

Bank Selection Influencing Factors: A Study on Customer Preferences with Reference to Rajshahi City

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ABSTRACT

This study analyses the factors considered important by customer in selection a private commercial bank and nationalized commercial bank in Bangladesh. It is based on a survey of 600 customers of private commercial banks (PCBs) and nationalized commercial banks (NCBs) located in the city of Rajshahi in Bangladesh. This study relied on 30 selection factors extracted from relevant literature, personal experience, and interviews with the some bank officials and customers. The findings reveal that the most important factors influencing customers for selecting a private commercial bank are effective and efficient customer services, speed and quality services; image of the bank, online banking, and well management. On the other hand, the most important factors for choosing a nationalized commercial bank are low interest rate on loan, convenient branch location, safe investment (accountability of the govt.), variety of services offered and low eservice charges. Findings also suggest that there are some of significant statistical differences between responses of PCB and NCB customers related to factors considered important in selection a bank.

Keywords: Bank Selection, Influencing Factor, Customer Preferences, Rajshahi City

JEL Classification Code: G21; M31

1 INTRODUCTION

THE health of the economy is closely related to the soundness of its financial system. One of the most important participants in financial system is banking system. Financial sector of Bangladesh, like most poor countries, is dominated by the banking enterprises. In this way banks have become very effective partners in the process of economic development. Today's modern and competitive financial atmosphere also affects banks to improve their service quality and follow new technologies all over the world. Bangladesh is no exception to these effects and almost all industries including the banking sector. Commercial banks including private and nationalized banks are providing varied services to attract the customers' community since it is treated as assets of banks.

In Bangladesh, following independence, the banking sector was nationalized. The dominance of these nationalized banks continued well until the late 1990s, even though gradually private banks were allowed entry into the banking business. There are about 53 banks are operating in our country. Among them 4 are nationalized commercial banks, 28 are private commercial banks, 12 are foreign banks, 5 are development banks and 4 are others (Chowdhury & Ahmed, 2009). It can be clearly understood how the operations of privatized commercial banks are emerging. Even though the nationalized commercial banks are holding the most of the market share of the banking industry and considered as less risk factor (Accountability of Govt.) as well as safe investment, the recent growth of private banking in performance and efficiency is significant. Nevertheless, their operations and performance are not out of questions. Historically,

Bangladesh has suffered from a poorly performing banking sector due to public ownership, lack of competition, poor governance, weak management, inadequate regulatory framework and lack of central bank's autonomy and capacity. However, despite many fundamental banking reformations, still NCBs are lagging behind on many fronts compared with private commercial banks with wide range of capitalization, overseas network, modern management expertise, experience, technological advancement, etc. Moreover, sanction of significant amount of loan to weakly performing public enterprises and some private business causes non performing loan (NPL). The NPL ratio has come down recently based on reform efforts while at the same time the lending share of the NCBs has been sharply cut back by greater competition from private banks, yet the gross NPL of NCBs fell from 39 percent in 2000 to 24 percent in June 2009. That still remains fairly large. In the private sector, NPLs for private commercial banks fell from 22 percent in 2000 to only 4.9 percent in June 2009.

Nevertheless, Bangladesh has launched a comprehensive reform program since 2000. The program has focused on improving prudential regulations, strengthening the oversight capacity of the Bangladesh Bank, improving competition through greater participation by private banks, deregulating interest rates and developing the banking legal system for speedy resolution of loan disputes.

Now, NCBs and private commercial banks (PCBs) in Bangladesh are facing more competition that has significant effects on their cash flows, consequently, customers are becoming more demanding and sophisticated. As

each types of banks management are now very strictly focusing on improved service quality and product if they are to build positive reputation and increase profits. As Julian and Ramashen, 1994 said delivering quality services and products to customers is essential for success and survival of today's competitive banking environment. The provision of products and services of high quality enhances reputation, improves customer retention, attracts new customer through word of mouth, and increase financial performance, and profitability. Therefore, it has become important for banking sector to determine the factors which are pertinent to the customers for choosing a bank. This study aims at to explore these determinants in more detail in Bangladesh and also identifies the orientation of customers relative to these factors. This research will further help in determining the specific factors that may vary with customers' demographic features.

