2001) and Rao (2010) ranked this factor along with the least important factors for bank selection decision. The importance of service provision as

second criterion by female respondents has been evidenced in the study conducted by Gerrard and Cunningham (2001) in Singapore.

Table 10: Ranking importance of bank selection factors by gender

Selection Factors	Male		Female	
	Mean	Rank	Mean	Rank
Convenience	3.1871	1	3.7391	1
Bank image	3.1742	2	2.6304	3
Service provision	3.0823	3	3.1630	2
Employers' influence	2.6301	4	2.4783	5
Reputation/ promotion strategy	2.0215	5	2.1232	6
Attractiveness	1.8860	6	1.4891	8
Financial benefits/ technology	1.8771	7	1.8406	7
Secure feelings			2.6191	4

Based on four-point Likert scale 4 = very important; 1 = not important at all

Likewise, the fourth finding by female customers in this study was ranked as first most important in previous studies (Gerrard & Cunningham, 2001; Mokhlis et al., 2008; Mokhlis, 2009). In particular, 'secure feeling' reflects customers' desire of banking with a stable bank and assurance of secrecy when making a transaction. Both male and female respondents also tend to put more emphasis on employer's influence which enforced by the organization to patronize on banks where their salary is transferred. The 'secure feelings' factor, which ranked fourth by female respondents, is not considered so highly by their male counterparts.

4. 9 Ranking of Importance by Occupation and their Explanation

Using the Eigenvalue greater than one rule, seven factors by the employees and students and eight factors by the businessmen are identified. All characteristics with factor loadings of 0.40 and above were retained. In addition, means are computed for all attributes retained within each factor to identify the relative importance of such attributes to the customers in their bank selection process.

Items falling within *factor one* mainly include questions like; high interest rate on saving, low internet rate on loans, attractive interest within short period of time and low service charge for both employee and student respondents. This factor may be reduced to the common denominator “financial benefits” while “technology” related questions such as internet and phone banking facilities were grouped under factor one for businessman respondents.

Three items falling within the *second factor* for employees and businessmen respondents, relate to, reputation of the bank (reputation, being a government owned and the establishment period of the bank). This factor may be identified as “Reputation”. Whereas for students it incorporates items correlated to provision of service (speedy services, reception at the bank, good customer service and variety services offered). Therefore, this factor may be categorized as “service provision”.

Items in the *third factor* were different for all occupation respondents. Availability of ATM services, internet and phone banking facilities are grouped as “technology” factor for employees whereas items related to “convenience” factor for those student

respondents and for the businessman respondents; high interest rate on saving, low interest on loans and attractive interest within short period of time are labelled under the “financial benefit” factor.

Factor four includes convenience, technology and bank image factors for employee, student and businessman respondents respectively. Service provision and promotion strategy was integrated under *factor five* and *six* for both employees and businessmen respectively while promotion strategy and bank image was for student respondents. Items related to bank image, reputation and secure feelings are labelled as the *seventh factor* for employee, student and businessman respondents respectively. The *eighth factor* for businessman respondents was convenience.

The following table clarifies the investigation results of the significance rank of bank selection criteria, with the mean scores for the sample distribution by occupation.

Table 11: Ranking importance of bank selection factors among different occupation

Selection Factors	Employees		Students		Businessmen	
	Mean	Rank	Mean	Rank	Mean	Rank
Convenience	3.3472	1	2.4902	3	3.6705	1
Service provision	3.1759	2	3.0376	2	2.2557	4
Bank’s image	3.0833	3	3.1059	1	3.3409	2
Technology	2.3889	4	2.0628	5	1.3561	8
Reputation	2.3380	5	2.0118	7	1.9470	5
Promotion strategy	2.1759	6	2.2392	4	1.8636	6
Financial benefits	2.0972	7	2.0235	6	1.4925	7
Secure feelings					2.9546	3

Based on four-point Likert scale 4 = very important; 1 = not important at all

The most three important factor considered by employees and student customers when selecting a bank are “convenience”, “service provision” and “bank image”. However, convenience factor is the considered as a first choice by employees’ hence third most important factor by students and bank image was the most essential factor by students as ranked third by employees. The first two findings of this study are consistent with previous studies (Haron et al., 1994).

