

DETERMINANTS OF CUSTOMERS' CHOICE AND CONTINUING PATRONAGE OF COMMERCIAL BANKS: EVIDENCE FROM NIGERIA

Cordelia Onyinyechi Omodero, Covenant University Ota
Sylvester Eriabie, Covenant University Ota

ABSTRACT

This study examines the determinants of customers' choice and continuing patronage of commercial banks in Nigeria. Due to frequent collapse of banks experienced in Nigeria especially in the late 1990s and early 2000, and the prevailing financial insecurity and other economic challenges in the country, customers are forced to consider many factors before choosing a bank for their banking transactions. Based on this background, this seeks to highlight the primary reasons why customers switch from bank to bank. This study uses a survey research method which allows bank customers to identify the reason for their choice of commercial banks in Nigeria. Based on this evaluation, the findings of this study reveal that attractive bank building is the least among the factors that influence customers' choice of commercial banks in Nigeria. Instead, bank reputation and image over the years, simplicity of opening an account, reduced bank charges, variety of products/services and ease of obtaining loan facility are the primary determinants of customers' choice of banks and continuing patronage. Thus, this study concludes that efficient bank services, financial stability and security encourage customers' loyalty and continual support.

Keywords: Commercial banks; Customer loyalty; Selection criteria; Motivational factors; Nigeria.

JEL Classification Codes: D91, G20, G21

INTRODUCTION

The role of commercial banks in national economic development is indeed priceless. Commercial Banks ensure availability of credit facilities for smooth running of businesses, investment in companies' stocks and general promotion of capital markets (Omodero, 2020) in both industrialized and emerging nations. Despite the fluctuating interest rates charged by banks which sometimes may be highly excruciating on the part of the companies and individuals trying to obtain credit facilities for investments in shares (Omodero, 2020) and other business ventures, commercial banks remain a vital arm of every economy.

The services offered by commercial banks have always been the bone of contention for customers' choice of banks and sustaining patronage. All organizations operate in a competitive business environment, and so, commercial banks are not free from this scenario. The increasing number of commercial banks provide customers with the opportunity to make a selection of banks that satisfy their banking transaction needs. Based on this premise, this study evaluates the significant determinants of customers' choice of banks and continuing patronage in Nigeria.

About 22 commercial banks are operating in Nigeria which includes: Access Bank Plc; Citibank Nigeria Plc; Ecobank Nigeria Plc; Fidelity Bank Plc; First Bank Nigeria Limited; First City Monument Bank Plc; Globus Bank Limited; Guaranty Trust Bank Plc; Heritage Banking Company Ltd; Keystone Bank; Polaris Bank; Providus Bank; Stanbic IBTC Bank Ltd; Standard Chartered Bank Nigeria Ltd; Sterling Bank Plc; Sun Trust Bank Nigeria Limited; Titan Trust Bank Ltd; Union Bank of Nigeria Plc; United Bank for Africa Plc; Unity Bank Plc; Wema Bank Plc; and Zenith Bank Plc (Central Bank of Nigeria, 2020).

Taking a look at the numerous banks with branches across the 36 states of Nigeria, there is no doubt that the banking business in Nigeria is highly competitive and requires all manner of competitive expertise to remain a going concern. However, the immense contribution of commercial banks to Nigeria's national economic growth and development is invaluable. The Central Bank of Nigeria is the apex bank in Nigeria and has the absolute responsibility to regulate the activities of these commercial banks to ensure standardization and economic stability. Thus, customers are aware of a large number of banks to choose from, and their choice is absolutely a function of the bank's ability to provide the necessary services that best satisfy the banking requirements of the customers. The factors that influence customers' bank selection serve as the reason why commercial banks should not disregard the role of competition in the banking industry. Interestingly, there exists a healthy competition which helps the banking sector to provide the best services to the customers.

LITERATURE REVIEW

Theoretical Review

This rational choice theory and competitive theory supports this study. Rational choice theory is promoted by Scott (2000), who postulated that human beings are intelligent and make choices that give them the best alternative among several options before them. According to Levine and Zervos (2004), the rational choice theory allows individuals to determine the various options available to them and to make an informed decision by way of choosing the best option that satisfies their demands. It is dependent on the outcome of specific, consistent criteria appraised over time. Comparison of costs and benefits of choices is a common practice in the rational choice theory. Thus, customers' selection of commercial banks relies on the benefits they wish to derive and the cost of continuing patronage of a particular bank. On the other hand, the competitive theory describes the mode of operation of firms, including commercial banks that have a target towards gaining customers' patronage and loyalty (Boru, 2017). According to Aregbeyen (2011), commercial banks achieve this purpose through the introduction of new products, excellent services and constant technological improvements, among others.