The remainder of the paper is organized as follows: In Section 2.0 shows the purpose of the study. Section 3.0, relevant literature is reviewed. Methodology is presented in section 4.0. Data analysis and discussion of findings are given in section 5.0 conclusions and recommendations for further analysis are discussed in section 6.0 followed by references.

2 OBJECTIVES OF THE STUDY

Banking sector in Bangladesh has been growing substantially in spite of its social and economic problems. However, only a few studies are found which made an effort to determine the crucial factors that customer thinks as important in their choice of bank in Bangladesh. This study attempts to accomplish this aim. The main objectives for conducting this study are:

- i. To determine the criteria (factors) that customers consider important to select a bank.
- ii. To identify the prioritized factor according to their importance given by both groups of customers of private commercial bank and nationalized commercial bank.
- iii. To find out whether there is any significant difference in bank selection factors between the customer of private commercial bank and nationalized commercial bank.

3 LITERATURE REVIEW

The bank selection criteria used by customers have been largely overlooked in the relevant literature. However a number of studies have revealed some important factors considering in bank selection. For example, in part of their study, according to Kamal et al. (1999) service quality and service features (for example, convenience, competitiveness, and location of service provider) are often related to customer satisfaction. Boyd et al. (1994) investigated the importance of bank selection criteria in terms of the age of the head of the house hold. They found that for the age group under 21 years, a bank's reputation

plays a major role in determining their bank selection, followed by location, hours of operation, interest on savings accounts and the provision of convenient and quick services. The least important factors for this age group were found to be the friendliness of bank employees and the modern nature of their facilities.

Kaufman (1967) investigated the determinant factors used in bank selection decisions by customers and business firms in the USA. He found that the most influential factors reported by households were convenient location to home or place of business, length of bank -customers' relationships and quality of services offered by the bank. Schlesinger et al. (1987) in their study conducted in New York State found that the three most important factors in selecting a bank for small business customers were lending rates, accessibility of borrowing, and the number of services offered. Price of service was also found to be an important bank selection factor in another survey conducted by Buerger and Ulrich (1986). Laroche et al. (1986) conducted a survey in Canada and found that speed of services, friendliness of bank personnel, convenience of location, hours of operations, and efficiency of personnel were the major factors which consumers perceived as important in their selection of a bank.

Riggall (1980) surveyed a sample of 250 "newcomers" to a community in the USA to find out when and why they choose a particular bank. Like many previous studies, convenience of location (to home or work) appears to be the most influential factor for bank selection by newcomers. Other determinant factors were reported to be influence of friends, low service charges, availability of automated teller machines (ATM), and employer uses the same bank.

Kayanak and Kucukemiroglu (1992) conducted a study in Hong Kong to determine the importance of selection factors used by Hong Kong consumers in choosing domestic and foreign banks. The major factors were reported to be convenient location, available counseling, vault location, and loans and mortgages.

Holstius et al. (1995) cited efficiency and courtesy as the most important attributes in determining overall customer satisfaction, while other important attributes were range of services, reputation and availability of innovations.

Kazeh and Decker (1993) studied the opinions of 209 university students in Maryland, USA to obtain information about the determinants of customer's bank selection decisions. Overall, the highest ranking determinant attributes were: service charges, reputation, interest charged on loans, quick loan approval, and friendly tellers.

A study by Javalgi et al. (1989) in the USA using "analytic hierarchy process" found that financial factors are the chief criteria in customers' bank selection decisions. Findings of this study show that financial factors such as safety of fund, interest on savings account and availability of loans scored high.

Among other purposes, Erol et al. (1990) study was designed to determine the bank selection criteria used by customers of conventional and Islamic banks in Jordan.

Generally, factors scored highly were: fast and efficient services, bank's reputation and image, friendliness of bank personnel, and confidentiality of bank. Haron et al. (1994) surveyed 301 Muslim and non-Muslim commercial bank customers in Malaysia to determine the selection criteria used in a dual banking environment. Results of this study show that Muslims and non Muslims valued almost the same factors when selecting their banks. The more highly scored factors were: fast and efficient services, speed of transactions, friendliness of bank personnel, and confidentiality of bank.

