

# FACTORS AFFECTING CHOICE OF COMMERCIAL BANKS IN KOSOVO

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## ABSTRACT

*This research investigates the factors that influence customers choice of commercial banks in Kosovo and also the factors that influence their continued patronage. A survey research was carried out that involved interviews with bank customers and staffs to explore how customers choose their banks. The input from this group was used to develop the research questionnaire which was responded to by 192 bank customers in Kosovo region.*

*The research revealed that customer service quality, reputation/image of banks and availability of a wide branch network were the most important influences on customers choice of commercial banks in Kosovo. It was also observed that the most important factors that encouraged continued patronage of commercial banks in Kosovo were customer service quality, proximity of banks to office or home and reputation/image of the bank.*

**Keywords:** Banks, Choice Criteria, Consumer Behavior, Customer Loyalty, Customer Satisfaction, Relationship Marketing, Segmentation, Service Quality.

**JEL Classification:** C32, C33, G2, 038.

## INTRODUCTION

Kosovo's banking system started in 1999 after Kosovo was independent from the state of Serbia, so Kosovo has a new banking system that has evolved rapidly and is considered competitive with European banks. The banking system of Kosovo is supervised by the Central Bank of Kosovo. The banking industry in Kosovo plays a very important role and is one of the key indicators of financial and economic stability (Sahiti et al., 2019). As Kosovo is a new country, its economy is in transition and the financial market of banks is in high visibility and enabled by non-market factors (Aliu et al., 2019).

One of the most important issues in business development is marketing. One of the most important issues in business development is marketing, but it also emphasizes that marketing is not anxious to pursue a customer at all costs. Organizations are in the business to make and retain customers at a profit. It is therefore important for commercial banks to know the factors that influence customers "choice and retention in order for them to have a strategic focus on these areas. The commercial banks need to answer the following questions; "Why do customers choose their banks?", "What are the most important criteria in customers "choice?", and "what are the most important factors that influence customers "continued patronage?"

This work was guided by the objective of helping commercial banks get answers to these questions. The research was conducted by means of a questionnaire developed by interviewing

commercial bank customers and bank staff with inputs from an extensive literature review

## LITERATURE REVIEW

It is practically impossible for a product or service to satisfy all customers in a market. In the same vein, it is difficult for an organization to be everything to every customer. Therefore, to implement the marketing concept and satisfy customer needs, different products and services must be made to the different customer groups that comprise a market (Donovan & Henley, 2010). Market segmentation provides the basis for target market selection. The target market is the segment of the market that an organization has chosen to serve. A company usually arrives at a choice after examining the attractiveness of the market and the company's capability to compete in the segment. Choice criteria are the attributes and benefits a customer uses when evaluating products and services. They provide the grounds for deciding to purchase a brand or another (Donovan & Henley, 2010). Different consumers may use different choice criteria and the same criterion may be used differently. Choice criteria may also change over time e.g. due to changes in income, tastes, economic factors, competitor actions etc.

There are different types of choice criteria which include economic, technical, social, personal and emotional. Economic criteria have to do with the cost aspect of a purchase and include price and running costs. Technical criteria concern the performance of the product or service. Social criteria relate to the impact of the purchase on the buyer's perceived relationships with other people, and the influence of social norms on the buyer. Personal criteria concern how the product or service relates to the buyer psychologically. Personal criteria include the individual's self-image, tendency to avoid or reduce risk and use of 'safe' or familiar brands. Emotional criteria have also been shown to be important in decision-making.

Researchers from across the globe have shown that customers make their decisions on banking choice based on many different criteria. Consumer behavior has not been static but has been influenced by deregulation, the information revolution and the emergence of new forms of technology (Howcroft et al., 2003). Increased choices and improved product offerings have made customers more demanding in their buying decisions.

Generally, customers evaluate products and services through a number of processes before making their choices. Zeithaml et al. (1996) categorize these factors into three groups which are search qualities, experience qualities and credence attributes. Search qualities are those qualities that can be contacted with the senses i.e. which the customer can see, feel or touch and may be evaluated before the purchase is made. Experience qualities are the ones that may be evaluated during or after the purchase while credence attributes are those qualities that customers find difficult to evaluate. Because financial services are characterized by high levels of credence and experience features, they are difficult to be evaluated before consumption (Owusu & Frimpong, 1999) In order to minimize the risk and uncertainty associated with the purchase, customers tend to rely on the tangible cues such as place, people, equipment, symbols, etc. as symbols of service quality (Vasanthakumari, 2011).

In a research conducted in Sweden, Martenson (1985) discovered that bank location, availability of loans and influence from parents were the most important bank selection criteria. Joseph & Stone (2003) discovered that service charge policy, reputation of the bank, loan rates, loan approval time and friendliness of tellers as the most important factors that predicted bank choice in a survey among university students in Maryland, USA.