Review of Empirical Studies

Nkannebe et al. (2014) analyzed the bank selection criteria of university undergrads in South-East Nigeria. The study involved 300 undergrads in the sample, and their responses revealed that banks' financial stability, proximity, functional ATM and its availability among others are the major determinants of University undergrads banks' selection. Nguli (2016) focused on the evaluation of the internal factors affecting customers' satisfaction of commercial banks in Kitui Town, in Kitui County, Kenya. The study made use of convenience sampling

technique which allowed drawing of the sample from the part of the population that was readily obtainable and convenient. Thus, using 10% of the target population, the study found that the banks' improvement on customers' queuing management, turnaround time, product relationship management, customers' feedback and product innovation resulted to customers' satisfaction significantly. Ezeh and Nwaizugbo (2016) studied the variables influencing commercial banks among transport workers in Anambra State Nigeria. The study revealed that security of the banking environment, bank reputation, continuous information flow, efficient services and confidentiality are the dominant factors affecting the choice of commercial banks among transport workers in Awka, Anambra State.

Boru (2017) carried out a study on factors determining customers' bank selection in Ethiopia using a total number of 101 bank customers as a sample size, 5 points Likert Scale and factor analysis technique. The study found that the absence of delay in attending to customers, extensive branch coverage network, branch location and ease of foreign transactions were the significant determinants of customers' bank selections in Ethiopia. The least factors include price, innovation, e-banking and financial performance. Garba et al. (2017) gathered the opinion of 138 bank customers from Bauchi State Nigeria on the primary criteria for their choice of banks. From their responses, a timely service delivery, personal attention and technology-driven banking services were the bedrock of their selection of banks. Ara and Begum (2018) examined customers' preferred criteria for bank selection in the Northern Region of Bangladesh. The factors that rank the highest in the customers' preference of banks include modern equipment and technologies, the security of the financial transactions and bank premises, honesty and confidentiality.

Fejza et al. (2018) analyzed both internal and external factors affecting customers' behaviour towards commercial banks in Kosovo. The study made use of a survey questionnaire with a sample base of 500 customers randomly selected from commercial banks in Kosovo. The findings revealed the existence of a significant negative relationship between banking cost and the choice of banks by customers. On the other hand, there was no statistically significant relationship between bank staff professionalism, customer satisfaction, customer care and customers' choice of bank. Joseph and Joseph (2018) analyzed the relevant factors affecting customers' bank choice in Rwanda. The study made use of primary data collected through a questionnaire instrument. The findings revealed that the physical appearance of a bank's building, its social influences, financial benefits of customers and banks full branch network rank the highest factors in customers' choice of banks in Rwanda. Other identified factors deciding customers' choice of banks in Rwanda include customers' care, service delivery time frame, and convenience location, and assurance, variety of products, professionalism, brand name and recommendation by employers.

Fathelrahman (2019) used a sample of 253 bank customers in Khartoum State Sudan. Their responses to 22 different bank selection criteria suggested that corporal efficiency is the most significant factor in customers' choice of banks. In contrast, other factors established include service delivery, the convenience of making transaction and banks' general marketing strategies. Lotto (2019) used 36 commercial banks in Tanzania to examine the factors that determine bank operating efficiency in the Tanzanian banking sector from 2000 to 2017. The study employed a robust random-effect regression model and found that banks' liquidity and capital sufficiency related positively with the operating efficiency of the banks. Saif et al. (2019) assessed customers' bank selection determinants in Iraqi using 150 responses from closed-ended questionnaire retrieved. The results showed that the significant determinants of customers'

loyalty and selection of banks include: convenience, price, security, personal influence, electronic services and bank's physical appearance.

Arbana et al. (2020) investigated the factors that determine the choice of commercial banks in Kosovo. The study's sample comprised ten customers and ten staff of commercial banks, bringing the total number to 280. However, the researcher received only 250 of the questionnaire instrument, while 192 were found useful. Thus, the study found that customer service quality, reputation, extensive branch network and reliability of a bank's information technology were the significant factors determining the choice of commercial banks. The least elements in the order of less importance include the relationship with bank staff members, easy access to loans, marketing communication and recommendation from friends and relatives.

