

**THE FACTORS INFLUENCING CUSTOMERS CHOICE OF
BANKING SERVICES IN TANZANIA**

A CASE OF TANGA CITY

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By

Zainabu Msangi

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2015

CERTIFICATION

We, the undersigned certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled “**The Factors Influencing Customers Choice of Banking Services in Tanzania: A Case of Tanga City** in partial fulfilment of the requirements for award of the degree of Master of Public Administration of Mzumbe University

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I, Zainab Msangi, declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other University for a similar or any other degree award.

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DEDICATION

I dedicate this research work to my dear parents who sewed the first seed of civilization into me, along with formal education, and who, by God's grace, have seen it grow to this level of education. I also dedicate it to my dear husband, Mr. Mrindoko, who has kept my morale up in pursuit of this course.

LIST OF ABBREVIATIONS

AHP	Analytical Hierarchy Process
ATM	Automated Teller Machine
CP	Customer Preference
CPA	Principal Components Analysis
DMC	Dar es Salaam Municipal Council
DSM	Dar es Salaam
NMB	National Microfinance Bank
NBC	National Bank of Commerce
n.a.	No author
n.d	no date
SPSS	Statistical Package for Social Science
BFIA	Banking and Financial Institutions Act
URT	United Republic of Tanzania

ABSTRACT

This study presents the most important factors influencing customers in respect of selecting a bank by customer in Tanga City council in Tanga Tanzania. In particular, it finds those criteria, which have become significantly important in motivating the choice. There are more than five banks in Tanga which offer different services to the people of Tanga. These banks have and continue to rely on the attrition of customers from other existing banks and also sourcing for new ones in the market. This calls for a need to improve customer retention techniques by establishing the factors that influence a consumer choice of bank in the banks to avoid the existing customers from switching to competition.

Both quantitative and qualitative methods were used in this study, responses given by 200 customers in Tanga City from different occupation (students, other employees, bank staffs and businessmen), was employed in the analysis. A non probability convenience sampling was used and data was factor analyzed to reduce the total variables in to manageable way.

The Questionnaire was piloted so as to improve its validity. The collected data was coded and analyzed by the aid of Statistical Package for Social Scientists and Microsoft excels computer software and presented in tables and a narrative summary.

From the findings, consumer choice of a bank is very highly affected by economic factors. The amount of income of an individual determines the amount he or she has to save in a bank. Age and lifecycle stage, role and status and social class have a high effect on consumer choice of a bank. Easy account opening procedures, operating balance of an account and the ATM efficiency/technology also has high effects on consumer choice of a bank. Culture, sub culture, and group's influences consumer choice of a bank with a low effect. Personality, lifestyle and family have a very low effect on consumer choice of a bank

We observe that the Commercial Bank of Tanzania, NMB Bank and CRDB Bank are the top most preferred banks by customers. Users frequently choose the two former banks perhaps because of their wider operation and quality of service provision respectively.

Looking at the specific banking services, customers are widely noticed using a saving account, money transfer services and current account. The respective numbers of beneficiaries are about 71 percent, 42 percent and 29 percent across males and females due to convenience, we see that males prefer bank image to service provision. The reverse holds true for female customers in Tanga

The top two factors that found in the listing were “convenience/ security” (mean= 3.2513) and “service provision” (mean= 3.1008). It also intended to present an analysis and understands of banks officials of the choices criteria in respect to their customer’s selection for their banking services and to elicit the option of bank customers on any extra services needed to be offered by banks.

As customers place more emphasis on factors like convenience, service provision, employers’ influence and bank image such factors should be considered seriously by the commercial banks in designing their marketing strategies by widening their branches and providing good customers services to customers.

TABLE OF CONTENTS

CERTIFICATION	i
DECLARATION AND COPYRIGHT	ii
ACKNOWLEDGEMENT	iii
DEDICATION	iv
LIST OF ABBREVIATIONS	v
ABSTRACT	vi
TABLE OF CONTENTS.....	viii
LIST OF TABLES	xi
LIST OF FIGURES	xii
CHAPTER ONE	1
INTRODUCTION.....	1
1.1Chapter Overview	1
1.2 Background of the Study.....	1
1.3 Statement of the Problem	6
1.4 Objectives of the Study	8
1.4.1 Specific objectives are as follows:	9
1.5 Research Questions	9
1.6 Significance of the Study	9
1.7 Scope and Limitations of the Study	10
CHAPTER TWO	11
LITERATURE REVIEW.....	11
2.1 Introduction to Chapter Two	11
2.2 Definitions of the Key Concepts	11
2. 3 Banking in Tanzania	14
2.4 Tanga City Council	16
2.5 Theoretical Literature Review.....	17

2.5.1 The Consumer Behavior Theory	17
2.5.2 Steps in the Customer Decision Process	20
2.5.3 Influences on Customer Decisions	25
2.6 Empirical Literature	28
2.6.1 Cultural Factors and Customer Choice of Banks	34
2.6.2 Customer Demography in Bank Selection	35
2.6.3 Social Factors and Consumer Choice	37
2.6.4 Personal Factors and Consumer Choice	38
2.7 Conceptual Framework	39
CHAPTER THREE	41
RESEARCH METHODOLOGY	41
3.1 Chapter Overview	41
3.2 Research Design	41
3.3 Target Population of the Study	42
3.4. Sample Size Selection and Sampling Procedures	42
3.4.1. Sample Size Selection	42
3.4.2 Sampling Procedures	43
3.5 Research Instruments and Data Collection Techniques	43
3.6 Data Analysis and Interpretation	45
CHAPTER FOUR	47
RESULTS AND DISCUSSION	47
4.1 Chapter Overview	47
4.2 Response Rate	47
4.3 Profile of the Respondents	47
4.3.1 Composition of the Respondents	47
4.3.2 Education Level of the Respondents	49
4.3.4 Occupation of the Respondents	50
4.3.5 Income of the respondents	51

4.4 Banking Behavior of the Customers	51
4.4.1 General Banking Behavior	51
4.4.2 Customers' Usage of the Banking Services	52
4.4.3 Improving Customer Needs	53
4.4.4 Customer Satisfaction with Banking Services	54
4.4.5 Loyalty of Customers to Banks.....	56
4.5 Factor Analysis for Identification of Choice Criteria	57
4.5.1 Explanation of Bank Selection Factors	58
4.5.2 Reliability Test.....	62
4.5.3 Ranking Importance of Bank Selection Factors	62
4.5.5 Ranking of Importance by Occupation and their Explanation.....	64
CHAPTER FIVE.....	68
CONCLUSION AND RECOMMENDATIONS	68
5.1 Conclusion	68
5.2 Recommendations.....	69
BIBLIOGRAPHY	71
APPENDICIES.....	75

LIST OF TABLES

Table 3.1 Classification of Population and Sample Size	43
Table 4.1 Occupations of the Respondents	50
Table 4.2 Monthly income of the respondents.....	51
Table 4.3 Banking services	53
Table 4.4 Improving Customer Needs	54
Table 4.5 Satisfaction of the Services	55
Table 4.6 Factor Analysis	61
Table 4.7 Ranking importance of Bank selection criteria factors	64
Table 4.8 Ranking importance of Bank selection criteria factors among different occupations	66

LIST OF FIGURES

Figure 2.1: The Model of Consumer Behavior	19
Figure 2.2: The Customer Decision-Making Process	20
Figure 2.3: Influences on Consumer Behavior	27
Figure 2.4 Conceptual Framework Model	40
Figure 4.1 Distribution of the Respondents	48
Figure 4.2 Compositions of the Respondents	48
Figure 4.3 Education level of the respondent.....	49
Figure 4.4 Gender Distribution of the Respondent	50
Figure 4.5 Banking Period	52
Figure 4.6 Loyalty to Bank	56

CHAPTER ONE

INTRODUCTION

1.1Chapter Overview

This chapter introduces the context of the research on the factors of customer's choice of the banking services in Tanzania particularly in Tanga city. The chapter is divided into five sections. The first section provides the background of the study including overview of the sector and theoretical explanations of the existence of competition between banks. The second section puts forward the objective of the study. The third section addresses the significance of the research. Section four addresses the contribution of the research. Lastly, section five outlines the structure of the dissertation.

1.2 Background of the Study

A feature of the banking industry across the globe is that it is increasingly becoming turbulent and competitive, characterized by an increasing trend towards globalization, mergers, take overs and consolidation of the banking industry. Moreover, a number of non-banking companies have entered the banking industry by offering financial products and services (Seetanah, 2007)

This gave a myriad of options to customers in choosing banking services. As a response and that was aided by technological developments, banks attempted to build customer satisfaction by providing better products and services and at the same time reducing its operating costs. In the developing countries, the banking sector has gained greater importance in the last decade.

Consequently, the growing competition in the sector forced the banks to launch new products and services more frequently. The development and modification of these products constituted to one of the most important tasks of a bank manager (Padachi, 2007).

Understanding the needs, motivations and priorities of the consumers and analyzing how they select suppliers and products as the first crucial steps towards the improvement of consumer satisfaction. (Rojid, 2007).

To match with the competition in the banking industry, marketers needed to understand consumer behavior of both their current and prospective customers. Marketers spent a great deal of time thinking about customers and their buying behavior. They needed to know who their customers are, what they think and how they feel and why they will choose a particular bank and not just any other. Consumer behavior refers to the buying behavior of final consumer's individuals and households who buy goods and services for personal consumption. Consumer behavior involves all those psychological, social and physical mannerisms of potential customers as they become aware of products, evaluates purchase, consume and tell others about the product (Kotler, 2006)

It is therefore, this behavior consumer's display when searching for, when purchasing, using, evaluating, disposing the product or the idea that they may have for the commodity and if it will satisfy their need. Consumers around the world vary tremendously in age, income, education level, and tastes. They will also buy an incredible variety of goods and services. How these diverse consumers connect with each other and with other elements of the world around them impact their choices among various products, services and companies (Gilbert A. 1995).

However, penetrating the consumer's black box (mind) was not an easy task. Often, consumers themselves may not know exactly what might influence their purchases. "Ninety-five percent of the thought, emotion, and learning (that may often drive our purchases) occur in the unconscious mind-that is, without our awareness," notes one consumer behavior expert. The central question for

marketers is: How will consumers respond to various marketing efforts the company might use (Armstrong, 2006).

Consumer behavior is affected by a variety of factors. These factors include; cultural factors, social factors, personal factors, and psychological factors. All these factors influence consumers' characteristics such as motivation, perception, learning, personality, and attitude (Jr.J. Paul, 1995).

The banking industry has been characterized by increasing competition since the early 1980s (Blankson et al., 2007). This has been the result of a number of interrelated factors such as competition and deregulation that have revolutionized the distribution of many financial services. In other words, an increased competition resulting from a decade of deregulation of the financial services industry has meant that banks find themselves faced with the task of differentiating their organizations and their offerings as a means of attracting customers (Blankson et al., 2007).

The concern of how customers choose banks has been given considerable attention by researchers (for example: Blankson et al., 2007; Mokhlis, 2009; Mylonakis, 2007;

Awang, 1997; Boyd et al., 1994 and Almossawi, 2001). Exploring such information will assist banks to recognize the appropriate marketing strategies needed to attract new customers and retain existing ones (Kaynak and Kucukemiroglu, 1992). With growing competitiveness in the banking industry (Grady and Spencer, 1990), and similarity of services offered by banks (Holstius and Kaynak, 1995), it has become increasingly important that banks identify the factors that determine the basis upon which customers choose between providers of financial services. The relevant literature indicates that a great deal of research effort has been expended to investigate bank selection criteria for broad categories of customers (Yue and Tom, 1995).

