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Bank Selection Criteria Employed by Undergraduates in a Dual-Banking Environment

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ABSTRACT

Banks are facing stiffer competition in today's business world than in the past. As we know, customers are vital to the survival of banks. Thus, understanding of the criteria that are deemed to be important in choosing a bank is indeed crucial, especially in a dual-banking environment like Malaysia. However, research into bank selection criteria of specific customer segment still remains limited. As such, this study is carried out to identify the bank selection criteria employed by undergraduates choosing for conventional, Islamic and both types of banks. The study was done through a self-administered questionnaire survey participated by 286 undergraduates. The results revealed that undergraduates choosing for conventional banks considered convenience as the main factor. Meanwhile, religiosity and technology were considered as the most important factors for the other two groups of undergraduates respectively. In addition, this study also indicated that undergraduates were not homogeneous in regard to bank patronization. In short, as undergraduates opting for different type of banks employed different selection criteria, bank operators are urged to understand their target customers well before they start to invest in marketing programs.

Keywords: *Bank, Dual banking system, Selection criteria, Undergraduates*

INTRODUCTION

Banks are important to our daily lives, as banks nowadays have multiple roles; they are not just the traditional deposits collectors and money lenders anymore. The country's economic development, business expansion and even globalization are all inseparable from banking activities (Ruin, 2004). Casu *et al.* (2006) further explain that in this modern world, apart from deposits and loans, banks have widened their business activities to include all aspects of financial service activities, such as insurance, securities, investments, pensions, etc. Due to its availability of a wide-range of products and services, the competition landscape of banks has also been changed from an uncompetitive pattern to a more competitive and dynamic pattern.

Banks are facing stiffer competition in today's business world than in the past. As such, it has become increasingly important for all the bank operators to understand about their customers' needs and wants. Customers are playing an important role to the survival of organizations. Marketing experts in consumer behavior have mentioned that consumers evaluate the relevance and importance of various criteria before they can choose a specific product or service (Hoyer & MacInnis, 2010). Thus, understanding of the criteria that are deemed to be important in choosing a bank is indeed crucial, especially for the bank operators to identify suitable strategies to influence their customers' decisions.

Currently, there is a wide range of research available regarding bank selection criteria. The literature has successfully shown that customers were influenced by various criteria, such as interest rates, convenience, bank reputation, recommendations from others, etc. in selecting a bank (Jahiruddin & Haque, 2009; Lajuni *et al.*, 2010; Maiyaki, 2011). However, most of the existing studies focused on general individual consumer's perceptions; in which, specific segmentation of customers has not been performed in these studies. As Ruin (2004) mentioned, banks should take efforts to identify their customer target, such as customers of different age or ethnic groups, in order to offer the needed products and services to them. In addition, several researchers have agreed that the young adults market, such as undergraduates market, is considered a potential profitable market to bank operators (Almossawi, 2001; Mokhlis *et al.*, 2008; Mokhlis, 2009); thus, the issue of how they select their banks should be investigated further.

Over the years, several studies regarding bank selection criteria of undergraduates have been conducted by researchers in various countries. Past literature has found out that undergraduates were influenced by various factors in selecting a bank to patronize, for example, technology, reputation, convenience, financial benefits, influences from others, security, etc are among the key determinants (Gerrard & Cunningham, 2001; Almosawi, 2001, Bley & Kuehn, 2004). The above studies have undoubtedly shed some light on the undergraduates' bank selection behaviors and have suggested some useful strategies for the bank operators. Nonetheless, the studies may raise a question of their applicability to the banking segment in our country, in which conventional banks and Islamic banks exist side-by-side, or better known as the "dual-banking system".

In the local setting, research into bank selection criteria among undergraduates still remains limited. Although small in number, several studies regarding undergraduates' behaviors towards selection of banks have been conducted by researchers such as Mokhlis *et al.* (2008) and Mokhlis (2009). The studies were mainly focusing on issues such as gender and ethnicity differences in selection criteria of banks. However, in the dual-banking system environment like Malaysia, studies regarding bank selection criteria may have to consider other issues, such as comparison of selection criteria between customers of conventional and Islamic banks. Furthermore, as the issue of conventional versus Islamic banking has not been over-researched, understanding of what cause customers to choose conventional banks or Islamic banks is then viable.