On the other hand, businessmen customers considered “bank image” as the second most important factor, while ranking ‘secure feeling’ as the third most important factor. “Bank’s atmosphere” is ranked third by employee customers while student customers ranked convenience as their third choice for selecting banking services. This difference might have resulted from the general lack of trust for banks in Ethiopia. Businessman customers tend to rely on secure feelings because they might feel banks are the best alternatives to save their money in a secured manner.

The findings of technology as a least important factor in this study is consistent with findings of previous study Cicic et al. (2004) in which the technology related facilities considered as the least important factors when his study compared to the studies in developed countries. Financial benefit, reputation and promotion strategy related items are also considered as the least important criteria by the customers to patronize bank services.

Chapter Five

Concussion and Recommendations

5.1 Conclusion

Today, the existing stiff competition among banks necessitates a detailed understanding of the influential factors behind the bank selection decision in Addis Ababa city. Therefore, the objective of this research is to investigate the determinants of bank selection decision based on their importance and identify the additional services needed by customers other than the currently offered services. To trace such objectives, we used a convenience sampling procedure comprising 201 observations. The sample size comprises 85 students, 72 employees and 44 merchants in the city.

Descriptive analysis revealed that most respondents fall in the age group of below 27 years. Concerning their education, about 77 percent of the sample respondents have attained at least a first degree. In talking about bank selection by customers, the level of income of the respondents matters more. In this regard, the results show that about 21 and 59 percent of the respondents received a monthly income of less than ETB 2,000 and 2,000 to 4,000. This is followed by a very few number of individuals – 33 and 7 respectively – that has an average income of ETB 4,000 to 7,000 and above 7,000.

An important issue in dealing with bank selection is to see the affiliation of respondents with the respective bank(s). Results show that about 8 percent of the customers have a less than two year experience of getting service with a particular bank. The majority of them – about 45 percent- have indicated a relationship that lasts for 2 to 4 years.

Furthermore, 32 percent and 15 percent of the beneficiaries reports as having a 5 to 7 and more than 7 years affiliation range respectively.

We observe that the Commercial Bank of Ethiopia, Dashen Bank, Wegagen Bank and Awash International Bank are the top most preferred banks by customers. Users frequently choose the two former banks perhaps because of their wider operation and quality of service provision respectively.

Looking at the specific banking services, customers are widely noticed using a saving account, money transfer services and current account. The respective numbers of beneficiaries are about 71 percent, 42 percent and 29 percent respectively. Striking, however, is the finding that customers are not using the loan services available across banks. Apart from the current services, clients highlighted some further improvements in the banking industry. Among others, introduction of internet banking, phone banking, and access to ATM over all branches and inter-branch networking were identified as a key future requirements that banks should fulfill.

The factor analysis results revealed that convenience, service provision and employers' influence as fundamental determinants of bank selection, among others. Finally, differences in bank choice are examined from the gender perspective. The finding demonstrates that while there exists no variation across males and females due to convenience, we see that males prefer bank image to service provision. The reverse holds true for female customers in Addis Ababa city.

5.2 Recommendations

Based on the findings of the study, we forward the following recommendations.