For firms to survive in contemporary highly competitive business environment, they should be able to attract and retain customers. Service organisations might be able to effectively attract and retain customers without satisfying their needs and/or wants. And to meet customers' needs, there is need to understand what is valuable to them and how they make decisions. To be profitable in a competitive industry, companies need to offer customers more value or be able to produce products and/or services more cheaply (Leibert, 2004). Sometimes marketing planning of organisations do fail due to improperly identifying the factors or determinants that consumer consider in bank selection (Khazeh & Decker, 1992). Hence, there is need for service organisation to effectively differentiate their offerings from those of competitors in order to attract customer's attention and choice

The business environment in contemporary times is practically undergoing a major revolution in the way customers buy, shop, and eventually decide to either come back or take their business elsewhere. Thus, companies are increasingly realizing that the balance of power is shifting from sellers to buyers. For example, customers need exactly what they want, at the right time and place that they want it, with a high specification and at the lowest possible price. In addition, businesses must make customers feel special or else they will take their money to another business that can provide all what they want (LeBoeuf, 1987).

In 1991 the Tanzania Parliament passed a new Financial Institution and Banking Act (2006) which allowed for the re establishment of privately owned commercial banks and financial institutions. The reforms also involved permitting entry of foreign banks and restructuring of state owned banks.

Before the financial sector liberalization which begins in 1991, the country had virtually one bank, National bank of commerce, which had a market share of 92 percent of all deposit-taking institutions (Lwiza and Nwankwo, 2002)

The financial services industry, meant that banks find themselves faced with the task of differentiating their product and their offerings as a means of attracting customers (Blanksonet *al.*, 2007).

According to Mokhlis (2009) the intense competition that exists in the market for financial services presents a big challenge to the profitability of retail banking institutions of all sizes. The competition and saturation in the banking industry requires banks to be more customer focused. Customers are exposed to diversified choices and they are much concerned about the value for money. This means that there are unlimited switching choices. Banks need to identify factors that influence the choice of commercial bank selection and work on improving them.

Commercial and Retail banking systems in Tanzania like the developed world has been playing a vital and act as a catalyst agent in providing variety products and services to all the sections in the economy.. With growing competitiveness in the banking industry (Grady and Spencer, 1990), and similarity of services offered by banks (Holstius and Kaynak, 1995), it has become increasingly important that banks identify the factors that determine the basis upon which customers choose between providers of financial services. In this regard, the basic aim of the study was to examine the basic motivational factors in customer's bank selection in Tanga City. In order to achieve the research aim, the study has adopted both quantitative and qualitative research approach specifically survey method through personally administered questionnaires (both quantitative and qualitative).

Many decision makers in financial institutions find it is essential to obtain information from customers (Javalgi *et al.* 1989) in order to identify the degree to which various product/services characteristics are important and how they influence customer's choice decision in banking selection. The key aspect of success in financial services marketing is the ability to develop and implement customer-oriented marketing strategies based on customer preference.

Understanding the requirements of customers and striving to achieve their commitment to your bank is not an end in its self since it is only one side of the coin and working to maintain and retain them is another size. This is reasonable to conclude in the sense that taste and preferences keep on changing with time and what seem palatable and efficacious yesterday may not be applicable in the context of today and to maintain and keep a customer will advocate for some level of dedication and commitment to keep the threshold of their satisfaction level from diminishing. Today's marketing efforts does not end at keeping your customers satisfied but you need to climb more than their satisfaction level to granting them delight (Kotler and Armstrong, 1997, p.163). This is done by unabated monitoring the effectiveness of how you meet with or exceed the needs of your customers by considering the customer values and satisfaction in order to deliver quality.

1.3 Statement of the Problem

The trade liberalization and globalization have resulted in keen competition among firms and industries. The Tanzanian banking industry is not exempted especially with the proliferation of banking and financial institutions in the country. With the availability of goods and services, organisations need proactive strategies, the absence of which can lead and enhance satisfaction so as to ensure customer retention

Customers have become knowledgeable and this has gradually led to a greater degree of consumer sovereignty" (Blanchard & Galloway, 1994), when making a choice. Customers' choice of a bank over another is based on several factors such as the location, interest rates, quality of service delivery and the banks reputation. However, service quality is seen as one of the key factor and thus has received considerable attention by organisations. Stafford (1996) opines that the financial services, particularly banks, compete in the marketplace with generally undifferentiated products, therefore service competitive; banks do not only compete among each other; but also with non-banks and other financial institutions both local and foreign (Kaynak and Kucukemiroglu, 1992; Hull, 2002

The banking industry has grown over the past years in Tanzania and the world at large. As a country becomes more developed there is greater need for banking services to facilitate the people's monetary transactions. The state of insecurity has posed an opportunity for expansion in banking industry and hence leading to stiff competition in the industry

A leap into the future of banking reveals a state of quandary that raises the question as to whether future customers will still need retail banking. The solution to this paradox is embedded in the banks themselves. Technology has ushered in a regime where non-bank businesses are providing new options for safe guarding and managing the finances of customers, so the dependency on banks will only be guaranteed as long as banks can provide services and value that cannot be sourced elsewhere (IBM Corporation, 2005).

Recent in Tanzania the banking sector is growing and increasing at an increasing rate. There new banks which are established each year. Majority of these banks are trying to be customer oriented by improving their processes, employees' skills and competences products and memorable service rendered. In Tanga city especially in Tanga municipal council there few banks, NMB, CRDB, EXIM Bank, Postal Bank, Barclays and Diamond trust bank etc. There are stiff competition between NMB and CRDB and other banks also they are trying to win the market by rendering best services to its employees

Customer awareness and knowledge levels have appreciated dramatically with some of them raising doubts about the ability of banks to look out for their financial wellness. In this regard, banks are rethinking on what, where and how they can serve the increasingly informed and demanding customers. Evaluation of the future about the actors and forces shaping the banking sector points to the fact that the future will demand superior 'efficiency and operational excellence' from banks and leadership in the industry will be achieved via harnessing products, services and process innovation to anticipate and meet customer needs (IBM Corporation, 2005).

So there some improvement in the banking sector in recent years especially from 2011 to date but more is suppose to be done by banks management to carry marketing analysis

and develop smart marketing strategies which will look on the factors which influence customers choice of bank services. Banks need strategies to acquire customers and then understand their needs and behaviors before they can meet with their needs in order to retain them. Customer acquisitions, as well as, customer retention are noted to be the main issues facing the industry today. In the quest to improve its services, retain and attract customers, Merchant bank has introduced innovative measures like extended business hours, ATM network, internet banking, improved banking hall facilities among others, all in the interest of enhancing customers comfort. These efforts which aim at bringing satisfaction to the customers seem to be futile. Customer's preferences and expectations seem not to match up with the banks initiatives.

There is incessant complaint of long waiting at the banking hall, failure of network system and Automatic Teller Machines; and defection to other banks. Expectation and service performance to help Merchant Bank to improve its service quality the emerging situation calls for the assessment of service quality in relation to customer

Many banks have failed to retain the existing customers and also they put less effort on the potential customers like university students who in the few years to come they will be among the regular and loyal customers to them.

There such studies which have contributed substantially to the literature on bank Selection, some of their findings may not be very applicable to other countries such as Tanzania, due to differences in cultural, economic situation, customer perceptions, geographical location, rules of the country, and environments. Existing literature (Lewis *et al.*, 2008) indicates that ,there exists little previous documented research work in Tanzania concerning the banking selection thus why the researcher found a high need of conducting a study in this area.

1.4 Objectives of the Study

The general objective of this study was to assess the main factors influencing customer's choice in selection of banking services.

1.4.1 Specific objectives are as follows:

- i. To describe the banking behavior of customers in making choice of banking services for the selected banks
- ii. To determine the criteria that customers consider important when selecting a banking services in Tanga City
- iii. To determine the relative importance of each bank selection factor in the selected banks
- iv. To discover possible measures that will improve customer's choice of banking services in Tanga City.

1.5 Research Questions

- i. What is the banking behavior of customers in making choice of banking services for the selected banks?
- ii. What factors do customers consider important in selecting their choice of banking services in Tanga City?
- iii. What is the relative importance of each bank selection factor for the selected banks in Tanga city?
- iv. What are the possible measures that will improve customer's choices of their banking services?

1.6 Significance of the Study

The findings of this study will benefit to various banks in that they got to liaise with the consumers in order to establish their needs, and also look for the best ways of meeting these needs better than their competitors. The consumers will also have a heightened awareness in regard to what factors to consider when choosing a bank. The banks' top management will use the study findings in decision making to enable them to improve their services and expand their customer base

New entrants in the banking industry will also benefit from the findings on what the consumers look for in a bank. It will serve as an industry analysis to enable them to

know how consumers make their choices for banks. Researchers and academicians will use these findings as a basis for future research.

1.7 Scope and Limitations of the Study

This research focuses on a specific sector of customers and thus the results do not represent the general public. As the survey conducted was only restricted to Tanga Municipal council representing Tanga city. The study meets number of respondents from government employees, private employees, business people, students and bank workers of different banks

The researcher encountered a problem of confidentiality since he was expected to do a lot of research in such a limited time in an organization that upholds confidentiality in their clients and the organization. This possibly limited full disclosure. The researcher being a student was faced with a problem of inadequate funds to finance the study all by himself. Some of the respondents were not willing to sacrifice their time to fill in the questionnaires administered by the researcher due to their busy schedule in that frequent interruptions are expected, from telephone calls, to meetings, to clients and this limited the amount of concentration and flow of information.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction to Chapter Two

This chapter focuses on literature by different authors on factors influencing consumer behavior on the global perspective, Africa in general and Kenya in particular, with a view to understanding the various approaches as well as stimulating new ideas about the study area. The review covers several arguments and views postulated by various researchers across the world regarding the theoretical approach of the concepts of consumer behavior by different authors

2.2 Definitions of the Key Concepts

A bank is an organization, usually a corporation that accepts deposits, makes (grants) loans, issues credit and debit cards, pays, cheques, and performs some other services. A bank acts as an intermediary between suppliers of funds (depositors) and users of funds (borrowers) (Whiteley, A.1999). Banks take over the major risks related to monetary transactions and provide the main element of security for both depositors and borrowers.

An organization, usually a corporation, chartered by a state or federal government, which does most or all of the following: receives demand deposits and time deposits, honors instruments drawn on them, and pays interest on them; discounts notes, makes loans, and invests in securities; collects checks, drafts, and notes; certifies depositor's checks; and issues drafts and cashier's checks. (Devlin, J.F.2001)

Banks are the major type of deposit taking institution; they make their living predominantly by taking deposits which represent their liabilities and loaning these funds to borrowers which represent their assets. They loan out funds at a higher interest rate than the funds, and the difference represents their gross profit margin before expenses and tax. In addition, banks can earn commissions and fees by selling various products such as foreign exchange services, safe custody services, advice, account management charges, credit card facilities, insurance and so forth (Pilbeam, 1998).

Bank is an institution which deals in money and credit. It accepts deposits from the public and grants loans and advances to those who are in need of funds for various purposes.

Banking is an activity which involves acceptance of deposits for the purpose of lending or investing. In addition to accepting deposits and lending funds, banking also involves providing various other services along with its main banking activity. These are mainly agency services, but include several general services as well. A *banker* is one who undertakes banking activities, accepting deposits and lending money for different purposes

Hart (1931, p.11) defined a banker or bank as a person or a company carrying on the business of receiving money, collecting drafts, for customers subject to the obligation of honoring cheques drawn upon them from time to time by the customers to the extent of the amounts available on their current accounts.

There is no statutory definition of a banker's customer, and so one has to refer to the decisions of the courts in order to discover the principles which determine whether or not a person is a customer. In the United States, Sect. 4-104 (1) (e) (1957 of the Uniform

Commercial Code defines as "any person having an account with a bank or for whom a bank has agreed to collect items and includes a bank carrying an account with another bank". As stated by Lord Davey in *Great Western Railway Co. V. London and County*

Banking Co. Ltd., in 1901, "there must be some sort of account, either a deposit or current account or some similar relation, to make a man a customer of a banker"

Role of Banks: The functions of banks are divided into two categories: as primary functions and secondary functions including agency services. The primary functions of banks include: accepting deposits and lending money. The most important activity of banks is to activate deposits from the public. People who have surplus income and savings find it convenient to deposit the amounts with banks. The second important function of banks is to grant loans and advances.

