

# Factors That Become The Criteria for Students to Choose Banking Institutions

*by* Lerbin R. Aritonang

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## FACTORS THAT BECOME THE CRITERIA FOR STUDENTS TO CHOOSE BANKING INSTITUTIONS

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### ABSTRACT

The study aimed to examine the attributes and factors that become criteria about which banking institution to be chosen by college students. Banks could identify the criteria considered in selecting potential customers of financial services through the students. By understanding the factors that customers consider in selecting banking institution, a bank can make a decision for their marketing strategy formulation. The analysis used 213 respondents and the data process was performed by using PASW Statistics version 18.00. The result showed that there were four factors to be chosen by college students: secure provision, performance, electronic service comfort, and people influence.

**Keywords:** banking attributes and factors

### INTRODUCTION

Competition in banking industry in Indonesia is so tight, that the banks are forced to perform a variety of strategies to win the battle (Reynaldi, Franedya and Gideon, 2010). According to Zaini (2012), President Director of Bank Mandiri mentioned that transaction convenience was an important aspect in anticipating tighter competition in banking industry. According to Lajuni, Wing and Ghazali (2010) stated that banks have the urgencies to identify the criteria considered in selecting potential customers of financial service providers. Exploring "how customers select banks" would help banks to identify the right marketing strategies needed to acquire new customers and retain existing customers (Kaynak, Kucukemiroglu and Odabasi, 1991). Associated with that, an understanding of the factors that customers consider in selecting a retail bank is one of the most important strategic issues required in a rapidly changing banking environment, especially for decision makers, such as those performed by senior bank managers and advertising executives (Blankson, Omar and Cheng, 2009). In addition, a good knowledge on banking consumer selection criteria is critical in the efforts to formulate the mix marketing strategies to attract, satisfy, and retain customers, especially in developing countries whereas the banking culture can affect people instantly (Owusu-Frimpong, 1999). Research on the criteria used to select banking customers has often been conducted. However, based on a review of literature, it is known that researches were very dominant in the USA and European countries (Denton and Chan, 1991) and only a few studies have been conducted in Indonesia. Research in Indonesia needs to be done because the results from the research conducted by Blankson, Cheng and Spears (2007) in the USA, Taiwan and Ghana showed different results. This research was conducted on student segment in order to increase the chance of a bank to maximize its full lifetime value rather than focusing on more matured market. The reason underlies this thinking is that if a student obtain a professional position after graduation, they tend to be high income



earners, and have the potential for cross-selling and to be served effectively in order to become profitable customers (Colgate et al., 1996 in Narteh and Owusu-Frimpong, 2011).

### PROBLEM FORMULATION

Based on the background that has been explained previously, this research issue is about what factors that become the criteria used by students of the Faculty of Economics in Tarumanagara University in choosing a banking institution.

### LITERATURE REVIEW

Empirical evidence on the criteria (known as patronage) used by students in choosing banks was found in several research. Most of the research are summarized in Table.1.

Table 1. Criteria Used by Student in Choosing Conventional Banks: Cumulative percentage (*italic print*), the charge factor (**bold print**) and Cronbach reliability coefficient ( $\alpha$ )