- Customers place more emphasis on factors like convenience, service provision, employers' influence and bank image. Therefore, such factors should be considered seriously by the commercial banks in designing their marketing strategies by widening their branches and providing good customers services to customers.
- Customers suggest some additional improvements in the banking industry other than the services currently offered. Consequently, focusing on well-integrated application of technology and staff through operations that respond to customer needs encourage customers to use a whole range of banking services rather than just a few. It also helps to build loyalty by creating deeper and fuller customer relationships.
- Since the age category below 27 has the most usage and more representation in the sample, banks should target its marketing mix toward this category. Such a technique will ensure attraction of job-market entering people towards bank service and also retention of the people who are likely to remain long-term loyal customers. In addition, banks should try to find out some ways to better familiarize their customers with the borrowing products for customers.
- Though about 50 percent of the customers report as satisfied, banks should keep their customers more satisfied with the services provided. Based on the results of this study, customer satisfaction and loyalty would be increased by focusing on

different, but related, factors: bank service processes, including well experienced bank personnel, inter-bank networking and service facilities required conditions for receiving the needed services, internet banking facilities and speed facilities.

- Finally, bank management should be aware that some of the bank selection determinants differ from one segment to another in the business firm market. These results would enable bank managers to identify the important bank attributes that affect bank selection decisions made by each segment in the business market in Ethiopia.

- Since the results of this study are based on customers' perceptions only, investigating the correspondence between consumers' and service providers' perceptions could be an important research area among interested future researchers. This will help the industry to better understand whether both customers and banks have the same perceptions regarding issues relevant to bank selection criteria. In addition, future researches should explore the bank image dimensions which customers perceived as applicable to their selection decision, giving emphasis to the choice between private and public banks in patronage situation.

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ክፍል ሁለት: የባንክ አጠቃቀም ሁኔታ

7. የባንክ አገልግሎቶችን ይጠቀማሉ? አዎ አልጠቀምም

8. ስፕዶቄ ቁጥር 7 መልስዎ “አልጠቀምም” ከሆነ ምክንያታትዎ ምንድ ነው?

በቂ የሆነ ገንዘብ የሰኝም ጥቅሙ አልታዩኝም

ሴላ አማራጭ ስለምጠቀም (ለምሳሌ ጥቃቅንና አነስተኛ ተቋማት, ዕቁብ)

በጭራሽ ስመጠቀም አልፈልገም ካልፈለጉ ስምን እንደማይፈልጉ

ቢያብራሩልን _____.

9. ስፕዶቄ ቁጥር 7 መልስዎ “አዎ” ከሆነ በየትኛው ባንክ ይገለገላሉ (ከአንድ ባንክ በላይ የሚገለገሉ ከሆነ የባንኮችን ስም ቢዘረዝሩልን)

_____.

10. ከላይ ከመረጡት/ሚችሉ ባንክ/ኮች ያለዎትን የደንበኝነት ጊዜ ስንት ዓመት ያህል ነው?

(ስለያንዳንዱ ባንክ ይገለጹልን):: _____

11. ከሚገለገሉበት/ሚችሉ ባንክ/ኮች ውስጥ የትኛውን የባንክ አገልግሎት ይጠቀማሉ?

ተንቀሳቃሽ ሒሳብ የቁጠባ ሒሳብ የብድር አገልግሎት

ስመላክያ/መቀበያ አገልግሎት ስ “ATM” አገልግሎት

ሴላ (ይገለጹልን) _____.

12. የሚገለገሉበት ባንክ/ኮች ከሚሰጠው/ሚችሉ አገልግሎቶች በተጨማሪ መሰጠት አለበት የሚሉትን አገልግሎት አለ? አዎ የለም

13. ስፕዶቄ ቁጥር 12 መልስዎ “አዎ” ከሆነ መጨመር አለበት የምትሉትን ምንድ ነው?

_____.

14. ባንኮች በሚሰጡት አገልግሎቶች ይረካሉ? አዎ አልረካም

15. ስፕዶቄ ቁጥር 14 መልስዎ “አልረካም” ከሆነ ምን ቢያደርጉ ደንበኞቻቸውን ሲያረኩ ይችላሉ ብለው ያስባሉ?