Such loans and advances are given to members of the public and to the business community at a higher rate of interest than allowed by banks on various deposit accounts

The primary functions of banks include: accepting deposits and lending money. The most important activity of banks is to activate deposits from the public. People who have surplus income and savings find it convenient to deposit the amounts with banks. The second important function of banks is to grant loans and advances. Such loans and advances are given to members of the public and to the business community at a higher rate of interest than allowed by banks on various deposit accounts.

Selection of a service provider in some services sectors is analyzed in length, especially in financial services.

However, no common service provider selection model that would serve as a basis for all new researches in this field and allow comparing results from different researches exists. Since developed countries are dominated by the service sector and most of the population is employed by this sector, service provider selection criteria are of major importance to the whole service industry. Service provider selection criteria largely depend on the service type and therefore three types of services are analyzed in this paper: professional services, service shops and generic (mass) services according Ettenson and Turner and Collier and Meyer classifications

Selection of service provider is a very important but challenging issue in service marketing. This is because services are generally characterized by intangibility, inseparability of product and consumption, difficulty of standardization and perishability (Hill and Neeley, 1988). Exploring such information would help service providers to identify appropriate marketing strategies needed to attract new customers. To understand the service consumer is to understand the unique challenges they face as they attempt to make decisions and evaluations of their service purchases (Grace and O'Cass, 2003).

Service provider selection process initiates the relationship between a customer and a service provider and is the most important step in acquiring a new customer for a service provider. This fact is very important bearing in mind that consumers often buy products

in a “hierarchical” order moving from relatively simple services to more complex and expensive ones (Devlin, 2002)

2.3 Banking in Tanzania

In brief, before independence, central bank’s function of money supply in Tanganyika was played by various entities. For example, during the Germany colonial era, the Germany East African Company (Deutsch-Ostafrikanische Gesellschaft), which administered the Germany East Africa colony up to 1903, was responsible for controlling money supply. This role was later taken over by the German Government until 1918 when Britain took over the Germany territory of Tanganyika. Later, the East African Currency Board (EACB) was established in 1919, with the main objective of supplying and controlling the issue of currency in East Africa. The EACB made its first issue of currency after the introduction of the Pound/Shilling system in 1921. In 1956, the EACB began to play the role of fiduciary issue, thus providing for the first time a reasonable opportunity for a monetary policy. As economic activities expanded, the monetization of the economies increased, necessitating the EACB to play a more active role in regulating money supply

Shortly after its establishment, the Arusha Declaration was pronounced in 1967 in which all private banks were nationalised. This made most of the traditional instruments of indirect monetary policy as stipulated in the Bank of Tanzania Act of 1965 inoperative. The Bank of Tanzania had no control over monetary policy as monetary operations were based on government directives. The Annual Finance and Credit Plan (AFCP) and the Foreign Exchange Plan (FEP) were the main instruments of monetary policy, supported by a system of administered prices and credit controls. This situation resulted into overall macroeconomic imbalances with high money supply, escalating inflation and a slow down in the rate of economic growth.

Following the transformation of the rural economy, the industrialization process and persistent weaknesses in the balance of payments in the mid-1970s, the Bank of Tanzania Act of 1965 was amended in 1978 to empower the Bank with additional

developmental functions of providing refinance and offer guarantee facilities to banks and to other financial institutions. The Law also empowered the Bank to inspect and supervise banks and other financial institutions, which had not been the case with the Bank of Tanzania Act of 1965.

Since 1991, Tanzania has made important improvements in reforming its financial sector, dismantling the state-dominated banking sector and allowing foreign bank entry. Despite this, the banking industry is still concentrated with low accessibility to financial services. Large foreign banks dominate the financial landscape, preventing competitive dynamism to permeate the sector. This paper analyses the competitive nature of the Tanzanian banking industry from 2004 to 2008. Utilizing a rich bank level data set, we employ the Panzar–Rosse methodology to compute the competitive index, taking into account risk, efficiency, regulatory and macroeconomic factors. The results show that banks in Tanzania earned their income under conditions of oligopolistic conduct. Moreover, the competitive index derived from an interest revenue equation was not significantly different from that obtained using an aggregate revenue measure. This suggests that the degree of contestability from traditional intermediation activities approximates overall bank behaviour. The overall message is that greater market contestability can be achieved by adopting measures aimed at stimulating competitiveness in the banking sector, including consolidating gains on the macroeconomic front and allowing more foreign bank entry so as to increase the spread of banking services

Liberalization of the economy in Tanzania has seen the emergency of both local and international banks into the market, but so far the issue of banking services is still very low to the overall population.

Policy Forum dedicated this monthly Debate to the effectiveness of financial services in Tanzania based on a Finscope Survey conducted in 2009 on the Demand for and Barriers to Accessing Financial Services. The debate included two presentations:- One on the Finscope survey-2009:- The Demand for, and Barriers to Accessing Financial

Services in Tanzania by Annette Altvater from Fin scope and another on the practicalities of Access to wholesale funds in Tanzania, a Special focus to OIKO Credit by Deus Manyenye from OIKO Credit.

In Tanga city council banks has played a major role in making sure that there is smooth exchange and trade between different stakeholders. Some of the banks that are in Tanga are NMB, CRDB, EXIM BANK, BACKLAYS, POSTAL BANK etc

Tanzania embarked on financial liberalization in 1992 aimed at sustaining growth in the real sector by boosting resource mobilization, motivating competition in the financial market and enhancing quality and efficiency in credit allocation. These reforms have changed the direction and quality of financial services offered in the country.

New merchant banks, commercial banks, bureau de change, insurance companies, stock exchange and related financial units have been established. The entry of new banks and non-bank financial institutions has enhanced the competition and improved the quality and type of financial products and services provided. Currently, there are more 20 registered banks and 9 non-bank financial institutions. Each of these institutions play an important role in financial resource mobilization

2.4 Tanga City Council

Tanga City is located on the shores of the Indian Ocean in north east Tanzania. It has a land area of 474 square Kilometres and has a population of 273,332 inhabitants in 2012 (Population and Housing Census, 2012). It was known to Shirazi Persians over a thousand years ago, had thriving trade links with Asia and the Middle East in the 13th Century, and became a continental gateway, including for the colonial activities of Omani Sultans, the Germans and British. During the past century and half, it developed functions as a transport, commercial, administrative, military and urban-industrial hub and as an important engine of the Regional and National economy.

The City is the fourth largest population agglomeration, second largest port, third largest industrial centre in Tanzania, and also the headquarters of Tanga Region, Tanga District and Tanga City Council. It has among the best economic and social infrastructure in the country, and is well connected by road, rail-lines and telecommunications with large markets in Eastern and Central Africa. There are also institutions in medical and livestock research, the largest Regional hospital and five companies offering financial services. An airport provides air services to other urban and tourism centres in the country. Nearby across the channel lie the islands of Pemba and Zanzibar.

Tanga City Council seeks to reassert Tanga City's role as an engine of economic growth despite the reversals due to the collapse of the sisal industry and the setbacks in industrial production during the 1970s'-1990s'. The main purpose of Tanga City Council is to deliver development and socio-economic services that will raise income per capita and empower the Tanga population through better use of locally available resources. Its mission is to assist investors in their investment activities. An emerging "public-private partnership" in development underpins its economic revival. More investment is the instrument for consolidating and strengthening this process.

Banking sector is one of the driving forces which have helped Tanga city council to develop each day and cater for all financial matters in the area. There are number of banks namely NMB, CRDB, EXIM, Barclays Bank, Tanzania Postal Bank and Diamond Trust.

2.5 Theoretical Literature Review

2.5.1 The Consumer Behavior Theory

2.5.1.1 Meaning and Importance of Consumer Behavior

Consumer behavior refers to the buying behavior of final consumers. It is the behavior that consumers display when searching for, when purchasing, using, evaluating, disposing the product or the idea that they have for the commodity and if it will satisfy their need.

The study of consumer behavior therefore seeks to understand how the consumers make decisions on how to spend their available resources in regard to purchase (Kotler, 2006).

Consumer behavior is of importance to the marketers as it helps them understand why and how individuals make decisions so that they can make better marketing decisions to have a great competitive advantage at the market place (Armstrong, 2006).

Consumers make many buying decisions every day. Most large companies' research consumer buying decisions deeply with an aim to find answers to questions such as what consumers buy, where they buy, how and how much they buy, when they buy, and why they buy and how they dispose what they have bought and don't need . The central question for marketers is: How do consumers respond to various marketing efforts the bank might use? The starting point is the stimulus-response model of buyer behavior (Kotler, 2006).

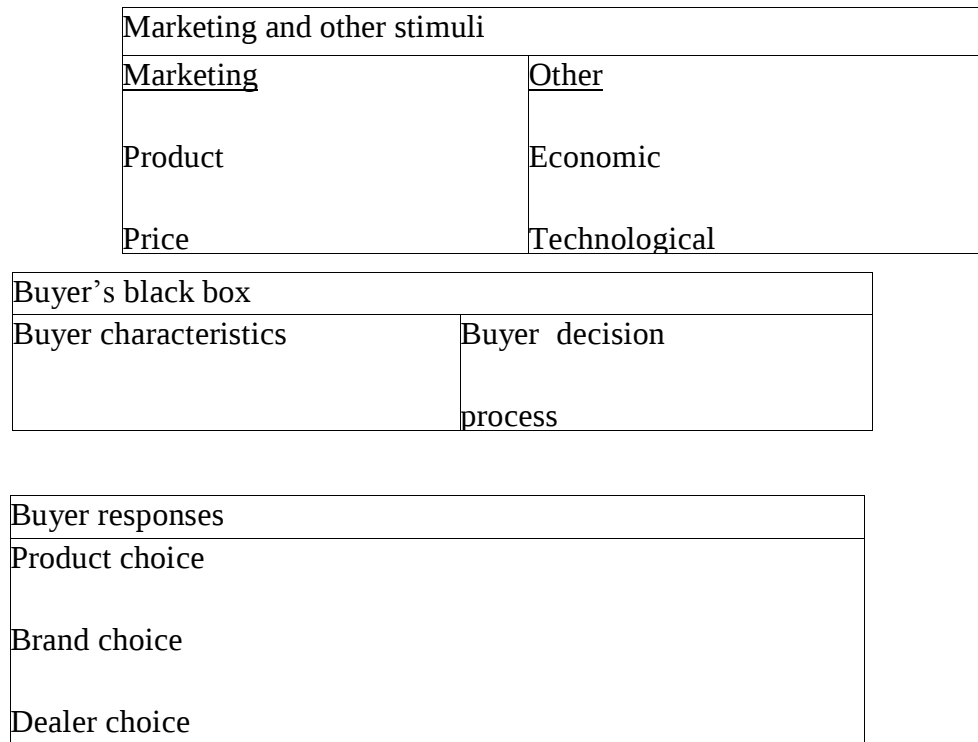
This model shows that marketing and other stimuli enter the consumer's mind and stimulate certain responses. Therefore, marketers must figure out what is in the buyer's black box (mind).

The black box model assumes that observable behavior is the only valid object of study and that psychological constructs are part of an impenetrable box which should not be opened. Marketing stimuli consist of the product, price, place, and promotion. Other stimuli include major forces and events in the buyer's environment such as economic, technological, political and socio cultural factors. All these inputs enter the buyer's black box, where they are turned into a set of observable buyer responses such as product choice, brand choice, dealer choice, purchase timing, and purchase amount (Kotler, 2006). .

The marketer wants to understand how the stimuli are changed into responses inside the consumer black box, which has two parts (Figure 2.1). The first part

includes the buyers' characteristics that influence how he/she perceives and reacts to stimuli. The other part includes the buyers' decision process (Gary Armstrong, 2006).

Figure 2.1: The Model of Consumer Behavior



Source: (Kotler, 2006)

Consumer behavior is not only influenced by external factors as financial benefits, but also by attitudes and expectations. These attitudes and expectations are constantly changing in response to a continuous flow of events, information and personal experiences.