<p>Narteh dan Owusu-Frimpong (2011): <i>60.756%</i></p> <p>1. Imagery: <b>0.560-0.795</b>; <math>\alpha = .81</math></p> <p>2. Attitudes: <b>0.509-0.770</b>; <math>\alpha = .66</math></p> <p>3. Core services: <b>0.507-0.617</b>; <math>\alpha = .61</math></p> <p>4. Electronic banking: <b>0.760-0.783</b>; <math>\alpha = .66</math></p> <p>5. Financial benefit: <b>0.557-0.806</b>; <math>\alpha = .42</math></p>	<p>Rao dan Sharma (2010): <i>74.62%</i></p> <p>1. Reliability: <b>0.440-0.847</b></p> <p>2. Convinience: <b>0.589-0.849</b></p> <p>3. Insurance: <b>0.500-0.835</b></p> <p>4. Value added services: <b>-0.621-0.867</b></p> <p>5. Access: <b>0.455-0.780</b></p> <p>6. Responsiveness: <b>0.476-0.889</b></p>
<p>Mokhlis, Mat dan Salleh (2008): <i>63.41%</i></p> <p>1. Sense of securities: <b>0.483-0.850</b>; <math>\alpha = .58</math></p> <p>2. ATM service: <b>0.483-0.851</b>; <math>\alpha = .51</math></p> <p>3. Financial benefit: <b>0.427-0.814</b>; <math>\alpha = .53</math></p> <p>4. Provision of services: <b>0.596-0.795</b>; <math>\alpha = .71</math></p> <p>5. Proximity: <b>0.733-0.760</b>; <math>\alpha = .71</math></p> <p>6. Branch location: <b>0.700-0.801</b>; <math>\alpha = .64</math></p> <p>7. Not influence people: <b>0.636-0.748</b>; <math>\alpha = .59</math></p> <p>8. Appeal: <b>0.841-0.846</b>; <math>\alpha = .80</math></p> <p>9. Influence people: <b>0.756-0.806</b>; <math>\alpha = .73</math></p>	<p>Gerrard dan Cunningham (2001): <i>69.64%</i></p> <p>1. Appearance: <b>0.51-0.85</b>; <math>\alpha = .80</math></p> <p>2. Provision of services: <b>0.55-0.76</b>; <math>\alpha = .74</math></p> <p>3. Influence people: <b>0.63-0.84</b>; <math>\alpha = .74</math></p> <p>4. Not influence people: <b>0.80-0.83</b>; <math>\alpha = .69</math></p> <p>5. Convenience: <b>0.87-0.89</b>; <math>\alpha = .73</math></p> <p>6. Electronic services: <b>0.83-0.84</b>; <math>\alpha = .69</math></p> <p>7. Safe feeling: <b>0.77 dan 0.77</b>; <math>\alpha = .60</math></p>
<p>Almossawi (2001): <i>59.8%</i></p> <p>1. Reputation/technology: <b>0.530-0.850</b></p> <p>2. Convenience: <b>0.503-0.735</b></p> <p>3. Financial benefits: <b>0.502-0.662</b></p> <p>4. Interaction: <b>0.592-0.603</b></p>	

The research result presented on Table 1 is about the validity and reliability test of the instrument, as well as performed in this study. The reason is that if the instruments used are not tested for validity and reliability, then the data generated could not be justified scientifically. The logical consequence is that the analysis of the

data was being questioned (Aritonang, 2007). Related to that matter, a review of studies was conducted using two criteria, namely load factor of at least 0.5 (Fornell and Larcker in Brady and Cronin, Jr., 2001) and the minimum reliability factor of 0.7 (Nunnally, Jr., 1978). All research used conventional banks as research subjects. Further details on each study are presented below. The results Narteh and Owusu-Frimpong (2011) showed that the cumulative percentage of variance explained by the variables that can be generated by all factors is equal to 60.756%. All load factors are greater than 0.50. However, only one factor that has reliability coefficient ( $\alpha$ ) greater than or equal to 0.70, which is the image factor (0.81).

Furthermore, the study conducted by Rao and Sharma (2010) showed that the cumulative percentage of variance explained by the variables that can be generated by all factors is equal to 74.62%. Most of the factors had a smaller payload than 0.5 and there was even a negative value, which attributes the factor of value added services. Moreover, there is no reliability analysis. It is understandable because the factor analysis was not commonly done together with reliability analysis, except in structural equation modeling.

The results Mokhlis, Mat and Salleh (2008) showed that the cumulative percentage of variance explained by the variables that can be generated by all factors is equal to 63.41%. Three of the nine factors have a smaller payload than 0.5. In addition, five of the nine factors have reliability coefficient smaller than 0.70. Gerrard and Cunningham (2001) noted that the cumulative percentage of variance explained by the variables that can be generated by all factors is equal to 69.64%. There is no attribute factor load smaller than 0.5. However, three of the seven factors have a reliability coefficient smaller than 0.70. From the research conducted by Almossawi (2001), it can be seen that the cumulative percentage of variance explained by the variables that can be generated by all factors is equal to 59.8%. All these factors have a greater payload than 0.5. However, there is no information about the reliability coefficient.