_____.

ክፍል ሦስት: የባንክ ምርጫ መመዘኛዎች

16. የሚገለገሉበት ባንክ/ኮች ሲመርጡ የሚጠቀሙባቸው መመዘኛዎች ከሚከተሉት አማራጮች ውስጥ ስርዓታዊ ባላቸው ጠቀሜታ መሰረት ከ“4=በጣም ጠቃሚ” እስከ “1=ምንም አይጠቅምም” እድል አንድ ቁጥር ብቻ በማክበብ መልስዎን ያስቀምጡ፡፡

4=በጣም ጠቃሚ 3=ጠቃሚ 2=አነስተኛ ጥቅም 1=ምንም አይጠቅምም

መመዘኛዎች	የጠቀሜታቸው ደረጃ			
	4	3	2	1
1 ወደ ቤቱ (የሥራ ቦታዬ) ቅርብ ስላለው	4	3	2	1
2 የባንኩ የስራ ቦታ አመቺ በመሆኑ	4	3	2	1
3 ብዙ ቅርንጫፍ ስላለው	4	3	2	1
4 ጥሩ የሆነ መስተንገዶ ስላለው	4	3	2	1
5 የተሰደደ የአገልግሎት ዓይነቶች ስለሚሰጥ	4	3	2	1
6 ተጨማሪ የአገልግሎት ሰዓት ስላለው (ቅዳሜ, ማታ)	4	3	2	1
7 የጥበቃ/ደህንነት አደረጃጀቱ ጥሩ ስለሆነ	4	3	2	1
8 የ “ATM” አገልግሎት ስለሚሰጥ	4	3	2	1
9 የኢንተርኔት ባንክ አገልግሎት ስለሚሰጥ	4	3	2	1
10 የመኪና ማቆምያ ቦታ ስላለው	4	3	2	1
11 አገልግሎቶቹን በመገናኛ ብዙኃን ስለሚያስተዋውቅ	4	3	2	1
12 የሰጠክ ባንክ አገልግሎት ስለሚሰጥ	4	3	2	1
13 የቤተሰቦቼ ና የጓደኞቼ ምክር ሰምቼ	4	3	2	1
14 ዝቅተኛ የአገልግሎት ዋጋ ስለሚያስከፍል (ሰምሳሴ ለመሳክያ የሚያስከፍለውን)	4	3	2	1
15 ብድር በዝቅተኛ ወሰድ ሒሳብ ስለሚሰጥ	4	3	2	1
16 በቁጠባ ሒሳብ ላይ ክፍተኛ ወሰድ ስለሚከፍል	4	3	2	1
17 ጥሩ የሆነ የደንበኞች አገልግሎት ስለሚሰጥ	4	3	2	1
18 የባንኩ ዝና/ሥራ መሆን	4	3	2	1
19 ፈጣን የሆነ አገልግሎት ስለሚሰጥ	4	3	2	1
20 የመጀመሪያ ባንክ ስለሆነ (ሌላ ባንክ ስላልነበረ)	4	3	2	1
21 በተቀማጭ ገንዘብ ላይ ባሕጥር ጊዜ ውስጥ ወሰድ ማሰብ ስለሚጀምር	4	3	2	1
22 የምሰራበት መስሪያ ቤት ስለሚጠቀምበት	4	3	2	1
23 መንግስታዊ ባንክ በመሆኑ	4	3	2	1
24 የባንኩ ውጫዊ/ውስጣዊ ቅርፅ/ መልክ የሚያምር በመሆኑ	4	3	2	1

5. **Level of education:** Primary completed Secondary completed
 Diploma Bachelor Degree Master Degree or above
 other, specifies _____.
6. Could you indicate in which category your **monthly income** belongs?
 Less than Br. 2, 000 Br. 4, 001- 7, 000
 Br. 2, 001-4, 000 over Br. 7, 000