Considering the above mentioned limitations and gaps; therefore, this study is carried out to address the following issues: (i) What bank selection criteria that are considered as important for undergraduates choosing for conventional, Islamic and both types of banks? (ii) Are there any significant differences in bank selection criteria employed by undergraduates using conventional, Islamic and both types of banks?

LITERATURE REVIEW

The Dual Banking System in Malaysia

The first bank in Malaysia was established in 1875, located in Penang. After 134 years, the number of banks in Malaysia has increased tremendously and the competition has intensified significantly. However, Islamic banking in Malaysia has a shorter history as compared to conventional banking. Islamic banking, also known as interest-free banking, is a banking concept which emphasizes on doing business in accordance to Syariah or Islamic laws (Ruin, 2004; Dusuki & Abdullah, 2007). The history of Islamic banking in Malaysia can be traced back to 1963, when the *Perbadanan Wang Simpanan Bakal-Bakal Haji (PWSBH)* was established for the Muslims to save for their pilgrimages. The first Islamic bank was officially established in 1983, known as *Bank Islam Malaysia (BIMB)*, under the Islamic Banking Act. Ten years later, BNM introduced the *Skim Perbankan Tanpa Faedah (SPTF)*, which allowed the commercial banks, merchant banks and finance companies to offer Islamic products and services (Khair *et al.*, 2008). Thereafter, the banking industry in Malaysia has therefore reached another milestone.

The establishment of Islamic banks has put the banking sector of Malaysia into a unique situation; in which, conventional banks are operating on a parallel basis with the full-fledge Islamic banks, unlike other OIC member countries, such as Iran, Pakistan and Sudan, in which only Islamic banks are viable. The unique banking system that Malaysia has is known as the “Dual-banking System” (Yakcop, 2003). The specialties of the “Dual-banking System” are two-fold; first, it allows both the conventional and Islamic banks to work on a parallel basis and secondly, they can utilize the same set of banking infrastructure (Yakcop, 2003). It is believed that this unique system is beneficial to Malaysia, because it can serve the needs of both Muslims and non-Muslims residents in the country. Furthermore, it can also reflect Malaysia as a multi-racial and multi-religion nation.

Recently, the Malaysian government has started to pay attention to the development of Islamic banking, as in 2006, Malaysia International Islamic Financial Center (MIFC) initiatives were launched to transform the country into an international Islamic finance hub (MIDA, 2010). It

is hoped that with the establishment of MIFC, financial institutions from all over the world could consider Malaysia as a platform for their Islamic financial activities. Furthermore, various incentives, such as issuance of new license, tax reduction, etc would also be provided to the participating financial institutions. In short, the initiation of MIFC has definitely benefited both the country and the financial institutions (MIFC, 2011).

Bank Selection Criteria

The number of bank selection studies conducted on the student segment is still considered limited, especially in the West. For instance, a recent study was done by Cicic *et al.* (2004) to compare the bank selection factors employed by male and female university students. The study found that generally, all undergraduates ranked “reception at the bank”, “friendliness of bank personnel”, “service charges” and “ease of opening a bank account” as the most important factors in selecting a bank. Thus, these factors should be considered seriously by banks in designing their marketing strategies. Whereas factors that considered as the least important were “importance of domestic bank”, “recommendations”, “location” and “external appearance”.

Two studies conducted by Blankson *et al.* (2007; 2009) which covered both students from the West and East have unanimously indicated that convenience, competence, recommendation by peers and free banking were perceived as important bank selection factors across the two regions. The authors further concluded that consistency was found in consumers’ selection of banks in the two regions, although they are in different economic conditions and cultural settings. Thus, bank operators from these two regions should consider the above factors as the basis for relationship marketing, advertising and sales efforts. Furthermore, bank managers may also consider standardizing their marketing strategies across the regions.

