What do Consumers Look for in a Bank? An Empirical Study

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ABSTRACT

At a time when banks face intense competition not only within traditional banking institutions but also with other non-banking financial firms such as securities and insurance companies, the study reported here identifies the factors that consumers consider in selecting a bank and the performance of banks in terms of these factors. Results and their implications are discussed.

INTRODUCTION

During the past decade or so, regulatory, structural and technological factors have significantly changed the banking environment throughout the world (Angur, Nataraajan and Jahera, 1999; Lee, 2002) and resulted in intensified competition in the market place. In the United States, arguably, the intensified competition in the market place has been primarily stirred by regulatory changes (Lee and Marlowe, 2003; Yavas and Shemwell, 1997).

In 1994, the enactment of a law removed virtually all of the restrictions on interstate banking expansions. Furthermore, restrictions on expansions by bank holding companies were removed in September 1995 and restrictions on interstate branching were removed in 1997. The tearing down of such barriers was especially troublesome for small community banks which faced competition from larger multi-state banks that benefited from the new legislations in several ways (e.g., a simplified regulatory environment, operational efficiencies and marketing economies of scale). More recently, the Gramm-Leach-Bliley Act passed in 1999 amended both the Glass-Steagall Act of 1933 and the Bank Holding Company Act of 1956 and repealed prohibitions against affiliation of banks, securities firms, and other financial service providers. As a result, the financial services industry today is facing intense competition not only within traditional banking institutions (i.e., commercial banks, savings and thrifts, and credit unions) but also with other non-banking financial firms such as securities and insurance companies (Fay, 2000).

This new form of competition makes an understanding of consumer choice behavior to the financial services industry imperative. From earlier writings it is apparent that consumers' choice of a financial institution is a decision process, which consists of a number of discrete but interlinked stages (Devlin, 2001; McKechnie, 1992). And choice criteria determination and evaluation of banks in terms of these criteria are two critical steps of that process. Against this background the purpose of this study is to provide a better understanding of how consumers choose their financial institution and how banks are faring in this milieu. In accomplishing the study objective, first an attempt is made to determine the underlying configurations of bank choice criteria employed by consumers. Then, importance-performance analysis is used to assess the relative importance of various choice factors to consumers and the performance of banks in meeting these criteria.

METHOD

Data for the study were collected from the residents of a city in the Southeast. Four-hundred questionnaires were hand-distributed to adult residents residing in different neighborhoods of the city and personally retrieved after a two-week period. Care was exercised to cover the entire set of residential neighborhoods in the city. Respondents had to have a bank account to qualify for the survey. If a respondent did not meet this condition, then members of the field force sought an alternative respondent in the same neighborhood. Usable responses were obtained from 262 residents for a response rate of 65.5%. About one-half of the respondents were male, and little less than one-half (47%) were married. The distribution of annual household income was as follows: 47% less than $30,000, 32% $30,000 to $45,000, and 21% in excess of $45,000. About 30% of the respondents were younger than 25 years of age, 24% were between 25 to 34, 20% were between 35 to 44, and 25% were older than 45 years of age. A comparison of the sample profile with the known characteristics of the area population revealed that the respondents were slightly upscale in terms of household income.

After a review of the relevant literature (Dudley, Young and Powers, 1985-86; Evans 1979; McDougall and Levesque, 1994; Neal, 1980; Levesque and McDougall, 1996; Khazeh and Decker, 1992; Minhas and Jacobs, 1996; Avkiran, 1997; Yavas and Shemwell, 1996; Galloway and Blanchard, 1996; Chen, 1999; Aldlaigan and Buttle, 2002) and examination of questionnaires obtained from various banks, a list of 34 bank choice criteria was prepared (see Table 1). On a seven-point scale ranging from 7 = very important to 1 = not important at all, respondents were asked to indicate the level of importance they attached to each criterion when choosing a bank and to evaluate their principal bank on these criteria on a six-point scale ranging from 1 = very poor to 6 = excellent.

1	Interest rates on deposits/loans
2	Convenience of location
3	Saturday hours
4	Local ownership
5	Number and location of ATMs outside of branches
6	Office/home banking
7	Overdraft privileges
8	Adequate parking
9	External appearance of bank
10	Fees charged
11	Banking hours
12	New bank services
13	Helpfulness of bank tellers
14	Provision of services in a timely manner
15	Attentiveness of personnel
16	Willingness of bank personnel to listen to me
17	Bank procedures are clearly defined and explained
18	Problems are resolved quickly
19	Quality of advice given to me
20	Drive-in service
21	Friendliness of personnel
22	Well trained employees
23	Speed of decisions
24	Accuracy of written communications (e.g., bank statements)
25	Being known personally
26	Bank manager having up to date knowledge of bank products
27	Accurate representations (e.g., loans approvals, fees, etc.)
28	Bank's interest in helping the community
29	Customer's banking information is kept confidential
30	Integrity of bank
31	Bank is technologically advanced
32	Bank is well managed
33	Bank's competence in the business of banking
34	Bank's commitment to me as a customer

Table 1: List of choice criteria.