Part II: Banking Behavior of Respondents

7. Do you **use** bank services? Yes No
8. If your response to Q7 is **no**, why? I don't have enough money
 Lack of awareness
 I use other alternatives (like Micro Finance Institutions, Idir, and Equb)
 I don't need it please specify your reason _____.
9. If your response to Q7 is **yes**, which bank/s do you utilize for your banking services? (List them if you concurrently use many banks).
 _____.
10. What is the length of your relationship with your main bank/s in terms of years? (Please indicate for all banks). _____.
11. What type of service/s do you use in that bank? (Multiple answers possible).
 Current account Saving account Loan/credit Transfer
 ATM service other, please specify _____
12. Do you need any other facility to add other than the services currently rendered from your customer bank? Yes No
13. If your response for **Q12** is **yes**, what type of service do you need to be added?
 _____.
14. Are you satisfied with banking services you are rendered? Yes No
15. If your response for **Q14** is **No**, what could be done to solve those problems?

 _____.

Part III: Bank Selection Criteria

16. Indicate in the following table the rate of importance of the criteria you did consider by choosing a specific bank. Please **circle one** number for each statement by using the following scale ranging from “**4=most important**” to “**1=not important at all**” based on their degree of importance.

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

Factors		Level of importance			
1	The closeness/nearness to my home/work	4	3	2	1
2	The convenient location of the bank	4	3	2	1
3	It have several branches	4	3	2	1
4	The reception at the bank	4	3	2	1
5	It offered variety of services to customers	4	3	2	1
6	Its extended operation hours (i.e Saturday, evening etc)	4	3	2	1
7	The security arrangement at the bank	4	3	2	1
8	The facilities of ATM services	4	3	2	1
9	It provide internet/online banking facility	4	3	2	1
10	It give parking facilities	4	3	2	1
11	It advertises it's services in mass medias	4	3	2	1
12	It offer phone banking facility	4	3	2	1
13	Recommendation from my family and/or my friends	4	3	2	1
14	Its service charge is low in contrast to others	4	3	2	1
15	Its interest rate on loans is low in contrast to others	4	3	2	1
16	Its interest rate on savings is high in contrast to others	4	3	2	1
17	It provide good service to customers	4	3	2	1

18	By its reputation /brand name	4	3	2	1
19	Its service provision is fast & efficient	4	3	2	1
20	It was established early (it is the oldest bank)	4	3	2	1
21	It provides interest earning in a relatively short period of time.	4	3	2	1
22	My employer uses the same bank.	4	3	2	1
23	Being a governmental bank	4	3	2	1
24	The exterior and/or interior appearance of bank	4	3	2	1

17. Do you have an intention to change your customer bank? Yes No

18. If your answer to Q17 is **yes**, please elaborate why?

_____.

19. If you ever changed your customer bank, has the current bank solved your
aforementioned problems? Yes No

20. Comments (if you have comments regarding this survey, please fill in)

_____.

Thank You!!!

Appendix C: Statistical Results of Factor Analysis

Table C1: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.802
Bartlett's Test of Sphericity	Approx. Chi-Square
	1372.442
	Df
	276
	Sig.
	.000

Table C2: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared			Rotation Sums of Squared		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.667	23.612	23.612	5.667	23.612	23.612	3.768	15.700	15.700
2	2.163	9.011	32.624	2.163	9.011	32.624	2.416	10.067	25.767
3	1.624	6.766	39.390	1.624	6.766	39.390	1.967	8.197	33.964
4	1.470	6.124	45.514	1.470	6.124	45.514	1.919	7.994	41.958
5	1.221	5.088	50.602	1.221	5.088	50.602	1.607	6.697	48.654
6	1.167	4.864	55.466	1.167	4.864	55.466	1.390	5.791	54.445
7	1.014	4.224	59.690	1.014	4.224	59.690	1.259	5.245	59.690
8	.926	3.859	63.549						
9	.911	3.795	67.344						
10	.846	3.524	70.868						
11	.784	3.266	74.134						
12	.734	3.059	77.194						
13	.673	2.806	80.000						
14	.654	2.726	82.726						
15	.579	2.411	85.136						
16	.556	2.317	87.453						
17	.509	2.119	89.573						
18	.486	2.024	91.597						
19	.439	1.831	93.428						
20	.385	1.603	95.031						
21	.372	1.551	96.582						
22	.315	1.311	97.893						
23	.278	1.157	99.051						
24	.228	.949	100.000						

Extraction Method: Principal Component Analysis.