Based on the explanation above, none of those studies use the instrument that has been tested about its validity and reliability. Those were only based on the validity coefficients (load factor) at least 0.50, and no attribute contained in the different factors as well as no the reliability coefficient at least 0.70. Those two criteria, however, were commonly used in various studies.

The analysis of validity itself, which uses factor analysis, with more emphasis on the theoretical background of hypothetical variables (factors) that were studied has not been well tested. However, the theoretical background of the research conducted by Gerrard and Cunningham (2001) was still considered adequate in terms of the cumulative percentage of generated and the load factor. Although there were three factors that had reliability coefficients smaller than 0.7, those three factors were not too bad because there was no reliability smaller than 0.6. In fact, these two factors have reliability coefficients close to 0.7, which are 0.69. On that basis, the theoretical background used for this study is similar to that used by Gerrard and Cunningham (2001).

#### **RESEARCH OBJECTIVES**

The purpose of this study is: 1. To empirically identify the attributes that are used by students in choosing banking institution. 2. To identify the factors used by students in choosing banking institution to fulfill their banking necessities.

### RESEARCH BENEFITS

The result of this research can be used by banks' marketing executive in formulating their marketing strategy, with students as the target because they are considered as potential customers after they have graduated and then work as practitioners. For banking industry, a potential market where the students are within, is a golden opportunity to design the future marketing strategies for particular banking institutions.

### POPULATION AND SAMPLE

The population of this study was all students on the bachelor degree who studied at undergraduate program in the Faculty of Economics, Tarumanagara University, Jakarta. The samples selected from the population were 250 students. The sample size has been qualified for factor analysis (Comrey, 1973 in Tabachnick and Fidell, 2007). Sample was randomly selected with convenient technique. It was based on a consideration of the ease to obtain data (Aritonang R, 2007).

### THE OPERATIONALIZATION OF VARIABLES

It has been explained previously that the theoretical background of this study was based on the research conducted by Gerrad and Cunningham (2001). The logical consequence is that the operationalization of the variables in the bank selection criteria in this study also adapted from their research. Factors and attributes/indicators were presented in Table 2. The instrument used was in Likert scale. In this case, the feedback was provided in the range between 1 and 10 (Allen and Rao, 2000).

Table 2. Factors and Attributes in Bank Selection Criteria

No.	Factors	Attributes/Indicators
1.	The Appearance	a. Interior decoration of buildings b. Appeal of the bank building c. Appearance and attire employee d. Class of people who patronize the bank e. Professionalism of employees
2.	Provision (accuracy, provisions, service conditions)	a. Bank's periodical report b. Range of services offered c. Secrecy d. Provision services quickly and efficiently
3.	The influence from other person	a. Friends b. Family c. Teacher
4.	Not influenced by person	a. Free gift b. Influential marketing campaigns
5.	Comfort	a. To home b. To university
6.	Electronic services	a. Network provision (NETS) b. Availability of ATM machines
7.	A secure feeling	a. Interest rate offered b. Financial stability of the bank

### VALIDITY AND RELIABILITY

The validity of the instrument was tested by using each 'corrected item-total correlation' coefficient. Each item of the instrument is considered valid if the minimum correlation coefficient is 0.2 (Cronbach, 1990). In addition, the validity of the instrument was also tested by confirmatory factor analysis that tested the hypothetical variables underlying the attributes used by students in choosing a banking institution. The criteria used were the attributes of which each factor loading is at least 0.5 (Fornell and Larcker in Brady and Cronin, Jr., 2001). Instrument reliability was tested by using Cronbach's Alpha. The instrument is considered reliable if the minimum Alpha coefficient is 0.7 (Nunnally, 1990).

### RESULTS AND DISCUSSION

#### Subjects Description

The subject of this study includes some of the characteristics of respondents. The characteristics are gender, age, and study programs/majors respondents, which are presented from Table 3 to Table 5.