Studies performed in the East are in greater number compared to the West. In the Asia region, such as Singapore, Huu and Kar (2000) investigated the undergraduates’ bank selection decisions by using the Analytical Hierarchical Process (AHP). Their results revealed that the three most important criteria affecting undergraduates’ bank selection decisions were high interest rates, convenient location and overall quality of service.

Meanwhile, Gerrard and Cunningham (2001) carried out a similar study in the same setting. They found that undergraduates ranked secure feeling, electronic services and service provision as the three most important bank selection criteria. The two studies above have agreed that the bank service is an important factor in affecting customers' selection of bank. However, interest rate was not playing an influential role in the latter study.

In India, Srivatsa and Srinivasan (2008) focused their study on youth banking behavior across three regions in India. Interestingly, their results showed that convenience was found to be a more important factor than all other factor across the three regions. Other factors included in the study were product utility and brand image. The authors suggested that banks should modify their service offerings based on customers' expectations. In another study, Rao and Sharma (2010) focused on MBA students from India. They reported that six factor groups were generated from an exploratory factor analysis. Among the six factors, "reliability" was considered the most vital factor, followed by other factors such as "convenience", "assurance", "value added services", "accessibility" and "responsiveness". Surprisingly, the two studies yielded similar results with the studies conducted in other countries, such as Blankson *et al.* (2007; 2009) and Gerrard and Cunningham (2001); in which they all confirmed that non-financial factors like convenience and service were deemed to be important.

In the Middle East, some studies on bank selection factor can be found as well. For instance, Almossawi (2001) examined the bank selection criteria employed by college students in Bahrain. The findings revealed that the main factors affecting students' bank selection were "technology / reputation", "convenience", "financial benefits" and "employee / customer interactions". It was also showed that the first two factors were characterized by higher mean importance ratings than the latter two. As such, the author suggested that banks should emphasize the importance of convenience and technology for bank selection decisions by college students. Again, the study confirmed that non-financial criteria, such as reputation and convenience were much more important than the financial criteria, such as service charges and interest rates.

In addition, Bley and Kuehn (2004) studied the students' knowledge and variables of preferences for both conventional and Islamic banks

in United Arab Emirates (UAE). Surprisingly, their research found that students were having higher knowledge of conventional banking than Islamic banking although UAE is an Islamic country. Further, the results also suggested that religion did play an influential role in bank choice among students, especially for those who favored the Islamic finance and banking. Lastly, the researchers concluded that ignorance is widespread, in which consumers were choosing their products and services simply on religious principles, without taking into consideration other attributes, such as quality and values.

Bank selection criteria of general population of customers has been widely studied by various researchers in Malaysia, for examples, Haron *et al.* (1994), Jantan *et al.* (1998), Che Wel and Mohd. Nor (2003), Baharun and Md. Salleh (2007), Lajuni *et al.* (2010), just to name a few. Nonetheless, as mentioned earlier, specific studies into bank selection criteria among students are still very lacking at the local setting. For instance, Mokhlis *et al.* (2008) surveyed 281 undergraduate students and identified that secure feeling, ATM service and financial benefits were among the three most important factor groups affecting respondents' choice of banks. Although financial benefits factor was considered as important, it was after secure feeling and ATM service factor; thus, it again produced a similar result with the previous studies, whereby non-financial factor was playing a more influential role in bank selection than the other factors (Almossawi, 2001; Gerrard & Cunningham, 2001; Blankson *et al.*, 2007 & 2009; Srivatsa & Srinivasan, 2008; Rao & Sharma, 2010). Other factors included in the study were service provision, proximity, branch location, non-people influences, attractiveness and people influences.

In another study performed by Mokhlis (2009) to analyze the gender differences in the relative importance of bank choice criteria, the study discovered that both the male and female college students placed more emphasis on "secure feeling" and "ATM service". In addition, "people influences" was considered as the least important factor by both groups of respondents. The author concluded that as significant differences were found in some selection factors, such as ATM service, financial benefits, marketing promotions, etc. Thus, banks operators had to realize that they were dealing with two segments of customers. Furthermore, they were urged to tailor their marketing strategies to stress the satisfaction of each segment.