METHODOLOGY

This study employs an inductive approach as it is investigative and involving an examination of determinants of customers' choice and sustained patronage of commercial banks in Nigeria. The following research questions adapted from Arbana et al. (2020) but modified to suit the research location and the disposition of bank customers in Nigeria. The questions that helped to provide definite direction to this study are as follows:

- What are the determinants of customers' choice of commercial banks in Nigeria?
- What are the salient reasons that influence customers' continued patronage of commercial banks in Nigeria?

The relevant data for this study were obtained through the questionnaire instrument, which incorporates the above research questions and directed to various commercial banks' customers both physically and electronically. The method is in line with convenience sampling technique which is a type of non-probability sampling that ensures a study draws a sample from that part of the population that is readily available and convenient (Nguli, 2016). In using this type of sampling method, the researcher has the liberty to give questionnaires to the customers in the most convenient manner, be it physically or electronically as applied in this study. The adoption of this sampling method makes easy, responses from respondents and retrieval of questionnaire instrument very simple and less cumbersome. The number of questionnaires administered was 230, but the responses received were 215. Out of the 215 surveys returned, only seven were found uncompleted and not very useful for this research.

RESULTS

Table 1 below shows the number of respondents used in the study.

TABLE 1 DISTRIBUTION BY GENDER		
Gender	Number	Percentage (%)
Male	101	48.56
Female	107	51.44
Total	208	100

Source: Research output, 2020

From the result on Table 1, the number of respondents are 208. The numbers that represent the male respondents are 101 while the female constitutes 107 respondents. Thus, the responses from the male bank customers represent 48.56% and the female customers that participated in the survey make up 51.44%. Therefore, the 208 survey participants represent 100%, both male and female.

The frequency distribution table below reflects the identified factors responsible for customers' choice of commercial banks and why customers maintain their patronage of individual banks in the country. The table shows the level of responses cumulatively and its mean scores. The ranking shows the order of priority and relevance.

Identified Factors Influencing Customers' Banks' Choice and Patronage	No. of Respondents	Cumulative Score	Mean Score	Ranking
Bank reputation/public image	208	1289	6.20	1
Ease of opening an account	208	1144	5.50	2
Reduced bank charges	208	1077	5.18	3
Wide range of products/services	208	908	4.37	4
The simplicity of obtaining loans	208	889	4.27	5
Security of the banking premises	208	842	4.05	6
The excellence of customer services	208	821	3.95	7
Confidence in the bank's management	208	798	3.84	8
The nearness of bank to office/home	208	743	3.57	9
The sociability of the bank's employees	208	718	3.45	10
The efficiency of ATM services	208	624	3.00	11
Bank's commitment to social responsibility	208	612	2.94	12
The capital base of bank/Liquidity	208	589	2.83	13
Diversity of e-bank products and quality	208	545	2.62	14
Consistency of bank internet services and network	208	446	2.14	15
Extensive coverage of branches	208	417	2.00	16
Free flow of banking information	208	321	1.54	17
Bank's ratings by local/International agencies	208	308	1.48	18
Recommendation from friends/relatives	208	234	1.13	19
The attractiveness of bank building/neatness of the premises	208	216	1.04	20

Source: Author's Calculations, 2020

Table 2 shows the scoring of customers in percentage term. The total scores were accumulated to arrive at the cumulative score. The mean score is the cumulative score divided by the number of respondents. Thus, the ranking is achieved by taken the highest ranked attribute of banks as first in the list and the lowest as last in the list. Customers were not under duress while making their choice or scoring the banks' qualities and functions that attract their continuing

patronage. The respondents were allowed to express their mind with no form of influence on their selection and expressions. Therefore, the bank customers' judgments analyzed in this study are unbiased, free and fair.

DISCUSSION

From the findings in Table 2, the customers believe that banks' image and reputation over the years is the most crucial factor to be considered in their choice of banks. The point is that, once an entity is conscious of its public image and reputation, that entity would not stoop low to dent that adorable image. The status of a bank guides their relationship with the outside world. Another factor that ranks second is the ease of opening an account, followed by reduced bank charges, a variety of bank product/services, and loan accessibility, especially for private sector investment. However, bank building attractiveness, a recommendation from friends/relatives, agencies ratings, branch coverage and information flow were not too significant in determining the choice of banks and continuing patronage by customers. According to some bank customers interviewed, no matter where a bank is operating as long as the bank can provide loans with ease and at a cheaper rate. The bank's reputation is not at stake, and they are comfortable with it. The magnificent building with less attention to efficient customer services and other banking challenges is not an attraction to customers considering the economic realities in Nigeria.