Noman et al. (2007) in a study on Banking behavior of Islamic customers in Bangladesh found that, the important bank selection criteria according to mean scores among Islamic bank customers in Bangladesh, are Islamic principles, convenient location, recommendation of friends and family, and rates of return.

Hafeezur and Saima (2008) investigated in 358 customers of private, privatized and nationalized banks in Pakistan to find out the determinants of bank selection. The findings of their study revealed that the most important variables influencing customer choice are customer services, convenience, online banking facilities and overall bank environment.

Zineldin (1996) conducted a survey of 19 potential factors which customers consider as important in the selection of a bank in Sweden. These factors include reputation, recommendation by others, interesting advertisement, convenience of location, opening hours and high technological services.

A review of literature indicates that studies related to bank selection criteria have been mainly conducted in case of more developed countries (Denton and Chan, 1991). Such studies have contributed significantly to the literature on bank selection but their findings may not be useful to developing countries like Bangladesh on account of different cultural, political, and economic arrangement. As a set of determinant factors that have a significant role in bank selection in one region may prove to be insignificant in another (Almossawi, 2001). Most of the studies in the context of banking in Bangladesh have so far focused on comparative financial performance of banks and legal issues (e.g., Lalarukh & Hossain, 2008; Ahmed, & Hassan, 2007; Ahmed & Ahmed, 2006; Alam, 2000; Hassan, 1999; Sarkar, 1999). In case of Bangladesh, the current literature on banking lacks studies on bank selection criteria especially selection of PCBs and NCBs and this study aims to bridge this gap.

4 METHODOLOGY OF THE STUDY

4.1 Research Instruments

A structured questionnaire was prepared for use in the survey based on literature review and objectives of the study. The questions were organized into two sections as follows: To obtain personal background of the respondents, the first section of the questionnaire were asked regarding their age, income, and education. The second section of the questionnaire asked respon-

dents to rate the relative importance of 30 banks attributes when choosing a bank. They were measured on a five point Likert-type scale of importance ranging from 1(not important at all) to 5(very important). The factors were adapted from the relevant literature, personal experience, and interviews with six local bank officials.

4.2 Sample and Data Collection

The sample for this study was selected from different bank's customer in Rajshahi City. Given the nature of this study, a non-probability (convenience) sampling was chosen. Self-administered surveys were distributed in 2011. Respondents were assured of the confidentiality of their responses and their names and account no. were not solicited. A total of 600-questionnaire distributed, out of which 300 were distributed to the customer of three private banks named City Bank Ltd., Prime Bank Ltd., Dutch Bangla Bank Ltd., and 300 were distributed to customer of three nationalized bank named Sonali Bank Ltd., Janata Bank Ltd., and Agrani Bank Ltd. in Rajshahi City.

4.3 Analysis and Hypotheses

Analyses were computed using SPSS statistical software version 16.0 for windows. Descriptive statistical techniques including mean scores were used to assess the importance of each factor given by customers. Independent sample's t tests were conducted to test whether the mean scores on data are significantly different between the customers of PCB and NCB or not. Independent sample's t tests are chosen because the data are interval and the samples are independent. Prior to data analysis, the research instrument was assessed for its reliability as well as validity. Cronbach Alpha Coefficient was used to measure the reliability of the data. Cronbach alpha coefficient at 0.5 or higher was considered acceptable (Kerlinger and Lee, 2000). The result of Cronbach Alpha Coefficient was found .964 that shows bank selection factors have high internal consistencies and reliability. To analyze the validity of the data factor analysis was used. To better understand the factors influencing the choice of a bank, the following hypotheses have been tested for each factor.

Ho: Bank selection criteria in Rajshahi City do not significantly differ between the customer of Private Commercial Bank and Nationalized Commercial Bank.

H1: Bank selection criteria in Rajshahi City significantly differ between the customer of Private Commercial Bank and Nationalized Commercial Bank.