Table 3. Gender Description

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 0	104	48,8	48,8	48,8
1	109	51,2	51,2	100,0
Total	213	100,0	100,0	

Table 4. Age Description

	N	Minimum	Maximum	Mean	Std. Deviation
Age	213	17,00	35,00	18,7418	1,54309
Valid N (listwise)	213				

Table 5. Program/Department Description

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 0	135	63,4	63,4	63,4
1	78	36,6	36,6	100,0
Total	213	100,0	100,0	

From Table 3, it can be known that the total respondents are 230 people, consisting of 109 (51.2%) men and 104 (48.8%) women. Table 4 indicates that the minimum age of respondents is 17 years old and the maximum age is 35 years old. The average age of respondents is 18.74 years with a standard deviation of 1.54 years. Table 5 indicates that the respondents from Management Department are 78 people (36.6%) and from Accounting Department are 135 people (63.4%).

### Objects Description

The description on the object of this study includes each indicator in each factor. The description is presented from Table 6 to Table 12.

Table 6. Item Appearance Description

	N	Range	Minimum	Maximum	Mean	Std. Deviation
p1	213	9	1	10	6,46	2,162
p2	213	9	1	10	6,47	2,089
p3	213	9	1	10	6,96	1,951
p4	213	9	1	10	6,48	1,944
p5	213	9	1	10	8,15	1,937
Valid N (listwise)	213					

From Table 6, it can be seen that all indicators of the appearance factor have minimum score of 1 and a maximum score of 10, so the range is equal to 9. However, the standard deviations of these five indicators are not the same. Indicator p5 has the smallest standard deviation and indicator p1 has the largest standard deviation.

Table 7. Item of Provision Description

	N	Range	Minimum	Maximum	Mean	Std. Deviation
v1	213	8	2	10	7,55	1,977
v2	213	8	2	10	7,96	1,844
v3	213	7	3	10	8,86	1,562
v4	213	8	2	10	8,18	2,331
Valid N (listwise)	213					

From Table 7, it can be seen that indicator about provisioning factor has a minimum score of 2 and a maximum score of 10, so the range is equal to 8. Indicator v3 has the smallest standard deviation, which is 1.562, and indicator v4 has the largest standard deviation, which is 2.331.

Table 8. Item of 'Influence People' Description

	N	Range	Minimum	Maximum	Mean	Std. Deviation
po1	213	9	1	10	5,81	2,220
po2	213	9	1	10	6,78	2,070
po3	213	9	1	10	5,19	2,412
Valid N (listwise)	213					

From Table 8, it can be known that all the indicators in 'influence people' factor have a minimum score of 1 and maximum score of 10, so the range is equal to 9. Indicator PO2 indicator has the smallest standard deviation (2.070), and indicator PO3 has the largest standard deviation (2.412).

Table 9. Item 'Not Influence People' Description

	N	Range	Minimum	Maximum	Mean	Std. Deviation
pu1	213	9	1	10	6,72	2,797
pu2	213	9	1	10	6,53	2,214
Valid N (listwise)	213					

From Table 9, it can be known that all indicators in 'not influenced by people' factors have a minimum score of 1 and maximum score of 10, so the range is equal to 9. Indicator pu2 has the smallest standard deviation (2.214) and indicator pu1 has the largest standard deviation (2.797).

Table 10. Item Comfort Description

	N	Range	Minimum	Maximum	Mean	Std. Deviation
k1	213	9	1	10	7,08	2,637
k2	213	9	1	10	7,41	2,229
Valid N (listwise)	213					

Table 10 indicates that all indicators in comfort factor has minimum score of 1 and maximum score of 10, so the range is equal to 9. Indicator k2 has the smallest standard deviation (2.229), and indicator k1 has the largest standard deviation (2.637).

Table 11. Item Electronic Services Description

	N	Range	Minimum	Maximum	Mean	Std. Deviation
l1	213	8	2	10	8,27	1,793
l2	213	9	1	10	8,69	1,721
Valid N (listwise)	213					

The table, it can be seen that the indicators in 'electronic services' factor have a minimum score of 1 and maximum score of 10, so the range is equal to 9. Indicator l2 has the smallest standard deviation (1.721), and indicator l1 has the largest standard deviation (1.793).