Table C3: Rotated Component Matrix^a for the whole respondents

	Component						
	1	2	3	4	5	6	7
Low interest rate on loans	.787	.111	.099	.151	.027	.012	.056
High interest rate on saving	.784	.184	.139	.161	.029	.072	-.146
Attractive interest rate within short time	.635	.356	.064	.190	.000	.110	-.076
Phone banking facilities	.613	.063	.202	-.039	.211	-.295	.055
Internet banking facilities	.593	.073	.294	-.040	.068	-.390	.000
Low service charge	.561	.034	.206	.069	.213	.164	.110
Security arrangement	.412	.013	.121	.029	.340	.411	.214
Good customer services	.093	.831	.027	.084	.060	.024	-.018
Speedy/ quick services	.185	.745	.006	.001	-.031	.041	.073
Reception at the bank	.221	.633	.129	-.081	.104	-.214	.372
My employer influence	-.010	-.265	.651	.345	-.138	-.029	-.089
Extended operation hours	.301	.089	.643	.000	.116	.228	-.033
Availability ATM services	.241	.147	.591	-.083	.173	-.042	.080
Variety of services offered	.295	.417	.538	-.072	.156	-.117	.153
Establishment time (open before others)	.095	-.030	-.149	.695	.137	-.290	.086
Bank's reputation	-.006	.318	.063	.633	.320	.109	-.141
Being a government owned bank	.112	-.204	.332	.585	-.132	.181	-.033
External appearance of the bank	.413	.072	-.064	.528	-.072	.118	.269
Recommendation of family and/ or friends	.207	.092	.262	.360	.323	.068	-.349
Advertisement via mass-media	.278	.123	.018	.111	.698	.003	-.066
Several branches	-.182	-.218	.202	.135	.546	-.029	.325
Availability of parking place nearby	.493	.183	.056	-.109	.511	-.002	-.190
Proximity to home and/ or workplace	.001	-.017	.052	-.001	4.329	.792	.107
					E-5		
Pleasant bank environment	.021	.243	.035	.053	.006	.211	.778

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

^a Rotation converged in 12 iterations.

Table C4: Reliability Test

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.833	.833	24

9	.901	3.753	76.507						
10	.849	3.536	80.042						
11	.746	3.106	83.149						
12	.680	2.833	85.982						
13	.590	2.458	88.440						
14	.526	2.190	90.630						
15	.466	1.944	92.574						
16	.406	1.691	94.265						
17	.347	1.447	95.712						
18	.277	1.155	96.867						
19	.239	.996	97.864						
20	.176	.732	98.595						
21	.111	.464	99.060						
22	.096	.398	99.458						
23	.071	.297	99.755						
24	.059	.245	100.000						

Extraction Method: Principal Component Analysis.