4.4 Limitations of the Study

During conducting this research, especially when respondents were asked, it has been found that customers of bank are not mindful of the importance of academic researches. Moreover some respondents had a concept that the long run relationship with bank may be affected by their responses. So it can be realized that they did not want to respond spontaneously to survey for this re-

search work. Due to time limitation the data did not cover all branches of PCB and NCB located in Rajshahi City.

5 MAJOR FINDINGS

5.1 Demographics of the Respondents

Table 1 shows customers profile along three variables indicating age, level of income (average monthly income), and level of education. It has been found that 54% of PCB customers have fallen in the age group of 31 to 40 years, whereas it is 46 % for NCB customers. 35 % of NCB customers and only 23% of PCB customers have been fallen above this range. 25 % of PCB customers and 17% of NCB customers exist below this range (31-40 years). It is noticed that PCB customers are younger than the customers of NCB.

Average level of education of customers in PCB is better than that of NCB. 42% of PCB customers hold post graduation (Master Degree), where it is 29 % for NCB. The low rate of graduates for both areas is not alarming, since maximum graduates have completed Master degree. 43% of customers in PCB and 48% of customers in NCB respondents have an average monthly income ranging between BDT 10000-BDT 20000. There are 32% and 20% of respondents of NCB have fallen below and above this range respectively. On the other hand, 15% of customers in PCB have below BDT 10000- BDT 20000 average monthly income and 42% of customers in PCB are holding above this range.

TABLE 1: DEMOGRAPHICS OF RESPONDENTS

(Insert Table 1 here)

5.2 Results of Factor Analysis

The Kaiser-Meyer-Olkin measure of sampling adequacy (MSA) was first computed to determine the suitability of using factor analysis. For this study, the MSA was found to be 0.926. Thus, it was deemed appropriate to apply factor analysis. To determine the minimum loading necessary to include an item in its respective construct, Hair et al. (1998) suggested that variables with loadings 0.5 or greater were very significant. For this study, 30 factors were analyzed by Principle factor analysis. Using eigenvalues greater than one rule, three factors were identified that explained 73% of the total variance. All factors with factor loading of 0.5 and above were retained. Thus, this is to say that instrument of this study with all of their factors are suitable for further analysis (Hair et. al, 1998). The results of factor analysis are shown in Table 2. The first, second, and third factor in table 2 are pertinent to financial benefits/convenience, technology /reputation, and attractiveness/influences respectively.

TABLE 2: FACTOR LOADINGS

(INSERT TABLE 2 HERE)

5.3 Determinants of Bank Selection

Table 3 represents customers' attitudes towards the most important factors that they perceive in their choice of a commercial bank. Factors are arranged in descending order based on mean values.

TABLE 3: BANK SELECTION FACTORS

(INSERT TABLE 3 HERE)

This study reveals that the most five important bank selection criteria considered by customers in selecting a PCB are "effective and efficient customer services" (mean score =4.5067), "speed and quality services" (mean score =4.4533), "image of the bank" (mean score = 4.2867), "on-line banking" (mean score = 4.2800), and "bank is well managed" (mean score = 4.2067). These factors are pertinent to technology and reputation of bank. This indicates that, in their selection process, young, educated and high income group prefer to use technology based services for getting quick and efficient services as well as they carefully consider reputation/image of bank. From the NCB customers' point of view the most important five factors are "low interest on loans" (mean score =4.3600), "convenient branch locations" (mean score = 4.3333), "safe investment (accountability of the government)" (mean score = 4.3067), "variety of services offered" (mean score = 4.2867), and "low service charges" (mean score = 4.2733). It can be stated that these factors are related to financial benefits, secure feelings, and convenience. Based on demographic features of NCB customers they are low income and high age people than that of PCB. So it can be realized that this group is reluctant to adopt new technology as well as not much versatile. From table 2 another interesting issue can be pinpointed that the least important factor for PCB customers' is recommendation of family, friends and relatives that is related to people influence. This indicates, customers of PCB have a preference for acting independently and genuinely rather than relying on the recommendations and experiences of others. This factor is ranked fifth for NCB. The least important factor for NCB customers' is parking space that is ranked twenty eighth for PCB.