RESULTS

Choice Criteria Dimensions

Principal components analysis was used to identify the underlying dimensions of the 34 bank choice criteria. For this analysis, importance ratings attached to individual criteria were used as the input data. The initial solution was rotated using the varimax procedure and factors with eigenvalues greater than 1.0 were retained. As shown in Table 2, the analysis resulted in 7 factors. These factors collectively accounted for 62% of the variation in the data.

By considering variables with highest loadings on each of the 7 retained factors, they were named as follows:

Factor 1	Staff Quality
Factor 2	Integrity/Trustworthiness
Factor 3	Exterior
Factor 4	Service Variety
Factor 5	Hours of Operation
Factor 6	Fees
Factor 7	Location

Bank Performance

To investigate the performance of banks in terms of the identified factors, importance-performance analysis was used. Based on the conceptual foundations of multi-attribute choice models, importance-performance considers two critical dimensions consumers employ in evaluating an object. These are the relative importance of the attributes to consumers and consumers' assessment of the performance of the object in terms of these attributes. By dichotomizing these dimensions into high/low categories, the technique identifies the object's strengths and weaknesses and prescribes four strategies (Table 3). Keep up the good work is for those attributes rated high both in importance and performance. Concentrate here strategy applies to those attributes that are high in importance but rated substandard in performance. Attributes rated low in terms of both importance and performance call for a low priority strategy. Finally, attributes rated high in performance but low in importance implies that overkill has occurred. In this case the recommendation is that the resources committed to these attributes should be channeled elsewhere.

	FACTOR 1	FACTOR 2	FACTOR 3	FACTOR 4	FACTOR 5	FACTOR 6	FACTOR 7
VAR001	-0.03	**0.56**	0.31	0.15	-0.16	0.32	-0.18
VAR002	0.06	0.19	0.19	0.06	0.09	0.11	**0.75**
VAR003	0.11	-0.01	0.17	0.22	**0.76**	0.06	0.15
VAR004	-0.06	0.05	0.49	0.17	**0.76**	-0.13	-0.05
VAR005	0.08	-0.14	-0.06	**0.74**	-0.01	0.05	0.42
VAR006	-0.02	0.19	0.24	**0.65**	0.35	-0.02	-0.02
VAR007	0.15	0.06	0.10	**0.69**	0.13	0.23	-0.10
VAR008	0.11	0.09	**0.68**	0.10	0.14	0.14	0.17
VAR009	0.24	-0.05	**0.65**	0.21	0.02	-0.03	0.13
VAR010	0.24	0.19	-0.03	0.08	-0.02	**0.73**	0.04
VAR011	0.36	0.14	0.07	0.17	**0.62**	0.21	0.06
VAR012	0.36	0.12	0.31	**0.61**	0.13	0.07	-0.02
VAR013	**0.71**	0.13	0.32	0.08	0.01	-0.12	0.14
VAR014	**0.60**	0.21	0.27	0.08	-0.08	0.27	-0.06
VAR015	**0.72**	0.20	0.31	0.04	0.01	0.24	0.04
VAR016	**0.78**	0.27	0.10	0.16	0.03	0.09	-0.01
VAR017	**0.62**	0.37	-0.06	0.22	0.22	0.14	-0.10
VAR018	**0.56**	0.20	-0.07	0.05	0.16	0.41	-0.13
VAR019	**0.60**	0.44	-0.07	0.06	0.13	-0.02	-0.01
VAR020	0.12	0.03	0.10	0.23	0.18	**0.51**	0.32
VAR021	**0.72**	0.11	0.28	0.06	0.13	0.21	0.17
VAR022	**0.71**	0.39	0.06	0.05	0.11	0.08	0.08
VAR023	**0.57**	0.35	0.23	0.14	0.18	0.22	-0.05
VAR024	0.34	**0.57**	0.00	-0.02	0.14	0.24	0.06
VAR025	0.33	0.07	0.49	-0.15	0.41	-0.08	-0.14
VAR026	0.42	**0.56**	0.18	0.16	0.19	-0.08	-0.10
VAR027	0.24	**0.68**	0.12	0.16	0.02	0.12	-0.16
VAR028	0.21	0.39	**0.51**	0.09	0.19	0.00	0.01
VAR029	0.24	**0.63**	-0.01	-0.09	-0.18	0.08	0.16
VAR030	0.27	**0.68**	0.03	-0.13	0.13	0.16	0.18
VAR031	**0.49**	0.48	-0.02	0.33	0.04	-0.12	0.22
VAR032	**0.57**	0.56	0.03	0.11	0.13	-0.07	0.17
VAR033	0.38	**0.61**	0.11	0.09	0.06	-0.04	0.14
VAR034	**0.54**	0.44	0.04	-0.05	0.20	0.14	0.20
Eigen Value	11.52	2.85	1.67	1.43	1.19	1.15	1.11