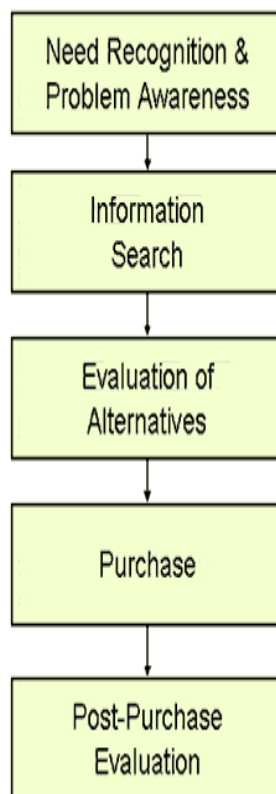
Customer behavior is the process individuals or groups go through to select, purchase, use and dispose of goods, services, ideas or experiences to satisfy their needs and desires (Sells, n.d.). Consumer behavior is not only influenced by external factors, but also by their attitudes and expectations.

These attitudes and expectations are constantly changing in response to a continuous flow of events, information and personal experiences (Peer, 2009).

2.5.2 Steps in the Customer Decision Process

Researchers, Goiteom and Mariam,(2011) realized that decision makers actually possess a set of approaches ranging from painstaking analysis to pure whim, depending on the importance of what they are utilizing and how much effort the person is willing to put into the decision.

Figure 2.2: The Customer Decision-Making Process



I. Need recognition / Problem recognition:

The need recognition is the first and most important step in the buying process. If there is no need, there is no purchase. This recognition happens when there is a lag between the consumer's actual situation and the ideal and desired one.

However, not all the needs end up as a buying behavior. It requires that the lag between the two situations is quite important. But the “way” (product price, ease of acquisition, etc.) to obtain this ideal situation has to be perceived as “acceptable” by the consumer based on the level of importance he attributes to the need.

The recognition of a need by a consumer can be caused in different ways. Different classifications are used:

Internal stimuli (physiological need felt by the individual as hunger or thirst) which opposes the **external stimuli** such as exposure to an advertisement, the sight of a pretty dress in a shop window or the mouth-watering smell of a french “pain au chocolat” when passing by a bakery.

Classification by type of needs:

Functional need: the need is related to a feature or specific functions of the product or happens to be the answer to a functional problem. Like a computer with a more powerful video card to be able to play the latest video games or a washing machine that responds to the need to have clean clothes while avoiding having to do it by hand or go to the Laundromat.

Social need: the need comes from a desire for integration and belongingness in the social environment or for social recognition. Like buying a new fashionable bag to look good at school or choose a luxury car to “show” that you are successful in life.

Need for change: the need has its origin in a desire from the consumer to change. This may result in the purchase of a new coat or new furniture to change the decoration of your apartment.

II. Information search

Once the need is identified, it's time for the consumer to seek information about possible solutions to the problem. He will search more or less information depending on the

complexity of the choices to be made but also his level of involvement. (Buying pasta requires little information and involves fewer consumers than buying a car.)

Then the consumer will seek to make his opinion to guide his choice and his decision-making process with:

Internal information: this information is already present in the consumer's memory. It comes from previous experiences he had with a product or brand and the opinion he may have of the brand.

Internal information is sufficient for the purchasing of everyday products that the consumer knows – including Fast-Moving Consumer Goods (FMCG) or Consumer Packaged Goods (CPG). But when it comes to a major purchase with a level of uncertainty or stronger involvement and the consumer does not have enough information, he must turn to another source:

External information: This is information on a product or brand received from and obtained by friends or family, by reviews from other consumers or from the press. Not to mention, of course, official business sources such as an advertising or a seller's speech.

During his decision-making process and his Consumer Buying Decision Process, the consumer will pay more attention to his internal information and the information from friends, family or other consumers. It will be judged more "objective" than these from advertising, a seller's speech or a commercial brochure of the product.

III. Alternative evaluation

Once the information collected, the consumer will be able to evaluate the different alternatives that offer to him, evaluate the most suitable to his needs and choose the one he thinks best for him. In order to do so, he will evaluate their attributes on two aspects: The objective characteristics (such as the features and functionality of the product) but also subjective (perception and perceived value of the brand by the consumer or its reputation).

The consumer will then use the information previously collected and his perception or image of a brand to establish a set of evaluation criteria, desirable or wanted features, classify the different products available and evaluate which alternative has the most chance to satisfy him.

The process will then lead to what is called “evoked set”. “The evoked set” (aka “consideration set”) is the set of brands or products with a probability of being purchased by the consumer (because he has a good image of it or the information collected is positive).

On the other hand, “inept set” is the set of brands or products that have no chance of being purchased by the shopper (because he has a negative perception or has had a negative buying experience with the product in the past). While “inert set” is the set of brands or products for which the consumer has no specific opinion.

The higher the level of involvement of the consumer and the importance of the purchase are stronger, the higher the number of solutions the consumer will consider will be important. On the opposite, the number of considered solutions will be much smaller for an everyday product or a regular purchase

IV. Purchase decision

Now that the consumer has evaluated the different solutions and products available for respond to his need, he will be able to choose the product or brand that seems most appropriate to his needs. Then proceed to the actual purchase itself.

His decision will depend on the information and the selection made in the previous step based on the perceived value, product’s features and capabilities that are important to him.

But his Consumer Buying Decision Process and his decision process may also depend or be affected by such things as the quality of his shopping experience or of the store (or online shopping website), the availability of a promotion, a return policy or good terms and conditions for the sale.

For example, a consumer committed to the idea of buying a stereo of a well-known brand could change his decision if he has an unpleasant experience with sellers in the store. While a promotion in a supermarket for a yogurt brand could tip the scale for this brand in the consumer's mind who was hesitating between three brands of his "evoked set".

V. Post-purchase behavior

Once the product is purchased and used, the consumer will evaluate the adequacy with his original needs (those who caused the buying behavior). And whether he has made the right choice in buying this product or not he will feel either a sense of satisfaction for the product (and the choice) or, on the contrary, a disappointment if the product has fallen far short of expectations.

If the product has brought satisfaction to the consumer, he will then minimize stages of information search and alternative evaluation for his next purchases in order to buy the same brand which will produce customer loyalty.

On the other hand, if the experience with the product was average or disappointing, the consumer is going to repeat the 5 stages of the Consumer Buying Decision Process during his next purchase but by excluding the brand from his "evoked set".

The post-purchase evaluation may have important consequences for a brand. A satisfied customer is very likely to become a loyal and regular customer. Especially for everyday purchases with low level of involvement – such as Fast-Moving Consumer Goods (FMCG) or Consumer Packaged Goods (CPG). A loyalty which is a major source of revenue for the brand when you combine all purchases made by customer throughout his entire life (called "lifetime customer value").

Positive or negative, consumers will also be able to share their opinion on the brand whether in their family or by word-of-mouth or on a much broader scale now with social networks or on consumer product review websites-A tendency not to be overlooked

because now with the Internet, an unhappy customer can have a strong power to harm for a brand.

2.5.3 Influences on Customer Decisions

Apart from understanding the procedure of the customer decision-making process, industries also try to determine what influences in customer's lives affect this process. There are two main categories: internal and external (situational and social influences)

Service giving organizations know that one customer's ideal treatment can be quite different from that of another customer. You may think the ideal treatment is a vigorous internet banking, while your best friend dreams of a typical fast customer service and your father is set on having a friendliness of the staff in the organization. Some of these differences are due to the way in which customers internalize information about the outside world such as perception, exposure, attention and interpretation

A number of different factors in customer's lives influence the consumer decision making process. Organizations need to understand these influences and which ones are important in the exploit process to make effective marketing decisions.

2.5.3.1 Internal Influence

Perception: Perception is how we consciously and subconsciously process information. It is how we view the world around us. But it is also how we view ourselves. Self-perception plays a large role in customer purchase decisions.

Each and every personal has a "perceptual filter" that is unique to them. In order to effectively influence a customer's purchase decision, you as a marketer, must learn how to position yourself in such a way so that you are filtered appropriately through a customer's perception. The simplest way to do this is to make it very known how your product/service will provide a solution to your customer's problems.

Education: A person's knowledge undoubtedly influences their purchasing decisions. Knowledge is the sum of all the education and experience owned by a person. As a

marketer, the key to obtaining new customers and retaining old ones is getting people to be open minded and to accept new information about your product. This can often be a tricky task, and again is why proper positioning is critical.

Self-Construction: Also known as self-concept or self-perception; this is how people assess themselves. It includes an assessment of their personality, physical attributes, lifestyle, hobbies, skills, talents, etc. People often make purchases to support their self-construction, and will rarely; if ever make a purchase that contradicts their self-perception (How often do you see a vegan at a butcher shop?). As a marketer, if you can see how a customer perceives himself or herself, then you will have a great advantage if you are able to position your product/service in a manner that supports their self-concept.

Motivation: Motivation is a **huge** internal influence when it comes to a customers purchase decision-making process. If somebody is motivated to achieve something, they will often encounter a problem along the way, and will seek solutions in order to accomplish what it is they are set out to do. For example, say you are motivated to get fit. Great! That's fantastic! Now what? Well, you need some sort of a solution. You could join a health club, invest in a personal trainer, purchase a kettle bell, etc. There are a variety of possible solutions, and depending on your level of motivation, some may be more enticing than others. However, do not confuse motivation with involvement, which is about how much effort a customer puts into making a decision. Again, as a marketer, you will have a greater advantage if you can find out what is motivating your customers.

Role in society: A customer often makes purchases to support their perceived role in society. A person's roles may also vary, as their role in their personal life may be quite different than their role in the workplace. Figure out what role your customer plays and figure out how your product/service can be of a benefit to it.

2.5.3.2 External Influences:

Culture: No external influence has as much of a profound impact on a person's purchasing decisions than their culture. People often share beliefs, attitudes, and

behaviors. And that is exactly what culture is; the shared behavior between the members of a society. If you want to know your customer, then it would be a considerably wise decision to first try and understand their culture.

Social Class: This may be financial, educational, or occupational. Depending on what social class a potential customer belongs to, will greatly influence their purchase decisions. It makes sense doesn't it? A vagrant, living under the I-95 overpass, will probably not be making a Lamborghini purchase decision anytime soon.

Social/professional groups: Similar to culture but on a smaller scale. These are the groups that people often feel the need to associate, or even disassociate themselves with. Understanding the group(s) that your customer belongs to crucial for a marketer's success.

There you have it. Not all that complicated right? Well, it's easier said than done, as actually prying out such information can be quite tedious. But stay tuned; I will have another post up soon enough some of the most effective techniques for squeezing information out of potential customers.

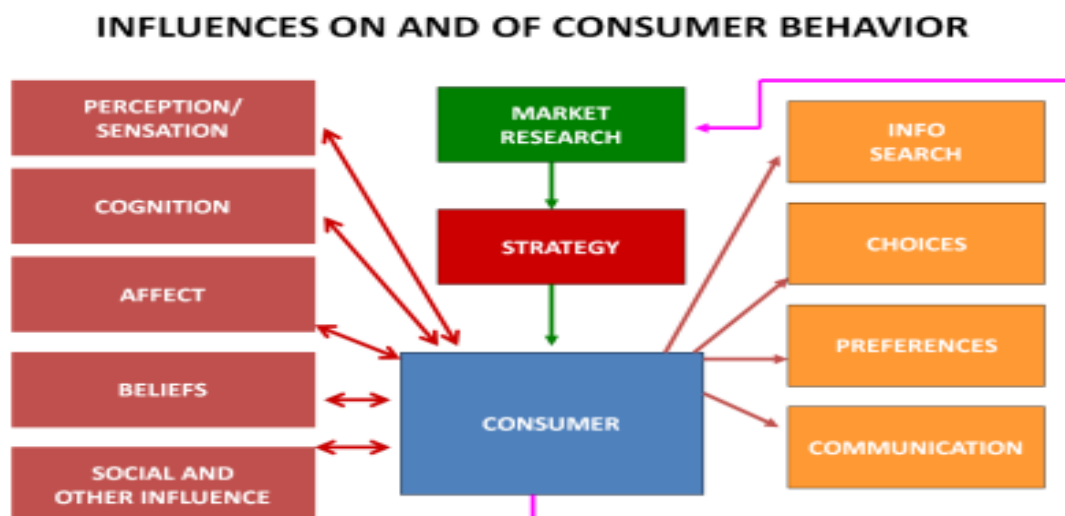


Figure 2.3: Influences on Consumer Behavior

2.6 Empirical Literature

Previous research suggests that an individual's bank choice decision is influenced by products, delivery channels and customer relations. Although consumer bank choice process continues to be a research problem of considerable academic and applied interest, a very limited number of conjoint studies have focused on this subject. Mc Kechnie (1992) surveys a variety of studies of buying behavior for personal and corporate financial services. Moutinho (1992) examines the customer satisfaction with Automatic Teller Machines. File and Prince (1992) discuss the relations among customer satisfaction, loyalty and word-of mouth. Lewis (1993) examines the recent developments in financial service quality. McDougall and Levesque (1994) investigate the importance of the major dimensions of service quality and other product offerings in retail banking.