It can be noted from the literature that consumers from various locations rated the bank selection variables differently, some rated highly on service and financial returns, while the others rated highly on religious factors and recommendations. Moreover, studies regarding bank selection criteria among young customers, specifically undergraduates, are still very limited in Malaysia. The competitive banking environment in Malaysia also suggests that the understanding of factors that influence the choice of banks among customers is indeed needed to develop appropriate strategies for banks to grow and thrive. As such, this study seeks to add to the literature and shed some light on the understanding of bank selection among undergraduates, specifically among the selection of conventional banks, Islamic banks or both.

METHODOLOGY

Sample and Data Collection

The sample of this study consisted of undergraduate students registered in a range of diploma and degree courses. Undergraduate students were selected as the sample because they represent a potential profitable segment for bank operators. For instance, they require a bank account at present to manage their loan, scholarship as well as pocket money from parents. Then, they definitely require banks' products and services once they have stepped out to the society. Moreover, other similar studies using student cohorts as sample were also found in Almosawi (2001), Gerrard and Cunningham (2001), Cicic *et al.* (2004) and Blankson *et al.* (2007; 2009). Following Mokhlis *et al.* (2008), Mokhlis (2009) and Rao and Sharma (2010), the selection of sample was based on convenience method. A total of 350 questionnaires were distributed to students from various faculties in the universities. However, only 316 were returned, out of which 286 were deemed to be completed and usable. Thus, it yielded a response rate of about 82%.

The data was collected through a specially designed self-administered questionnaire. The questionnaires were distributed to the students through their class representatives. They were given 20 minutes to complete the questionnaire in a classroom environment, normally after the lectures or tutorials. This method was used in order to induce a greater number of

respondents to complete the questionnaires and hence to achieve a higher response rate. In addition, it could also help to reduce the cost incurred and time spent on data gathering (Burns & Burns, 2008).

Research Instrument and Data Analysis

The study was conducted by using survey method. A structured questionnaire which consisted of two sections was developed for this purpose. Closed-ended questions were used in the questionnaire due to their ease to administer, score and code (Burns & Burns, 2008). Specifically, the first section was aimed to collect information of respondents' profile. The second section was developed to identify the respondents' perceptions on bank selection criteria. The respondents were asked to determine the importance of 32 items based upon a five-point Likert scale, ranging from 1= Not important at all to 5 = Very important. All the questions were inspired by Almossawi (2001), Gerrard and Cunningham (2001) and Dusuki and Abdullah (2007).

As for the data analysis, all coded data were keyed-in to the computer for further analysis by using Statistical Package for Social Sciences (SPSS). Subsequently, factor analysis was performed to delineate the criteria into appropriate factor groups. Mean values were used to determine the ranking of bank selection criteria among undergraduate students. Furthermore, one-way ANOVA test was conducted to see if significant differences existed in among the responses of undergraduates using conventional, Islamic and both types of banks.

FINDINGS AND DISCUSSIONS

Respondents' Profiles

Table 1 illustrates the results of respondents' background information. It can be seen that majority of the respondents are female (68.2%), which reflects the actual situation in the university, where there are more female students than male students. In terms of bank adoption, 25.4% of the respondents are utilizing conventional banks, 38.2% of them are banking with Islamic banks; while the rest of them (36.4%) are patronizing both conventional and Islamic banks.

Table 1: Respondents' Profile

Demographic	N=286	
	F	%
Gender		
Male	91	31.8
Female	195	68.2
Banks Currently Patronizing		
Conventional Banks Only	73	25.4
Islamic Banks Only	109	38.2
Both Conventional and Islamic Banks	104	36.4

FACTOR ANALYSIS

Factor analysis is performed to place together closely related individual items to form a factor. A factor is a sort of super-variable expressed by group of variables having high inter-correlations but low correlations with any other group (Burns & Burns, 2008). In this study, the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy is 0.819 and the Barlett's test of sphericity is significance (Approx. Chi-square = 2407.155; df = 496; sig. = 0.000), thus they confirm the appropriateness of the data for factor analysis. Thus, exploratory factor analysis with Varimax rotation is performed. Furthermore, the rule of Eigen-value-greater-than-one is observed and only the factors with large loading (>0.5) are selected.