Table 12. Item Description of Security

	N	Range	Minimum	Maximum	Mean	Std. Deviation
a1	213	9	1	10	7,83	2,531
a2	213	9	1	10	8,28	2,079
Valid N (listwise)	213					

The Table 12 indicates that all indicators in security factor have minimum score of 1 and maximum score of 10, so the range is equal to 9. Indicator A2 has the smallest standard deviation (2.079), and indicator a1 has the largest standard deviation (2.531).

#### Factor Analysis Results and Discussion

According to which has been presented before, the bank selection consists of seven factors, namely performance, provision, influence people, influence not people, comfort, electronic services, and feeling safe. However, the confirmation factor analysis shows different result, as presented in Table 13.

Table 13. Rotated Component Matrix: Confirmation

	Component						
	1	2	3	4	5	6	7
p1	,264	,871	,052	,064	,132	,069	,100
p2	,230	,852	,119	,186	,121	,100	,094
p3	,352	,692	,109	,166	,041	,255	-,065
p4	,108	,256	,026	,029	,237	,829	,092
p5	,728	,345	,075	,143	-,109	,272	,091
v1	,604	,418	,127	,116	,078	,298	,048
v2	,716	,338	,177	,104	,048	,191	,133
v3	,523	,239	,236	,003	-,245	,385	,241
v4	,798	,263	,047	,120	,069	,024	,076
po1	,090	,184	,120	,111	,763	-,001	,389
po2	,206	,060	,099	,109	,321	,142	,803
po3	,069	,084	,033	,174	,853	,187	,026
pu1	,358	,166	,129	,777	,141	-,054	,173
pu2	,236	,193	,244	,796	,205	,149	-,012
k1	,221	,187	,587	,419	,011	-,040	,402
k2	-,106	,167	,841	,113	,044	-,023	,221
l1	,397	,020	,756	,168	,068	,169	-,137
l2	,591	,007	,677	,032	,106	,035	-,089
a1	,762	,147	,044	,363	,172	-,122	,065
a2	,780	,074	,210	,275	,151	-,041	,091

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 8 iterations.

From Table 13 above, it can be seen that not all factors can be manifested in related indicators. For factor "p" (appearance), the indicators from p1 to p3 are clustered in component 2, while indicator p4 and p5 are placed in the different groups, namely component 1 and component 6. For factor "v" (provision), the four indicators (v1 - v4) are clustered in one component, which is factor 1. For factor "po" (influence), the three indicators are spread among different components, namely indicator po1 and indicator po3 are placed in component 5, while indicator po2 is placed in component 7. For factor "pu", all indicators (pu1 and pu2) are clustered in component 4. To factor "k" (comfort), all indicators (k1 and k2) are clustered in component 3. To factor "l" (electronic services), one indicator (l1) is placed in component 3, while the other indicator (l2) can not be grouped into any component due to the indicator l2 has a load greater than 0.5 in two components. Factor "a" (feeling safe), both indicators (a1 and a2) are clustered in component 1. So, among the seven factors, only the indicators of factor "v", "pu", "k", and "a" are clustered in the same components.

Another thing to note in Table 14 below is that although there are four factors clustered in each different component, no components are loaded by different factors.

Component 1, for example, is loaded by different factors, namely factor "v", the factor of "a" and indicator p5 by factor "p". Component 3 is loaded by factor "k" and indicator l1 "l".

In addition, only 2 components are loaded by factor "p", but there is an indicator in factor "p" that is contained in the other components. Components are loaded only by factor 5 "po" but one indicator (PO2) is contained in component 7. Each component 6 and 7 are only loaded by a single indicator, namely point p4 in factor "p" and indicator PO2 in factor "po". From the result description on confirmatory factor analysis above, it can be known that the selection of variable, such as bank, is not empirically validated. On that basis, the exploratory factor analysis is carried out and the results are presented in Table 14.