Marketers need to understand the choice criteria that are being used by consumers to evaluate the products and services they offer. This information is useful in product design as the organization can come up with products and services tailored to meeting the criteria. Also, this information is beneficial to the marketing communications of the company as the right appeals can be used in reaching out to people.

## METHODOLOGY

This work will employ an inductive approach as it is exploratory in nature and involves an investigation of the factors that influence customers when they choose their banks.

This research work was guided by the following questions:

1. What are the most important factors that determine choice of commercial banks in Kosovo?
2. What are the most important factors that determine customer retention to commercial banks in Kosovo?

The required data for this research was collected by means of a questionnaire. This was developed by interviewing 10 customers and 10 staff of commercial banks to determine the factors that are important in their choices.

The questionnaires were distributed to customer service officers of selected branches of commercial banks who were instructed on how to distribute to the customers in an orderly manner to get a representative sample. Some questionnaires were also distributed online. Out of the 280 questionnaires sent out, 250 were returned of which 192 were properly completed.

## FINDINGS AND DISCUSSIONS

### Factors Affecting Customers' Choice of Commercial Banks

The first task was to construct a frequency distribution to examine the patterns of responses to each of the variables under investigation. This was carried out to find out whether the factors listed in the questionnaires were actual determinants of choice of commercial banks. The frequency distribution also provided a measure of the degree of agreement of respondents to the different factors.

| S/N | Factor affecting choice          | Aggregate score | Mean score | Number of respondents |
|-----|----------------------------------|-----------------|------------|-----------------------|
| 1   | Customer service quality         | 860             | 4.48       | 192                   |
| 2   | Reputation/ image of bank        | 842             | 4.39       | 192                   |
| 3   | Wide branch network              | 837             | 4.36       | 192                   |
| 4   | Reliability of IT                | 809             | 4.21       | 192                   |
| 5   | Ease of opening an account       | 797             | 4.15       | 192                   |
| 6   | Quality of e-banking products    | 792             | 4.13       | 192                   |
| 7   | Security of banking environment  | 792             | 4.13       | 192                   |
| 8   | Confidence in bank's management  | 780             | 4.06       | 192                   |
| 9   | Liquidity/capital base of bank   | 780             | 4.06       | 192                   |
| 10  | Proximity of bank to office/home | 774             | 4.03       | 192                   |

|    |                                                 |     |      |     |
|----|-------------------------------------------------|-----|------|-----|
| 11 | Attractiveness of building/neatness of premises | 744 | 3.88 | 192 |
| 12 | Low bank charges                                | 723 | 3.77 | 192 |
| 13 | Wide range of products/services                 | 702 | 3.66 | 192 |
| 14 | Bank's ratings by local/int'l agencies          | 701 | 3.65 | 192 |
| 15 | Recommendation from friend/relatives            | 700 | 3.65 | 192 |
| 16 | Marketing communications of the bank            | 677 | 3.53 | 192 |
| 17 | Easy access to loans                            | 628 | 3.27 | 192 |
| 18 | Relationship with staff of the bank             | 619 | 3.22 | 192 |

Source: author's calculate

The above results show that the most important factor that influences customers' choice of commercial banks in Kosovo is the customer service quality. This was followed by the reputation/image of the bank and wide branch network. Factors are also important are: reliability of IT, ease of opening an account, quality of e banking products, security of banking environment. At the other end of the Table 1, the least important factors when customers choose commercial banks are relationship with a staff of the bank, access to loans and marketing communications of the banks and how gender influences the choice of commercial banks in Kosovo. The results for both genders are presented below in the following tables.

### SUMMARY OF FINDINGS

The summary of the findings which were presented in chapter four of this work is as follows:

1. The most important factors that affected choice of commercial banks in Kosovo were customer service quality, reputation/image of the bank and availability of a wide branch network.
2. The most important factors that encouraged continued patronage of the commercial banks in Kosovo were customer service quality, proximity of banks to office or home and reputation/image of the bank.

### CONCLUSIONS

The findings show that Kosovo banking customers are attracted to commercial banks based on their perception of the customer service quality of the bank. Other factors that are important in the bank selection decision are; the reputation/image of the bank, the availability of a wide branch network, reliability of the bank's Information technology, the ease of opening an account, the security of the banking environment, the quality of electronic banking products, the financial strength of the bank and confidence in the bank's management. Commercial banks will most likely improve their customer acquisition rates by strategically focusing on these areas. These were observed to be more important to respondents than low bank charges and easy access to loans.

### ACKNOWLEDGEMENT

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