The results reveal that seven factors can be depicted. Table 2 illustrates the results in details. Factor 1 can be named "religiosity", in which all items are related to religious considerations, Islamic and Halal practices. All items grouped under Factor 2 can be called "financial benefits", examples of items include service charges and interest rates. Factor 3 contains items related to influences from family, friends and lecturers; it can be named "external influences". Items falling within Factor 4 are related to banks locations, ATM locations and availability branches; it can be identified as "convenience". Factor 5 which has been called "service provision", which consists of attributes such as fast and efficient service, range of service and number of staff. Factor 6 relates to "bank appearance", examples of items are bank's internal, external and staff appearance. Finally, Factor 7 can be labeled "technology", relating to availability of e-banking and ATM facilities.

It is worth mentioning that Cronbach alpha value for all of the factors range from 0.645 to 0.841, which indicate that constructs are considered reliable and homogeneity of items assumed. Meanwhile, the Eigenvalue for the factors identified range from 1.18 to 7.82. Moreover, the seven factors also account for 60.81% of total variance.

Table 2: Factor Analysis

Bank Selection Factors	Factor Loading	Eigen-value	% of variance
Factor 1 – Religiosity ($\alpha = 0.841$)			
Islamic reputation and image	0.854		
Islamic working environment	0.824	7.82	24.42
Religious consideration	0.766		
Halal practices	0.683		
Factor 2 – Financial benefits ($\alpha = 0.739$)			
Financial stability of the bank	0.861		
Low service charges	0.766	3.15	9.85
Interest rates offered	0.749		
Factor 3 – External influences ($\alpha = 0.819$)			
Influence of family	0.878		
Influence of friends	0.848	2.29	7.17
Influence of lecturers	0.715		
Factor 4 – Convenience ($\alpha = 0.673$)			
Location near to university	0.791		
Several branches available	0.766	2.05	6.41
Location near to home	0.732		
Convenient ATM locations	0.553		
Factor 5 – Service provision ($\alpha = 0.683$)			
Provision of a fast and efficient service	0.765		
Regular bank statement	0.705		
Adequate number of staff	0.609	1.56	4.87
Appropriate range of services offered	0.575		
Factor 6 – Bank appearance ($\alpha = 0.746$)			
Interior décor of building	0.772		
External attractiveness of bank buildings	0.740	1.41	4.39
Class of people who patronize the bank	0.679		
Appearance and attire of staff	0.604		
Factor 7 – Technology ($\alpha = 0.645$)			
Availability of e-banking facilities	0.621		
Availability of ATM machines	0.613	1.18	3.70
Bank's reputation	0.536		

RANKING OF BANK SELECTION CRITERIA

The ranking of bank selection factors by respondents are summarized in Table 3. Undergraduates opting for conventional banks ranked “convenience” as the most important factor, followed by “technology” and “financial benefits”. Studies performed by Huu and Kar (2000), Blankson *et al.* (2007; 2009), Srivatsa and Srinivasan (2008) and Rao and Sharma (2010) have also identified that convenience was considered as an important factor in bank selection. Meanwhile, the Islamic bank users ranked “religiosity” as the most important factor, followed by “technology” and “service provision”. Consistent with Bley and Keuhn (2004) study, undergraduates utilize Islamic banks because they have better knowledge about their religion. As such, religious principles do play an important role in affecting undergraduates in choosing their bank partners. Lastly, undergraduates utilizing both types of banks ranked “technology” as the most important factor, followed by “service provision” and “convenience”.