Table C7: Rotated Component Matrix(a) for male respondents

	Component						
	1	2	3	4	5	6	7
Phone banking facilities	.737	.138	-.027	.114	-.094	.007	.131
Low interest rate on loans	.685	.168	-.021	.096	.092	.322	-.180
Internet banking facilities	.681	.141	-.019	.234	-.170	-.145	.000
Availability of parking facility	.674	.089	.205	-.228	.012	.021	-.056
High interest rate on savings	.649	.154	.195	.144	.116	.136	-.372
Low service charge	.545	.161	.116	.099	.278	.131	.080
Advertisement via mass media	.519	.092	.415	-.180	.002	.158	.218
ATM services	.448	.244	-.008	.334	.187	-.202	-.171
Good customer services	.096	.835	.218	-.050	-.016	.015	-.035
Speedy services	.167	.771	.083	-.039	.055	.034	.005
Reception at the bank	.259	.766	-.062	-.047	-.066	-.010	-.120
Variety of services offered	.381	.561	.068	.383	.005	-.155	.016
Pleasant bank environment	-.047	.499	-.294	-.165	.456	.306	.243
Bank's reputation	-.026	.248	.740	.054	.083	.223	-.030
Recommendation of parents/ friends	.332	-.068	.653	.283	.060	-.024	.007
My employer used the same bank	.022	-.160	.083	.749	-.088	.216	.122
Extended operation hours	.308	.190	.216	.573	.319	-.104	-.073
Proximity	-.109	-.083	.022	.053	.784	.010	.063
Security arrangement	.404	.064	.186	.051	.547	.083	.044
External appearance	.250	.137	.073	.008	.208	.628	-.191
Being government owned	-.020	-.189	.057	.496	.129	.609	.021
Established before others	.017	-.027	.372	.003	-.343	.587	.132
Several branches	.049	.000	.080	.091	.162	-.015	.794
Attractive interest within short time	.429	.266	.294	.032	.181	.147	-.448

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a Rotation converged in 18 iterations.

Table C8: Rotated Component Matrix(a) for female respondents

	Component							
	1	2	3	4	5	6	7	8
High interest rate on savings	.855	.067	-.092	.080	.146	.092	.145	.208
Attractive interest within short time	.828	-.008	.266	-.032	.104	.036	.114	.059
Low interest rate on loans	.793	.033	.086	.107	.096	.026	-.024	.368
Phone banking	.649	.222	.103	-.024	-.162	-.287	.142	-.105
Internet parking	.630	-.033	.065	.078	.180	-.584	.168	.075
Parking facility	.602	.331	.063	.064	.173	-.073	-.553	-.105
Good customer service	.457	-.167	-.296	-.339	.139	.422	.065	-.412
Several branches	-.054	.800	-.115	.065	.117	.057	.091	.071
Advertisement	.245	.676	.208	-.049	-.145	-.006	-.193	.020
Pleasant bank environment	-.053	-.057	.800	.186	.002	.236	.156	.045
Reception	.167	.072	.792	-.100	.184	-.238	-.003	-.009
Variety of services offered	.408	.128	.486	.252	.132	-.134	-.258	.166
My employer used same bank	.046	-.079	.046	.811	.051	-.091	.055	.130
ATM services	.127	.416	.148	.537	.215	-.184	.058	-.373
Extended operation hours	.355	.356	.136	.474	-.376	.096	-.207	.083
Speedy services	.406	-.385	-.036	-.454	.166	.167	-.250	-.062
Recommendation of parents	.119	-.120	.192	-.002	.758	-.054	-.130	.023
Bank's reputation	.090	.444	.050	.111	.645	.104	.308	-.010
Being government owned bank	.459	-.034	-.293	.441	.472	.028	.024	-.059
Establishment period	.271	.151	.053	-.119	.421	-.264	.403	.376
Proximity	.005	.059	.034	-.105	.002	.828	.119	.017
External appearance	.343	.049	.129	.142	.073	.121	.807	-.085
Low service charge	.454	.014	.048	.208	.086	-.052	-.094	.733
Security arrangement	.187	.304	.389	-.133	-.133	.272	.192	.424

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a Rotation converged in 14 iterations.

DECLARATION

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person nor material which has been accepted for the award of any other degree or diploma of the university or other institute of higher learning, except where due acknowledgment has been made in the text.

Goiteem W/mariam

Candidate's Name

[Signature]

Signature

14/10/2003 E.c

Date

Advisor's Approval

This Thesis has been submitted for examination with my approval as a University advisor.

Dr. S. Ulaganathan

Advisor's Name

[Signature]

Signature

21-06-2011

Date