Avkiran (1999) measured the dimensions of bank service quality and came up with four discriminating factors, namely staff conduct, credibility, communication and access to teller services. Staff conduct refers to responsiveness, civilized conduct and professional image of branch staff, while credibility refers to rectifying mistakes, and keeping customers informed. Communication includes giving financial advice, serving timely notices and access to teller services refers to the adequacy of number of staff serving customers throughout business hours and during peak hours. Boyd. (1994) also studied selection criteria of banks and how these differ according to customers' behavioral and demographic characteristics, such as marital status, size and income of household, occupation of household head. The researchers managed to identify five most important factors in explaining how customers choose banks reputation, interest on savings accounts, interest charged on loans, quick service and location in the city. Moreover, the researchers found that the relative importance of these criteria varied between groups of respondents with different demographic characteristics, with the exception of reputation, which was selected by all household categories except divorced people.

Holstius *et al.* (1995) cited efficiency and courtesy as the most important attributes in determining overall customer satisfaction, while other important attributes were convenience of location, range of services, reputation and availability of innovations. Similarly, the importance of location decisions in satisfying customers is also emphasized in the previous studies (Kaynak and Kucukemiroglu, 1992; McCullough *et al.*, 1986). Laroche *et al.* (1986) conducted a survey in Canada and found that speed of services, and factors relating to the competence and friendliness of bank personnel and convenience of location were the major factors which consumers perceived as important in their selection of a bank.

Zineldin (1996) conducted a survey of 19 potential factors which customers consider as important in the selection of a bank in Sweden. These factors include reputation, recommendation by others, interesting advertisement, convenience of location, opening hours and high technological services. Each respondent was asked to rate the importance of each of the above-mentioned factors on a scale of 5 (very important) to 1 (completely unimportant). His study revealed that friendliness and helpfulness of personnel, accuracy in account/transaction management, and availability of loans and provision of services were the most important factors. Another study on bank selection criteria by Yue and Tom (1995) was based on Chinese- Americans residing in Sacramento, California. The important factors of bank selection by the customers were found to be efficiency of services offered, bank's reputation, bank fees, location, and interest rates on saving accounts

A review of literature indicates that studies related to bank selection criteria have been mainly conducted in case of more developed countries (Denton and Chan, 1991). Such studies have contributed substantially to the literature on bank selection but their findings may not be applicable to developing countries like Pakistan due to different cultural, political and economic setup. As a set of determinant factors that have a significant role in bank selection in one region may prove to be insignificant in another (Almossawi, 2001).

In case of Pakistan, Jamal *et al.* (2003) took a survey of 300 customers of a specific bank and studied the determinants of customer satisfaction in the retail banking in Pakistan. Their results indicate a strong relationship between service quality and customer satisfaction. Thus, current literature on banking in Pakistan lacks studies on bank selection criteria and this study is an attempt to bridge this gap.

The issue of “how customers select banks” has been given considerable attention by researchers (for example: Anderson et al. 1976; Evans 1979; Kaynack and Yavas 1985; Ross 1989; Kazeh and Decker 1993; Hegazi 1995; Metawa and Almossawi 1998). Exploring such information will help banks to identify the appropriate marketing strategies needed to attract new customers and retain existing ones (Kaynak and Kucukemiroglu, 1992). With growing competitiveness in the banking industry (Grady and Spencer, 1990), and similarity of services offered by banks (Holstius and Kaynak, 1995), it has become increasingly important that banks identify the factors that determine the basis upon which customers choose between providers of financial services. The relevant literature indicates that a great deal of research effort has been expended to investigate bank selection criteria for broad categories of customers (Yue and Tom, 1995). One promising segment, which, arguably, has not been given enough attention, is the younger age group. Banks which are planning to cultivate this vibrant market segment must understand how individuals belonging to such segments select their banks.

Dominic Celestine Fernandez (2008) conducted a survey and results indicated no attribute obtained was an outright determinant of bank selection choices. This was attributed to the diverse needs of respondents as revealed by this survey. While some determinants such as location was of prime importance when selecting a bank, other factors that emphasize of better social interaction between banker and client, is gaining prominence partly due to the influence of Asian culture. It also revealed the use of the consumer decision making model when selecting bank choices. As a whole, this study was able to achieve its objective in understanding and providing a snapshot of the

important determinants in bank selection based on the feedback from survey respondents.

How a larger sample over a greater length of time is deemed to provide a better understanding of trends in Malaysia. Charles Blankson, Julian Ming-Sung Cheng, Nancy Spears (2007) study reveals three key dimensions, factors, strategies that are consistent across all three economies. The paper concludes that open and liberalized business climate appear to explain consumers' decisions. This research is based on the college student cohort and thus the results do not represent the public. This poses generalizability questions without further replications and validations. This study did not examine whether there were consumers' switching behaviors involving banks.

In India, Rao (2010) conducted research in the area of student banking focusing on factors that influence their selection of banks. A sample of 312 respondents took part in this study. The responses were shows reliability is a significant choice criterion, which includes employee's courtesy, parking facility, loyalty programs, brand name, security system and low charges with the bank.

Other factors, which have also increased in importance are the responsiveness, value added services and convenience. Assurance factors, such as speedy services, good rate of interest and zero balance account facility are also significant in importance in motivating choice of a bank.

A study was conducted by Abduh *et al.* (2010) on the Indonesian customer's attitude. They targeted the customers of Islamic banks. Finding of his study were that most customers prefer banks based on announcements of the country's council on interest rates is their first consideration in patronizing a particular bank and puts reason of safety of fund during the financial crisis, has greater possibility to patronize Islamic banks in Indonesia. In addition, bank's

A recent study conducted by Katircioglu *et al.* (2011) investigates the bank selection criteria of undergraduate students who are future potential customers of banks from different regions of the world in a small island economy.

They found that availability and convenient location of ATM services and speed and quality of services are the most important factors for considering banks and their services for both Turkish and non- Turkish undergraduate students. Afterward, they conclude that there are not massive differences in the bank selection factors between Turkish and non-Turkish international students in the case of a state University in North Cyprus.

Most recently, Maiyaki (2011) in his survey in Nigeria obtained information about the factors determining the selection and preference of banks by retail customers. He used 417 sample bank customers using multi-stage sampling procedure and found that size of bank total asset, has the greatest influence on customer choice of banks, followed by availability of large branch network across the country, then reputation of the bank, personal security of customer, and then convenient access to bank location. On the other hand, recommendations of friends/relatives attractiveness of bank's physical structure, opportunity of telephone banking, availability of assorted retail bank services and reasonable terms of credit/loans repayment were the factors that have the least influence on customer choice of banks. Finally he recommended banks management should pay attention to factors that have significant effect on the choice of banks.

In general, it can be concluded that even though there have been studies on bank selection criteria's in some developed and developing nations, as per the knowledge of the researcher, there appear to be little studies that examine the factors affecting customer preferences in banking services in Tanzania. It is, therefore, not known whether the customers of the Tanzanian banks choose a bank based on proximity, effective service, bank's reputation, friendliness of bank personnel, or any other criteria. In this context, the purpose of this study was to investigate the determinants affecting customers' selection in banking services in Tanga city.

The competitive situation makes it necessary for the banks to choose superior strategies and tactics in order to succeed.

It is, however, not so easy for them to organize. In the first place, the principles and assumptions of a market economy are quite new to managers, so there may be less than perfect results from initial attempts to change the way business is done, especially during transition when different sectors of the economy are changing at different rates. Bank managers and employees are likely to suffer, at least at the subconscious level, from the less than customer responsive attitudes that typify command economies (Pritchard, 2005).

However, although such studies have contributed substantially to the literature on bank selection, their findings may not be applicable to other countries, due to differences in cultural, economic and legal environments. A set of determinant factors that have a significant role in bank selection in one nation may prove to be insignificant in another (Smith, 1991).

A study was conducted on the Pakistan customers by Khattak *et al.*, (2010) analyzed the customer's satisfaction and awareness level towards the Islamic banking system and investigated the relationship between different demographic variables and the satisfaction and awareness of customers by taking a sample of 156 customers. They go to the point that the major factors were management proficiency, bank's personal knowledge, cost of services, efficiency of transactions, and facilities of parking. In contrast, advertising campaign, working hours and financial counseling were selected by the customers as least important factors in choosing banks.

Recently in Malaysia, Munusamy *et al.* (2010) conducted a study on service quality delivery and its impact on customer satisfaction in the banking sector. They found that assurances, tangibles, understanding and responsiveness are the most important factors that generate customers' satisfaction and these factors have a positive relationship with customer satisfaction.

Their finding also indicates that measuring the level of performance and satisfaction when it comes to the intangible expectations are the most difficult things for the customers.

2.6.1 Cultural Factors and Customer Choice of Banks

Cultural factors include the following: Culture is the most basic cause of a person's wants and behavior. Human behavior is largely learned. Every group or society has a culture, and cultural influences on buying behavior may vary from one consumer to another depending on his/her culture. Failure to adjust to these differences can result in ineffective marketing or embarrassing mistakes. Marketers are always trying to spot cultural shifts in order to discover new products that might be wanted (Kotler, 2006).

Each culture contains smaller subcultures, or groups of people with shared value systems based on common life experiences and situations. Subcultures include nationalities, religions, racial groups and geographic regions. Many subcultures make up important market segments, and marketers in the banking industry need to design products and marketing programs tailored to their needs (Kotler, 2006).

Social classes are society's relatively permanent and ordered divisions whose members share similar values, interests, and behaviors. Social class is not only determined by income but also measured as a combination of occupation, income, education, wealth and other variables.

Marketers are interested in social class because people within a given social class tend to exhibit similar buying behavior (Armstrong, 2006).

According to (Churchill, 1995), social scientists have identified the seven American social classes as upper uppers, lower uppers, upper middles, middle class, working class, upper lowers, and the lower lowers.

The upper uppers class includes the social elite who live on inherited wealth. They give large sums to charity, own more than one home, and send their children to the finest schools. The lower uppers class includes people who have earned high income or wealth through exceptional ability. They are active in social and civic affairs and buy expensive homes, education, and cars (Churchill, 1995).

The upper middles class includes professionals, independent business persons, and corporate managers who possess neither family status nor unusual wealth. They believe in education, are joiners and highly civic minded, and want the better things in life. The middle class constitutes the average-pay white-and blue-collar workers who live on the better side of town. They buy popular products to keep up with trends. The working class includes those who lead a working-class lifestyle. They depend heavily on relatives for economic and emotional support, for advice on purchases, and for assistance in times of trouble. (Churchill I, 1995)

The upper lowers class consists of the working poor. Although their living standard is just above poverty, they strive toward a higher class. However, they often lack education and are poorly paid for unskilled work. The lower lowers class is constituted of individuals that are visibly poor, often poorly educated unskilled laborers. They are often out of work and some depend on public assistance. (Churchill I, 1995)

2.6.2 Customer Demography in Bank Selection

A cursory appraisal of studies shows that many academic endeavors have been vested in the field of segmenting customers using psychographics in the area of general buying behaviour, retail, media behaviour, buying behaviour of financial products and so on (Srivatsa and Srinivasan (2008). Demographic characteristics have also taken centre stage in the literature of bank selection, loyalty and satisfaction criteria. These academic studies strive to link demographic characteristics like age, gender, level of education, income levels, professional experience etc. with bank selection, loyalty and satisfaction criteria. This study has not been an exception as it is predicated on young adults in Denmark and so crisscrossing findings elsewhere will enrich the studies.