Table 3: Ranking of Factors

Bank Selection Factors	Conventional		Islamic		Both	
	Mean	Rank	Mean	Rank	Mean	Rank
Religiosity	3.89	5	4.53	1	4.21	5
Financial benefits	4.21	3	4.13	5	4.22	4
External influences	3.44	7	3.53	7	3.56	7
Convenience	4.38	1	4.18	4	4.23	3
Service provision	4.14	4	4.22	3	4.26	2
Bank appearance	3.51	6	3.77	6	3.87	6
Technology	4.35	2	4.39	2	4.39	1

Surprisingly, “financial benefits” was not highly ranked by the second and third group of respondents. Specifically, Islamic bank users may not be very concerned about interest rate because interest or *riba* is prohibited in Islamic practices. Interestingly, “bank appearance” and “external influences” were given low ranking (rank 6 and 7 respectively) by all the three groups of respondents. It can be explained by the fact that the respondents are mostly young adults; thus, they are independent in making decisions and hardly influenced by the third party. A similar result was also obtained by Gerrard and Cunningham (2001), Almossawi (2001) and Cicic *et al.* (2004).

DIFFERENCES IN BANK SELECTION CRITERIA

Analysis of variance or ANOVA can be used to test significant differences among groups. It is important to note that the bigger the F-value, the more likely that the difference is significant (Burns & Burns, 2008).

Table 4 shows that three factors with significant differences exist. At the p -value < 0.1 level, significant difference is found at “bank appearance”. The factor is more important to the users of both types of banks than the conventional bank users. Furthermore, at the p -value < 0.05 level, it is found that “religiosity” and “convenience” do have significant differences. Apparently, “religiosity” is regarded as more important to Islamic bank users than conventional bank users. Meanwhile, “convenience” is deemed to be more critical to conventional bank users than Islamic bank users.

Table 4: One-way ANOVA

Bank Selection Factors	Mean			F	P
	Conventional	Islamic	Both		
Religiosity	3.89	4.53	4.21	4.272	0.032**
Financial benefits	4.21	4.13	4.22	0.347	0.707
External influences	3.44	3.53	3.56	0.370	0.692
Convenience	4.38	4.18	4.23	3.332	0.043**
Service provision	4.14	4.22	4.26	0.849	0.432
Bank appearance	3.51	3.77	3.87	2.861	0.060*
Technology	4.35	4.39	4.39	0.122	0.885

Notes: * Significant at $p < 0.1$; ** Significant at $p < 0.05$

CONCLUSIONS AND RECOMMENDATIONS

An aim of this study is to identify the bank selection criteria that are considered as important for undergraduates choosing conventional, Islamic and both types of banks. Also, another aim is to see if there are any significant differences in bank selection criteria employed by the three groups of undergraduate bank users. The contributions of this study are two-fold. On one hand, it flourishes the current literature on bank selection criteria; while on the other hand, it provides some practical contributions to the bank operators to understand their customers better to design more effective and efficient marketing strategies.

The results reveal that there are seven factors that affect the undergraduates' choice of banks. As such, banks should pay more attention to these seven factors in designing their marketing programs, especially in attracting and retaining customers. In terms of the ranking of factors, conventional banks users considered "convenience" as the most important factor. Thus, bank should pay high attention on choosing suitable location for setting up of new branches or ATM machines. As for the Islamic bank users, "religiosity" still remains as the most important factor. Therefore, bank operators should focus on Islamic principles in marketing and selling their Islamic banking products. Users of both types of banks regard "technology" as the most important factor. This finding is an important message to the bank operators to get involved with high-technological bank operations, such as electronic banking or mobile banking.

Lastly, the findings also indicate that undergraduates are not a homogeneous group in regard to banks patronization. Factors such as "religiosity", "convenience" and "bank appearance" are deemed to be important to different group of bank customers. In other words, bank operators should understand their target customers well before they start to invest in the marketing programs. In short, different marketing strategies should be aligned to different group of bank users in order to get a better result.

This study only examines one type of bank customers; that is the undergraduates. Although this is an important segment to banks, other segments should not be neglected as well. Furthermore, the respondents are derived from one university, which means generalization of findings may not be viable. Thus, future researchers can consider involving respondents from several universities.

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