5.4 Statistical Differences between the Responses of PCB and NCB:

An independent's sample t-test was used to examine whether there is a significant statistical difference between the responses (i.e. mean value) of the PCB and NCB customers for each selection criteria. At the .05 level, a significant difference was found for all factors except some factors such as "Accurate bank statements", "well trained employees", "recommendations of family, friends and relatives" and "mass media advertising".

TABLE 4: TEST OF SIGNIFICANCE DIFFERENCE FOR BANK SELECTION FACTORS BETWEEN PCB AND NCB CUSTOMERS'

(INSERT TABLE 4 HERE)

6 CONCLUSIONS AND RECOMMENDATIONS FOR FURTHER RESEARCH

This study considers 30- factor in order to identify importance given by the customers of PCB and NCB in selection of a bank. The findings of the study reveal that "effective and efficient customer services", "speed and quality services", "image of the bank", "online banking", and "bank is well managed" are some of the important bank selection factors for PCB customers'. These findings provide some messages to Private Commercial Bank officials that they should place more emphasis on quality ensuring through adopting new technology such as electronic / internet banking that facilitates image of the bank and also increases customer satisfaction. It should be noted that there are some public and private universities where many students are studying. That is why, it will be necessary to open more ATMs in convenient locations that is ranked sixth for PCB.

On the other hand, the most important bank selection factors for NCB are "low interest on loans", "convenient branch locations", "safe investment (accountability of the govt.)", "variety of services offered", and "low service charges". However, it is worth mentioning that these bank selection factors may vary from area to area due to difference in demographic characteristics of the population. Independent's Sample t-test results have shown that bank selection factors significantly differ between PCB and NCB. However, it is worth noting that this difference between two groups is so big since the null hypotheses can be rejected at alpha 0.01 level.

A similar research to this study can be completed in different geographic location in Bangladesh. This study can help bankers to recognize the factors that their customers perceive important in a bank selection and can supply some guidelines to the banks in designing their future strategies in a competitive economy. This study also produces an assist to the policy makers, researchers, governments, and those who are concern for developing the varied aspects of banking business.

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Table 1: Demographics of Respondents

Variable	Category	Customer of PCB (N=300)	Customer of NCB (N=300)
		%	%
Age	Less than 21 years	3	1
	21-30 years	22	16
	31-40 years	54	46
	41-50 years	15	23
	51 and above	8	12
Monthly income (in BDT)	0- 10000	15	32
	10000- 20000	43	48
	20000-30000	19	10
	30000-40000	12	6
	40000-50000	9	3
	50000 and above	2	1
Level of education	Below SSC	6	12
	SSC	12	19
	HSC	21	27
	Honors	17	13
	Masters/M.Phil/PhD	42	29

Source: Field survey data, 2011

Table 2: Factor loadings

Characteristics		Loading
Factor one: financial benefits/ convenience		
Low service charges		.930
Several branches		.925
Low interest on loans		.899
Variety of services offered		.892
Ease of opening a new account		.878
Convenient branch locations		.871
Safe investments		.789
Bank's interest in helping the community		.730
Adequate number of tellers		.711
Ease of obtaining loan		.694
Eigenvalue	15.477	
Percentage of variance	51.591	
Factor two: technology/ reputation		
Effective and efficient customer services		.854
Bank is well managed		.835

Speed and quality services		.810
Online banking		.805
Convenient ATM locations		.776
Image of the bank		.749
Paying higher interest on deposits		.711
Friendliness of bank personnel		.695
Evening (late) banking hour		.687
Availability of debit cards		.667
Accurate bank statements		.649
Pleasant bank atmosphere		.608
Eigenvalue	5.248	
Percentage of variance	17.492	
Factor three: Attractiveness/influences		
Parking space		.735
Internal and external appearance of bank		.708
Mass media advertising		.694
Innovativeness and adaptation of new technology		.660
Recommendations of family, friends, and relatives		.652
24-hour availability of ATM services		.615
Confidence in bank manager		.540
Eigenvalue	1.434	
Percentage of variance	4.780	