Table 2: Dimensions of bank choice criteria.

To determine which of the 7 factors are important and which are non-important, initially mean importance ratings were computed for each factor by considering criteria with highest loadings on that factor and adjusting for the number of items comprising it. Because factor 7 was comprised of one item, the mean of that item represented the factor mean. These mean scores were summed across factors and divided by 7. The factors whose averages exceeded the grand mean were designated as "high importance" and those which had lower means compared with the grand mean were labeled as "low importance" factors. From this analysis, 4 factors emerged as being important. As can be seen from Table 4, these were factors 1, 2, 6, and 7.

In dichotomizing the 7 factors into low and high performer categories, a similar procedure was used. That is, each factor's performance score was compared to the grand mean. The factors whose averages exceeded the grand mean were designated as "high performance" and those which had lower means compared with the grand mean were labeled as "low performance" factors. As can be seen from the data presented in Table 4, based on this procedure, four factors were designated as high performers. These were the same factors, which were deemed important by the consumers.

By simultaneously considering each factor's importance and banks' performance in terms of these factors, placements of each of the 7 factors were determined. As can be seen from Table 4, four factors (1, 2, 6, and 7) fell into the keep up the good work cell of the grid. Three factors (3, 4, and 5) were designated as low priority.

	High Importance		
	Concentrate Here	Keep up the Good Work	
	(Quadrant II)	(Quadrant I)	
Low Performance	(Quadrant III)	(Quadrant IV)	High Performance
	Low Priority	Possible Overkill	
	Low Importance		

Table 3: Importance-performance grid.

DISCUSSION

At a time when the competition between banks and other financial institutions intensifies, the study reported here identified the underlying configurations of bank choice criteria employed by consumers and assessed the performance of banks in meeting these criteria. The results are enlightening in several ways. First, they show that bank choice criteria for consumers can be reduced to seven underlying factors. Second, they indicate which of these factors are important and which ones are relatively unimportant to consumers when they choose a bank. Third, they highlight banks' performance in terms of these factors.

For instance, the results suggest that banks should keep up the good work in terms of their staff quality, being trustworthy, fees and locational convenience. All of these factors are important to consumers and the banks seem to be successful in meeting the demands of their customers in these areas. By the same token, banks must take decisive steps to improve their performance in other areas such as their exteriors, auxiliary services and hours of operation. While these are relatively unimportant to customers, any changes in the saliencies of these factors coupled with the banks' poor performance, would move them into the undesirable concentrate here cell.

It is interesting to note that many of the factors emerging from the study and the items comprising them closely parallel service quality dimensions widely discussed n the literature. By instituting policies to improve their performances in areas where they are already perceived in a favorable light as well in those factors where they are found deficient, banks can enhance their standings in the eyes of their clients. One viable strategy, for instance, entails improvements in staff quality, which is a significant determinant of customers' subjective perceptions of individual service encounters. While all the disparate elements of a banking organization may combine to collectively deliver the service to the client, it is usually the one-on-one encounter between a boundary spanner and a client that will ultimately determine the outcome, good or bad, in the client's mind. In this context, to improve clients' perceptions of the competencies and skills of their staff, banks can establish service quality support departments to provide training. On a closing note, it should be noted that this study was conducted among consumers in one city. This may delimit generalizations. Replications in other localities would be illuminating in cross-validating the findings.

	Average Score		Recommended
	Importance	Performance	Outcome/Action
FACTOR 1	6.28	4.95	KEEP UP GOOD WORK
FACTOR 2	6.26	4.90	KEEP UP GOOD WORK
FACTOR 3	4.89	4.65	LOW PRIORITY
FACTOR 4	5.01	4.36	LOW PRIORITY
FACTOR 5	5.04	4.17	LOW PRIORITY
FACTOR 6	6.16	4.69	KEEP UP GOOD WORK
FACTOR 7	6.21	4.95	KEEP UP GOOD WORK
AVERAGE	5.69	4.66	

Table 4: Importance-performance analysis.

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