CONCLUSION

Individuals and companies need finance at a low cost to carry out their businesses and not fascinating bank buildings. In the past, several banks collapsed in Nigeria because they had little or no regard for their reputation, thus, customers go for banks that have maintained their integrity and image over the years. Therefore, this study suggests that commercial banks in Nigeria should endeavour to provide the best banking services to the customers at a reduced cost while making sure their integrity and reputation are maintained. Notwithstanding the magnificent buildings banks are known for, efficient services and variety of products are paramount. The security of people's money should be guaranteed at all times while making sure there is the efficient management of the banks. Banks should take all necessary measures to guard against possible collapse, which could cause people to lose their hard-earned savings. However, this study suffered some limitations such as lack of sufficient secondary data and inputs from the bank officials due to security reasons. Although, the primary data constitute raw information and insight from the bank customers, nevertheless, the statistical data would be preferred. The study suggests use of secondary form of data in further researches in this subject area. It is also very necessary for banks to design template to capture customers' satisfaction and displeasure statistically to enhance research outputs.

ACKNOWLEDGEMENT

The authors recognize the funding of this paper by Covenant University Ota, Ogun State, Nigeria.

REFERENCES

- Ara, J., & Begum, H. (2018). Factors influencing customers in bank selection: A study on Northern region of Bangladesh. *IOSR Journal of Business and Management*, 20(7), 73-80.
- Arbana, S., Muhamet, A., Arben, S., & Kushtrim, A. (2020). Factors affecting choice of Commercial Banks in Kosovo. *Academy of Accounting and Financial Studies Journal*, 24(1), 1-5.
- Aregbeyen, O. (2011). The determinants of bank selection choices by customers: Recent and extensive evidence from Nigeria. *International Journal of Business and Social Science*, 2(22), 276-288.
- Boru, M. (2017). *Determinant factors influencing customers bank selection decision and its Impact on customers' loyalty: Evidence from selected Ethiopian Commercial Banks*. Master's Thesis submitted to the School of Graduate Studies, St. Mary University, Addis Ababa, Ethiopia.
- Central Bank of Nigeria (2020). *List of Financial Institutions: Commercial Banks*. Retrieved from <https://www.cbn.gov.ng/Supervision/Inst-DM.asp>
- Ezeh, P., & Nwaizugbo, I. C. (2016). Factors influencing the choice of commercial bank among Transport workers in Anambra State Nigeria. *British Journal of Marketing Studies*, 4(6), 12-25.
- Fathelrahman, M. I. H. (2019). Determinant factors of consumers' bank selection decision in Sudan. *African Journal of Business Management*, 13(15), 490-497.
- Fejza, V., Bajrami, H., & Livoreka, R. (2018). Customer behavior in commercial banks of Kosovo. *International Journal of Business and Management*, 6(2), 17-35.
- Garba, M., Garba, L. J., & Usman, A. H. (2017). Determinants of customers' bank selection Decision in North Eastern Nigeria (Evidence from Bauchi State). *Nigerian Journal of Management Technology & Development*, 8(1), 154-162.
- Joseph, N., & Joseph, K. M. (2018). Identifying factors influencing selection of banks by customers In Rwanda: Principal components analysis approach. *International Journal of Sciences: Basic and Applied Research*, 39(1), 229-247.
- Levine, R., & Zervos, S. (2004). Stock Markets, Banks and Economic Growth. *American Economic Review*, 88(1), 537-558.
- Lotto, J. (2019). Evaluation of factors influencing bank operating efficiency in Tanzanian Banking sector. *Cogent Economics & Finance*, 7(1), 1-14.
- Nguli, R. K. (2016). *Internal factors affecting customer satisfaction of commercial banks in Kutui Town*. MBA Research Project submitted to South Eastern Kenya University.
- Nkamnebe, A. D., Ukenna, S., Anionwu, C., & Chibuike, V. (2014). Determinants of bank Selection by University undergrads in South East Nigeria: Empirical evidence. *African Journal of Economic and Management Studies*, 5(3), 369-382.
- Omodero, C. O. (2020). Capital Market Determinants and Market Capitalization in Nigeria. *International Journal of Financial Research*, 11(1), 462-473.
- Omodero, C. O. (2020). Capital Market Response to Monetary policy shocks: Evidence from Nigeria. *Academy of Accounting and Financial Studies Journal*, 24(3), 1-11.
- Saif, A., Imad, A., & Raoof, A. (2019). Factors affecting commercial bank selection: An empirical study on Iraqi consumers. *International Journal of Academic Management Science Research*, 3(10), 15-23.
- Scott, J. (2000). *From understanding contemporary society: Theories of the present*. Sage.