In highlighting the critical role of understanding the woman consumer better in the retail banking in India, Srivatsa and Srinivasan (2008) conducted a psychographic study using gender. It was premise on the conviction that women and men do not think alike on many issues and probably banking behaviour could be another. Their findings were that men and women customers exhibit different behaviours in their banking preferences, banking channels and product usage. Whilst men prefer safety and convenience of electronic channels in bank selection, their women counterparts prioritise on channel convenience and savings. Internet banking finds favour and patronage with woman and men turn to be branch loyalist. Women appreciate value from credit card usage and men appreciate the value a loan product has.

In similar studies conducted in Malaysia by Moklis (2009) in the relative importance of choice criteria in respect of selecting a retail bank by male and female customers for patronage. The findings show that there are some differences in choice factors employed by male and female customers in selecting a bank for patronage. Factors of which both male and female had variations are attractiveness, marketing promotion, ATM service, proximity, people influences and financial benefits. It also reveals that both male and female college students place more emphasis on 'secure feeling' and 'ATM service' suggesting those factors need serious consideration when designing commercial banking decisions and strategies.

In the studies conducted by Nartey et al.(2010) which was done to ascertain bank selection criteria among students in Ghana and to investigate whether there exist significant difference between females and males students. The findings revealed that undergraduates place much premium on the minimum bank deposit required by the banks and the graduates considered fast service delivery. Also, good branch network and fast service delivery were considered important factors by both graduates and undergraduates. On gender, females considered minimum deposits and fast service delivery as the most important while delivery of efficient service and extensive bank branches were considered by males. Female respondents were also identified with two major factors of safety in bank transaction as well as prestigious image.

2.6.3 Social Factors and Consumer Choice

There are three social factors that may influence a consumer's choice of a bank namely; A person's behavior is influenced by many small groups. Groups that have a direct influence and to which a person belongs are called membership groups. In contrast, reference groups serve as direct (face-to-face) or indirect points of comparison or reference in forming a person's attitude or behavior. Marketers try to identify the reference groups of their target markets. Reference groups expose a person to new behaviors and lifestyles, influence the person's attitudes and self- concept, and create pressures to conform that may affect the person's product and brand choices (Kotler, 2006).

The importance of group influence tends to be strongest when the product is visible to others whom the buyer respects. Manufacturers of products and brands subjected to strong group influence must figure out how to reach opinion leaders that is, people within a reference group who, because of special skills, knowledge, personality, or other characteristics, exert influence on others. Consumers often are influenced by reference groups to which they do not belong. For example, an inspirational group is one to which the individual wishes to belong (Churchill, 1995).

Family members can strongly influence buyer behavior. The family is the most important consumer buying organization in society. Marketers are interested in the roles and influence of the husband, wife, and children on the purchase of different products. Husband-wife involvement varies widely by product category and by stage in the buying process. Children may also have strong influence on family buying decisions. For example, children as young as six years may influence the family car purchase decision (Churchill, 1995).

A person belongs to many groups – family, clubs, and organizations. The person's position in each group can be defined in terms of both role and status. A role consists of the activities people are expected to perform according to the persons around them. Each role carries a status reflecting the general esteem given to it by society. Consumers usually choose products appropriate to their roles and status (Kotler, 2006)

2.6.4 Personal Factors and Consumer Choice

People change the products they buy over their lifetimes. Tastes, clothes, furniture, and recreation are often age related. Marketers often define their target markets in terms of life-cycle stage and develop appropriate products and marketing plans for each stage. The life cycle stages include unmarried couples, singles marrying later in life, childless couples, same sex couples, single parents, extended parents (those with young adult children returning home) and others.

For instance in the banking industry, a bank account that best suit the youths or the elderly in the market may be created (John, 1995).

A person's occupation affects the bank a consumer chooses. For instance blue collar workers tend to buy more rugged work clothes, whereas executives buy more business suits. Therefore marketers try to identify the occupational groups that have an above average interest in their products. A bank can even create a bank account only appropriate for a given occupation group (John, 1995).

A person's economic situation will affect his/her decision of bank selection. Marketers of income sensitive products watch trends in personal income, savings, and interest rates. For instance if economic indicators point to a recession, marketers can take steps to redesign, reposition and re-price their products closely. Banks need to follow closely the economic conditions so as to avoid setting of rates that are too high above the average rates in the market. Having favorable rates may in itself be a customer attraction technique (John, 1995).

People coming from the same subculture, social class and occupation may have quite different lifestyles. Lifestyle is a person's pattern of living as expressed in his/her activities, interests and opinions. It involves measuring consumers' major activities, interests, and opinions about themselves, social issues, business and products (John, 1995).

Each person's distinct personality influences his/her buying behavior. Personality refers to the unique psychological characteristics that lead to relatively consistent and lasting responses to one's own environment. Personality is usually described in terms of traits such as self-confidence, dominance, sociability, autonomy, defensiveness, adaptability, and aggressiveness. Brands have personalities, and consumers are likely to choose brands whose personalities match their own.

A brand personality is the specific mix of human traits that may be particular brand (John, 1995).

2.7 Conceptual Framework

From the theoretical and empirical literature review it is observed that the main factors which affect customer choice of financial services include financial benefit, service provision, convenience, promotion strategy, bank image, reputation and employee influence. These constitute the independent variables in our conceptual framework and customer choice constitutes the dependent variable.

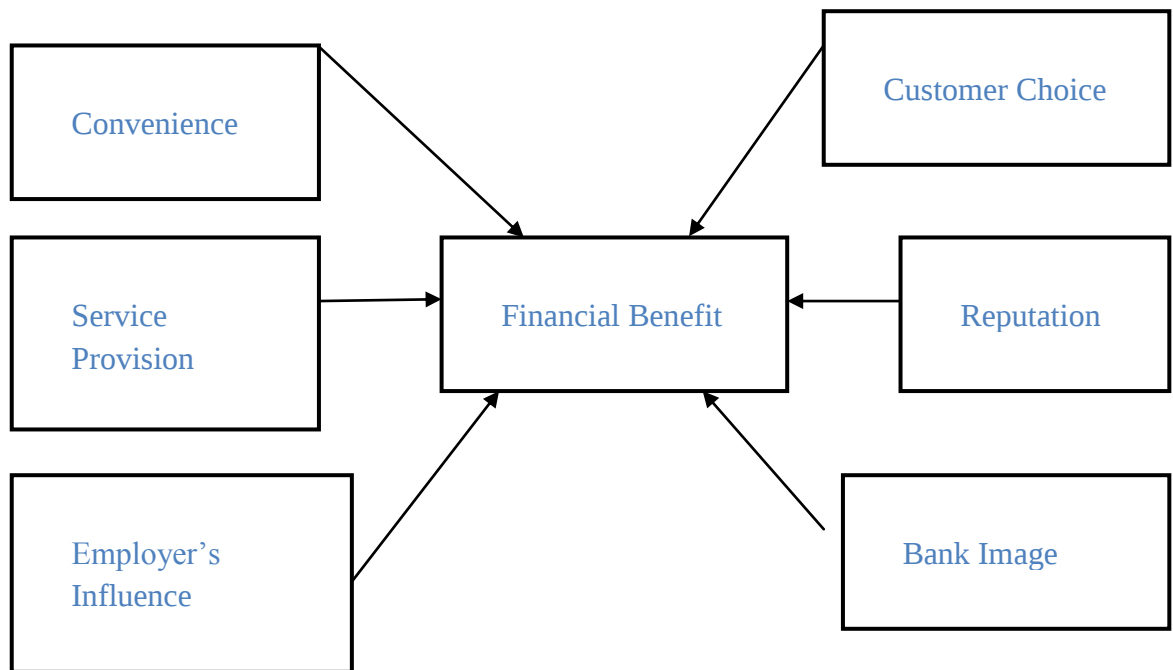


Figure 2.4 Conceptual Framework Model

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Chapter Overview

This chapter provides an outline of the research methodology used in the study. Therefore, the source of data for the study, data and sampling technique, design of the research, a description of the method of data collection techniques is given. In the last part of this chapter the statistical method used to analyze the data, was discussed

3.2 Research Design

The study is a descriptive one utilizing the survey design, aimed at determining the factors influencing consumer choice of banks. The study used the descriptive case study research design, employing both quantitative and qualitative approaches.

According to Yin (2003) descriptive case studies are used to describe an event/ process in its natural ambit and the main objective is to answer how, who and what questions. The design is therefore suitable for this study as it seeks to establish what factors are the determinants of consumer choice of banks. The research will also be cross sectional as it seeks to study a particular phenomenon in this case the consumer choice of banks in Tanga city council as the case study site. Case studies are used to investigate contemporary phenomena, do not require control over the investigated behavioral element but seeks interpretations of those people most knowledgeable for this case the consumers or users of the accounts in these banks.

The descriptive case study design is appropriate for this research as it provides an opportunity to obtain critical and practical understanding of the factors determining consumer choice of banks in Tanga city council that in a case study research, because only a few instances are normally studied, the case researcher can uncover more variables relevant to the study.

3.3 Target Population of the Study

The target population for the study was included Bank employee, students, businessmen and employees of different specialization dwelling in Tanga City. 60% of the respondents are employees from other organisations but who have accounts in these banks because of their convenience, 20% are students and 10% businessmen and the rest 10% are staff of these banks. These employees were selected based on the assumption that they have the capacity to save and deposit money in banks because their salary is relatively attractive while the remaining are businessmen and students from Mzumbe Tanga. These groups are expected to represent all types

3.4. Sample Size Selection and Sampling Procedures

The study presents sample size selection and sampling procedure as used in the study.

3.4.1. Sample Size Selection

In conducting a study, it is not possible, practical and sometimes expensive to gather data by considering entire population. Therefore smaller chunks of a unit sample are chosen to represent the relevant attributes of the whole of the units (Graziano and Raulin, 1997).

The sample targets are presumed to often use bank services to save, receive and transfer money to and from different corners of the country. Given the nature of the study (due to the unavailability of sampling frame of banks' customers or infinite population), probability (convenience) sampling was chosen. Therefore, a sample size of 200 customers was selected from the defined target population. The Convenience sample selection of the respondents has been accomplished by distributing the questionnaires to the available customers of the sample occupations

3.4.2 Sampling Procedures

Based on this and taking into account the possibility of non response from some respondents the data shall collect from the entire sample population of 80. A convenient sampling technique was adopted by the researcher. The size of the sample depends on the kind of data analysis the researcher want to perform. Also, when the population is homogenous small sample size is sufficient for the study.(Neuman 2001)

Table 3.1 Classification of Population and Sample Size

Group of Respondents	Number of Respondents
Other Employees	120
Bank Staffs	40
Mzumbe Students Tanga	20
Businessmen	20
Total	200

3.5 Research Instruments and Data Collection Techniques

The research involved the collection of data from respondents/clients by use of a questionnaire.

The use of the questionnaire is justified because it is an effective way of collecting information from a large literate sample in a short period of time and at a reduced cost than other methods. Additionally, questionnaires facilitate easier coding and analysis of data collected (Mugenda &Mugenda, 1999).

It is the purpose of this study to understand determinants that affect customers' selection of banks using the above design. In order to achieve the research aim, the study adopted both quantitative and qualitative research approaches specifically survey method through personally administered questionnaires including close-ended and open-ended questions.