Table 3: Bank Selection Factors

ID	PCB	Mean	ID	NCB	Mean
1	Effective and efficient customer services	4.5067	1	Low interest on loans	4.3600
2	Speed and quality services	4.4533	2	Convenient branch locations	4.3333
3	Image of the bank	4.2867	3	Safe investments (accountability of govt.)	4.3067
4	Online banking	4.2800	4	Variety of services offered	4.2867
5	Bank is well managed	4.2067	5	Low service charges	4.2733
6	Convenient ATM locations	4.1467	6	Several branches	4.2600
7	Paying higher interest on deposits	4.0333	7	Ease of opening a new account	4.1400
8	Evening (late) banking hour	3.9200	8	Image of the bank	4.0467
9	24-hour availability of ATM services	3.8400	9	Ease of obtaining loan	4.0133
10	Safe investments(accountability of bank's owners)	3.7533	10	Effective and efficient customer services	3.9267
11	Ease of obtaining loan	3.6800	11	Paying higher interest on deposits	3.8733
12	Availability of debit cards	3.6200	12	Evening (late) banking hour	3.7133
13	Accurate bank statements	3.5667	13	Speed and quality services	3.6867
14	Convenient branch locations	3.5000	14	Accurate bank statements	3.6333
15	Friendliness of bank personnel	3.4933	15	Bank's interest in helping the community	3.5267
16	Variety of services offered	3.3933	16	Adequate number of tellers	3.4867
17	Innovativeness and adaptation of new technology	3.3533	17	Online banking	3.4467
18	Pleasant bank atmosphere	3.3267	18	Bank is well managed	3.3867
19	Low interest on loans	3.2200	19	Friendliness of bank personnel	3.3133
20	Well trained employees	3.2067	20	Innovativeness and adaptation of new technology	3.1867
21	Ease of opening a new account	3.1800	21	Well trained employees	3.1667
22	Bank's interest in helping the community	3.1733	22	Convenient ATM locations	3.1133

23	Several branches	3.1600	23	Availability of debit cards	3.1000
24	Confidence in bank manager	3.1467	24	24-hour availability of ATM services	3.0133
25	Low service charges	3.1400	25	Recommendations of family, friends, and relatives	2.9800
26	Internal and external appearance of bank	3.1200	26	Pleasant bank atmosphere	2.9600
27	Adequate number of tellers	3.0867	27	Confidence in bank manager	2.9467
28	Parking space	3.0533	28	Internal and external appearance of bank	2.9267
29	Mass media advertising	3.0333	29	Mass media advertising	2.8933
30	Recommendations of family, friends, and relatives	2.9467	30	Parking space	2.8800

Table 4: Test of significance difference for bank selection factors between PCB and NCB customers'

ID	Bank selection factors	t-value
1.	Effective and efficient customer services	7.556*
2	Image of the bank	2.936*
3	Bank is well managed	10.140*
4	Safe investment	-6.852*
5	Availability of debit cards	6.796*
6	24-hour availability of ATM services	9.955*
7	Paying higher interest on deposits	1.816***
8	Ease of opening a new account	-11.269*
9	Innovativeness and adaptation of new technology	1.842**
10	Speed and quality services	10.047*
11	Convenient ATM locations	12.705*
12	Accurate bank statements	-.862
13	Pleasant bank atmosphere	5.030*
14	Bank's interest in helping the community	-4.329*
15	Convenient branch locations	-10.650*
16	Several branches	-11.961*
17	Online banking	10.480*
18	Friendliness of bank personnel	2.229**
19	Confidence in bank manager	2.846*
20	Ease of obtaining loan	-3.957*
21	Variety of services offered	-11.517*
22	Evening (late) banking hour	2.386**
23	Well trained employees	.514
24	Low interest on loans	-13.720*
25	Parking space	2.092**
26	Recommendations of family, friends, and relatives	-.412
27	Low service charges	-13.156*
28	Internal and external appearance of bank	2.285**
29	Adequate number of tellers	-4.798*
30	Mass media advertising	1.564

Note:*, **, *** denote the rejection of null hypothesis respectively at alpha 0.01, 0.05, and 0.10 levels