Table 14. Rotated Component Matrix: Exploration

	Component			
	1	2	3	4
p1	,204	,803	,056	,210
p2	,209	,780	,140	,247
p3	,312	,737	,125	,089
p4	-,019	,639	,039	,258
p5	,668	,530	,128	-,041
v1	,530	,584	,151	,100
v2	,642	,490	,209	,086
v3	,412	,497	,297	-,137
v4	,756	,352	,073	,075
po1	,065	,163	,100	,824
po2	,162	,181	,176	,612
po3	,063	,135	-,018	,775
pu1	,580	,068	,247	,469
pu2	,444	,155	,339	,487
k1	,295	,139	,678	,316
k2	-,123	,111	,856	,175
l1	,361	,136	,750	,015
l2	,513	,113	,653	-,009
a1	,828	,139	,090	,244
a2	,797	,136	,248	,193

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 9 iterations.

From Table 14, it can be seen that there are five items that have loads greater than or equal to 0.5 and there are more than one component that can not be definitively identified about which components including the five items. The fifth indicator is the indicator p5 in factor "p", indicator v1 and v3 in factor "v", indicator pu2 in factor "pu" and indicator l2 in factor "l". The fifth item does not deserve to be



included. From Table 14, it can also be seen that by ignoring the five indicators above, component 1 is loaded by indicator v2, v4, pu1, a1, and a2. Component 2 is loaded by indicators from p1 to p4. Component 3 is loaded by indicators k1 - k2 and l1. Component 4 is loaded by indicators from po1 to po3. Furthermore, the names of each of the four components were identified based on the indicators contained in it as shown below.

Component 1 consists of five items, namely: - V2 (appropriateness of services offered) - V4 (speed and efficiency of service) - Pu1 (free gift) - A1 (interest rate offered), and - A2 (financial stability of the bank). Containing five items of statement, the component one is about the provision of safety.

Component 2 consists of four items, namely: - P1 (interior decoration building) - P2 (appeal of the bank building) - P3 (employee performance), and - P4 (the bank customer group). Having four items of statement, the second component is about the appearance.

Component 3 consists of three items of statement, namely: - K1 (proximity to home) - K2 (proximity to campus), and - L1 (the number of branches or network). Having three items of statement, Component 3 is about the electronic service convenience.

Component 4 consists of three items of statement, namely: - PO1 (influence of friends) - PO2 (family influence), and - PO3 (influence of teacher / lecturer). Having three items of statement, Component 4 is about the influence by people.

Furthermore, the result of reliability analysis based on the items tested along with the validity was carried out and the result is presented in Table 15. From the Table, it can be seen that all factors are considered reliable, as indicated by the result of Cronbach's Alpha greater than 0.700. The smallest reliability equals to 0.738 (the impact factor) and the largest one equals to 0.868 (factor of safety provisions). The internal consistency of bank selection variable is also quite reliable, as indicated by Cronbach's Alpha 0.886, which is greater than 0.700.

Table 15. Reliability Analysis Results Based on Valid Points

Factors / Variables	Cronbach's Alpha
Safety Provisions	0.868
Appearance	0.836
Convenience of Electronic Services	0.753
Influence by People	0.738
Bank Selections	0.886

## CONCLUSIONS AND RECOMMENDATIONS

Based on the discussion in the previous chapter, it can be seen that there are four factors that significantly matter to college students in choosing banking institutions, which are the provision of safety, appearance, convenience of using electronic services, and the influence by people. The validity and reliability of those four factors have been tested empirically. In addition, the factors are also quite reliable.

The provision of safety factor manifested on five attributes, which are:

- The suitability of the services offered,
- The speed and efficiency of services,
- Free gift,
- The interest rate offered, and
- The financial stability of the bank.

The appearance factor manifested in four attributes, which are:

- Interior decoration of buildings,
- Appeal of the bank building,
- Employee performance, and
- Group the bank's customers.

The electronic service convenience factor manifested in three attributes, which are:

- Proximity to home,
- Proximity to the campus, and
- The number of branches or network.

The influence by people factor manifested in three attributes, which are:

- The influence of friends,
- The influence of family, and
- The influence of the teacher / lecturer.

This research was only conducted in samples that are not randomly selected from the students of the Faculty of Economics, Tarumanagara University, Jakarta. Thus, the external validity of these results is very low. Correspondingly, for future research it is suggested that the research subjects can be expanded and arranged in a way so that the sample can be selected randomly.

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