This study was used the cross-sectional survey method because the data was collected at a point in time. The quantitative and qualitative measurement approach was employed in this study in view of the popularity of the previous studies (see among others Lee and Marlowe, 2003; Blankson et al., 2007; Khan, 2008 and Mokhlis, 2009).

The adoption of the survey design, in this study, is to gather information that was not available from document records and make conclusions about the determinants that affect to customers in selecting a particular bank, and their significance in banks based on responses of a sample of respondents. In this regard, Fowler (1984) noted that the strengths of survey methods that result in their wider use included the value of statistical sampling, consistent measurement, and the ability to obtain information not systematically available elsewhere or in the form needed for analysis.

The questions were organized into three sections as follows: The first section of the questionnaire asked respondents to obtain their personal background, questions regarding their gender, age, occupation, level of income and so forth. The second section of the questionnaire sought to obtain information on the banking behavior of respondents. The respondents were asked for the name of banks at which banking services were used; which bank was the respondent's main bank and which was the respondent's subsidiary bank(s). The length of time that customers have been with their banks was also measured.

The final section of the questionnaire was designed to rate the relative importance of bank attributes when choosing which banks to patronize. They were measured on a four point Likert-type scale of importance ranging from (4=most important) to (1=not important at all). The list of criteria was based on previous similar studies (Omar *et al.*, 2006; Mokhlis *et al.*, 2008; Mokhlis *et al.*, 2010; Maiyaki, 2011), and personal experience of the researcher.

To determine the probable usefulness of the questionnaire and whether further revision is needed prior to conducting the survey, the questionnaire was pilot tested. The researcher distributed the questionnaire to 5 Master students and 5 banks employees and 10 for other employees as a sample group. The subjects were asked if they had any problems understanding the questionnaire or have specific comments regarding the questionnaire. The format for responding was through both open-ended and close-ended questions.

The subjects were encouraged to be very free with their responses, make suggestions for improvement and outline any difficulties they found.

After each questionnaire was accomplished, every question was asked what he/she meant in checking various answers. Comments were solicited on the intelligibility of the questions and what the changes should be done in order to make the questions simpler. These respondents also gave their comments on understanding the instructions about the scaling and the time taken to answer the questions. The test found no grave problems and minor modifications were made to the survey questions based on the verbal opinion received from the interview. In addition, the pilot study was conducted to ensure the validity, sequence and relevance of the questionnaire to this study. The questionnaire was originally written in English.

3.6 Data Analysis and Interpretation

To determine the underlying dimensions in the set of bank selection criteria, the importance ratings for the evaluative criteria was factor analyzed. Factor analysis is a technique which is used to “reduce a large number of variables to some smaller number by telling the researcher which belongs together and which seems to say the same thing” (Field, 2005). This technique was believed to be appropriate for this particular analysis because banking selection determinants have many implications. As noted by Vaus (2002) such factors are not single measurable entities but are constructs of a number of other directly observable variables.

By factor analysis, these observable variables can be extracted into factors, each reflecting an underlying property, which is commonly shared by a certain group of variables (Vaus, 2002). It also helps to validate that respondents are able to distinguish between the various variables despite the similarity of the items to be questioned.

The study findings were finally organized summarized and analyzed using Statistical Package for the Social Sciences (SPSS version 17 for windows). SPSS was used for the simple descriptive data to compute the mean score of factors and to the advanced statistical procedures of factor analysis. This was done with the help of analytical tools like the tabular system. Having done such analysis, it was presented using figures, tables and percentages. Eventually, interpretation of data and discussions of the findings follows suited.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Chapter Overview

The aim of this study was to assess the main factors influencing customer's choice in selection of banking services. This chapter presents analysis and discussion on the data obtained from survey to answer the research questions raised in chapter one and support the objectives of the study.

4.2 Response Rate

This section presents the descriptive analysis of customers' responses to each item in section one (general information of respondents) and section two (their banking behavior) on the survey questionnaire. From a total of 220 questionnaires distributed, 200 were returned. The returned questionnaires were carefully checked, and those with excessive missing data were discarded. The response rate is 90.9 percent. Such a response rate is considered sufficient for statistical reliability and generalizability (Mokhlis, 2009) and most satisfactory especially when compared with earlier research works on bank selection decisions (Khazeh & Decker, 1992-93 and Gerrard & Cunningham, 2001). This relatively high response rate was attributed to the self-administered approach undertaken in distributing questionnaires.

4.3 Profile of the Respondents

4.3.1 Composition of the Respondents

Respondents were purposely chosen from two categories, bank staff and customers. Of these respondents, 80% equivalent to 160 respondents was bank customers and the remaining 20% equivalent to 40 respondents was bank staff from different selected banks in Tanga Region. The figure below illustrates this composition.

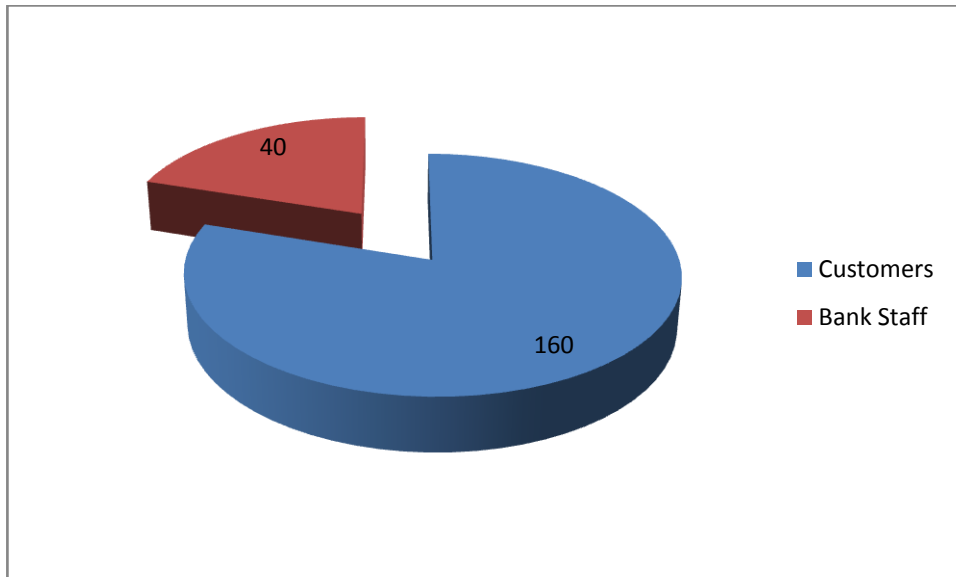


Figure 4.1 Distribution of the Respondents

On the other hand, the figure below shows the composition of the respondents based on their bank affinity. It was revealed from the data collected that majority of the customers are from NMB followed by CRDB.

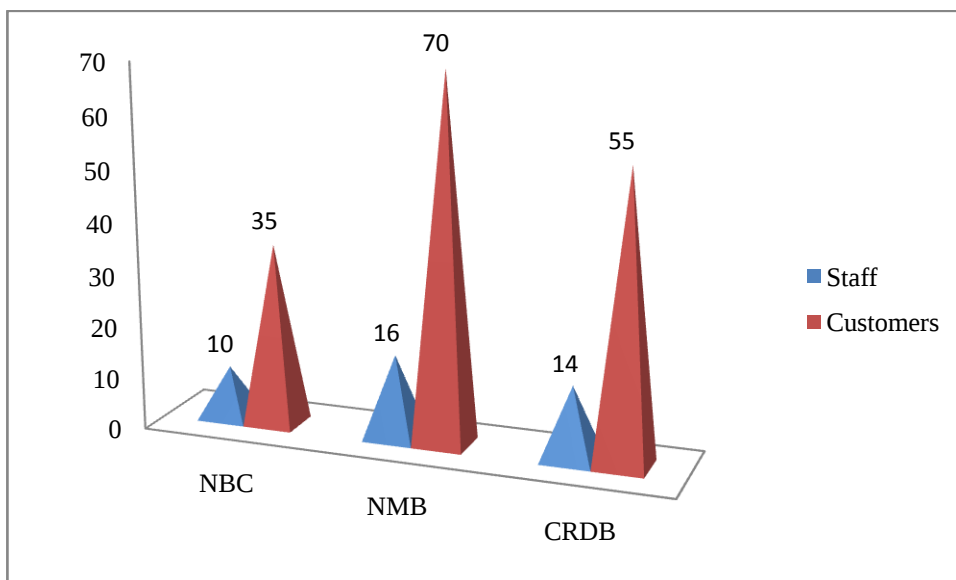


Figure 4.2 Compositions of the Respondents

4.3.2 Education Level of the Respondents

Majority of the respondents, both customers and bank staff have Secondary and college education. As the figure below reveals, 40% have secondary education and 32% have attended college. This depicts that the adoption and use of banking services have some kind of correlation with the education level.

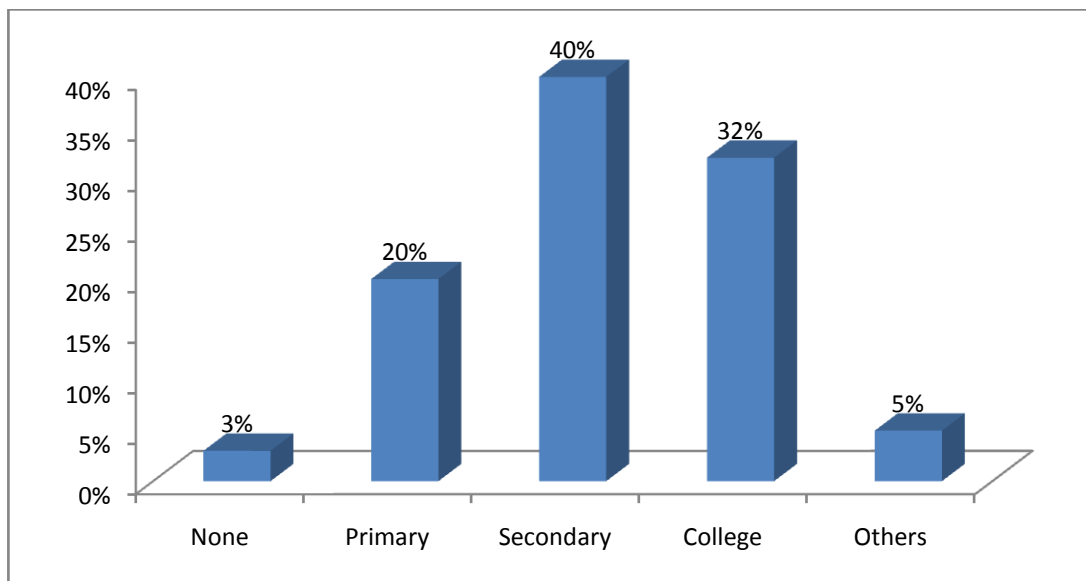


Figure 4.3 Education level of the respondent

4.3.3 Gender of the Respondents

As revealed in the figure below, males comprise 60 percent and females with 40 percent of the respondents respectively. This is somewhat may be the fact that in Tanga region similar to numerous African nations, financial decision making is the task of the male parent because they are seen as the chief income earners in the family.

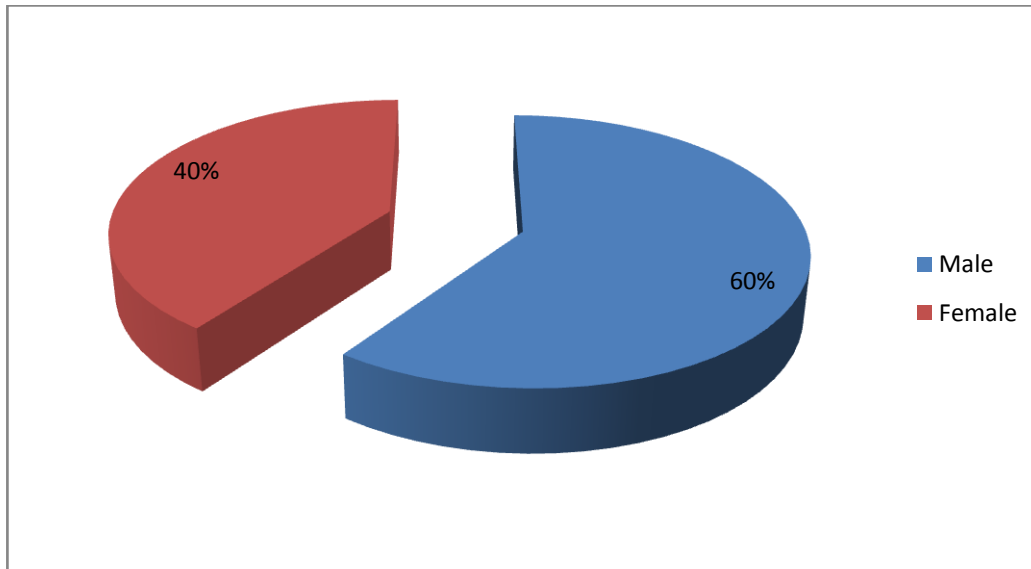


Figure 4.4 Gender Distribution of the Respondent

4.3.4 Occupation of the Respondents

The table below illustrates the composition of the respondents by their job occupations. It was revealed that majority, about 47.5% of the respondents were employees followed by 27.5% who were students. The last category was businessmen which comprised of 25%.

Table 4.1 Occupations of the Respondents

Response	Frequency	Percent
Students	55	27.5
Employees	95	47.5
Entrepreneurs	50	25
Total	200	100.0

4.3.5 Income of the respondents

The table below reveals that majority of the respondents who are using bank services have average monthly income of more than TShs 600,000/=. This is equivalent to 60% of the respondents.

Table 4.2 Monthly income of the respondents

Income (Tshs)	Frequency	Percent
Below 200,000	5	2.5
200,001 – 400,000	15	7.5
400,0001 – 600,000	60	30
Above 600,000	120	60
Total	200	100.0

4. 4 Banking Behavior of the Customers

4.4.1 General Banking Behavior

Either in the public or private banks, all respondents are users of banking services. Some customers, as represented by the survey population, also rely on a mix of financial services provided by both bank and non-bank institutions. For example, about 3% of the sampled customers that is banked still use non bank services, ranging from microfinance institution and other traditional saving ways (Edir & Equib).

The customers' practice in banking is demonstrated in figure below, about 46% of the respondents have more than seven years of banking relationship with their main bank. Such along permanent status of relationship indicates the capability of customer retention by the banks. This is followed by 33% of the customers with an experience of three to six years while 7% of the customers have a short period relationship (less than three years) with their respective banks.

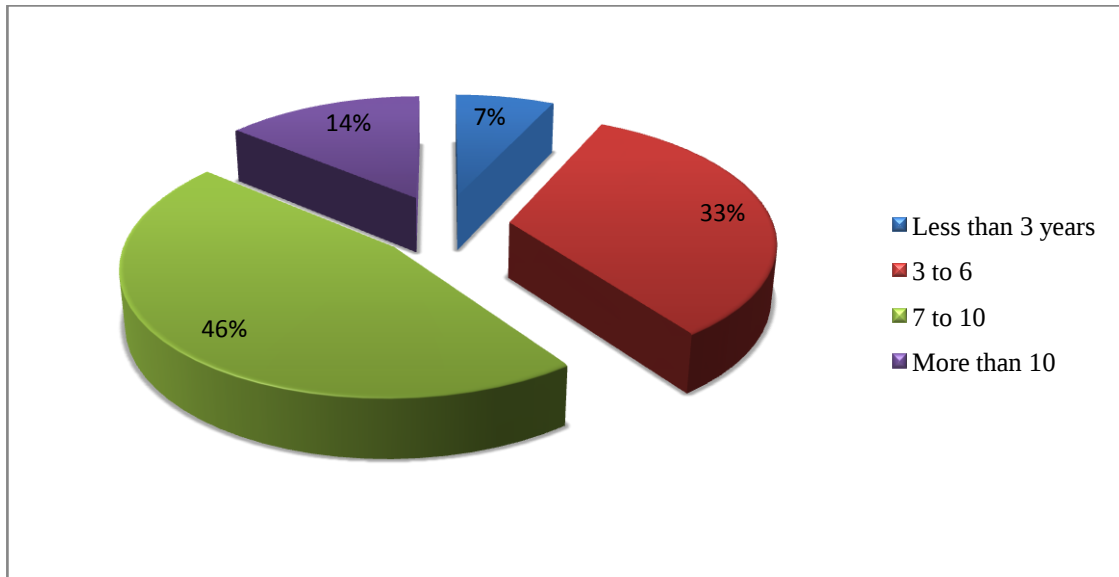


Figure 4.5 Banking Period

The respondents were asked the number of bank(s) at which their banking services were used. In this regard, about 55% and 45% reported were as single banking and multiple banking users respectively. Dealing behavior with various public and private Tanga banks is apparently different. Table 4.3 revealed that Commercial Banks of Tanga, CRDB Bank, NBC Bank, and NMB Bank are the most preferred banks.

4.4.2 Customers' Usage of the Banking Services

Table below shows the proportion of respondents that are using different bank products or services as accessible in Tanga City. High level of customer awareness and tradition of saving account and local money transfer services has been observed as the basic types of customers' habit of banking services. Majority of the sample respondents are beneficiaries of multiple services such as the saving deposit and money transfer services. Besides, they are aware of and are using the other services of banks like current account, Internet banking and ATM services.

Table 4.3 Banking services

Service	Frequency	Percent
Current account	19	3
Saving account	165	25
Loan facilities	60	9
Money transfer services	120	18
ATM services	190	29
Internet banking	100	15
Total	654	100.0

As for various credit facilities currently offered with flexible borrowing options in banks, customers do not have a high habit for any particular one. The following are the possible reasons. First, customers' needs for borrowing are different and hence, different services are offered to meet such needs. So, no individual borrowing product has sole high usage. Second, customers may need to have a loan of money from banks in low interest rate, but banks may not perform this. Third, the majority of the borrowing products are particularly applicable for corporate customers. The study focused on individual customers instead of corporate treasuries. So individuals may not need to borrow money for their spending purpose. Services offered by banks such as accepting of diverse types of deposits, granting variety of credit facilities, international banking services and rendering of local and international money transfer services are very similar in most banks (excluding ATM services, mobile banking, internet banking facilities, service charges and implications of interest).

4.4.3 Improving Customer Needs

The basic bank services needed by the customers are saving account, current account, and domestic and international money transfers.

Table 4.4 Improving Customer Needs

Response	Frequency	Percent
Need Addition services to be offered	120	60
Satisfied with the current services	80	40
	50	25
Total	200	100.0

As portrayed in table above, customers who need additional service are more or less identical to those who did not need other services. About 60 percent of the respondents need extra service from banks. Additional bank services are needed for the customer; including banking facilities (such as, internet banking facilities, telephone banking facilities, ATM services in all branches, and other credit card banking services), inter-bank networking and widening their branches in different areas and reducing waiting time in queues while being served. In addition, provisions of services in weekends, inter-branch network and special attention for blind customers are also among the listed needed services.

4.4.4 Customer Satisfaction with Banking Services

Customer satisfaction involves an orientation that says, “take care with all parts of the process that develops a product or service for the ultimate customer”. In most settings that customer will be the one who pays to use the service.

Table 4.5 Satisfaction of the Services

Response	Frequency	Percent
Need Addition services to be offered	120	60
Satisfied with the current services	80	40
	50	25
Total	200	100.0

The table above presents expressive statistics on the satisfaction of bank customers with bank services. It has been observed that more than 60 percent of the respondents feel either very satisfied or just satisfied with the services offered in their main banks. Nevertheless, 38.8 percent of the respondents are not satisfied by the services provided in banks. Unsatisfied customers were inquired to give their feeling that banks should take as a solution for their dissatisfaction in services offered by banks. They forwarded the following ideas to be taken by the banks to satisfy their customers. Banks may satisfy their customers if they: provide quick services to their customers, recruit dedicated employees in their organization and encompass adequate windows and employees to offer fast and efficient service. Other respondents (37%) feel that, if banks introduce and apply modern technological working facilities (e-banking facilities), handle their existing customers properly instead of trying to attract new ones, and extending their operation hours in the working days till the night 2:00 pm and others need in weekend entire day service. Awarding of high interest rate on savings, granting of loans on a lowest interest rate and lower service charge are also suggested as a solution for their satisfaction by the respondents. Finally, most respondents agreed that, customers may be satisfied successfully if banks shortened their bureaucracy.

The results on customer satisfaction with bank services have some resemblance with the results of Khan et al. (2008). They found a very low customer satisfaction with various financing facilities and an above average mean on satisfaction with current account and savings account. However, they reported an above average mean on ATM services. As money transfer better satisfies customers, this study notes that the ATM services scored below the average mean of satisfaction.

4.4.5 Loyalty of Customers to Banks

Customer retention, simply defined, is the ability for a company to keep its existing customers. It is the measure of a company's ability to provide enough value with its products or services for customers to keep them coming back for more.

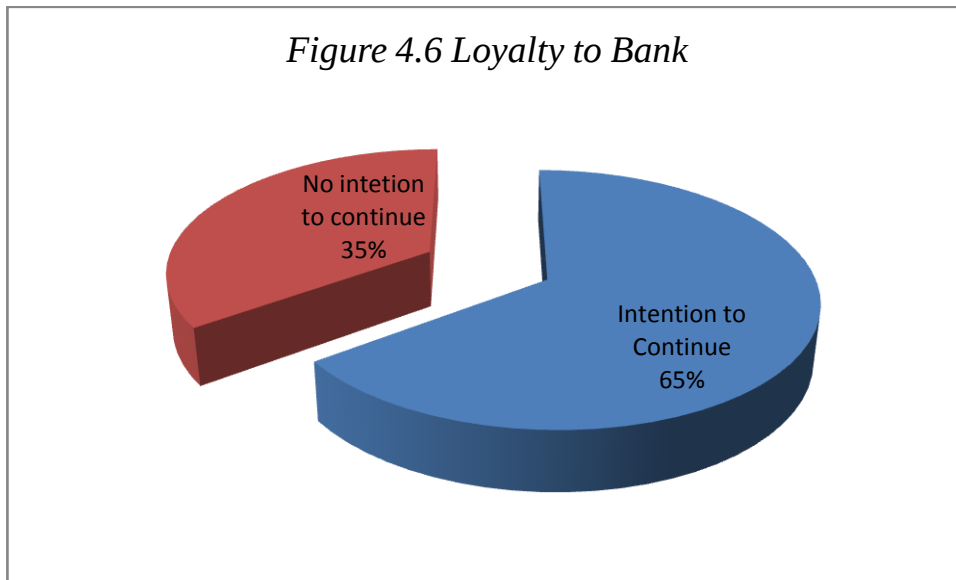


Figure 4.6 Loyalty to Bank

The figure above dictates that the majority (60 percent) of the customers do not have a plan to change their customer banks, thus, determined to continue dealing with their main banks in the future. Nonetheless, there are some customers who have no intention to persist with their main customer banks for many reasons. Among the reasons; including delay in service delivery, high service charge, unavailability of

ATM service, dissatisfaction with some services (such as loan, blocking etc), unpleasant customer concern and handling, availability of other better banks, and fear of hesitation in the private banks.

4.5 Factor Analysis for Identification of Choice Criteria

Factor analysis is a statistical approach that can be used to analyze interrelationships among a large number of variables and to explain these variables in terms of their common underlying dimensions (factors). This analysis is a data reduction statistical technique and designed to simplify the correlation matrix that reveals a small number of factors which can explain the correlation. Correlation coefficients vary from sample to sample, much more so in small samples than in large. Hence, the reliability of factor analysis is as well dependent on sample size (Hair et al., 2005). The sample size necessary for factor analysis depends on many things. As a general rule, factor analysis requires a minimum of around 150 participants (Jeromy, 2007) and communalities after extraction should be above 0.5 (Field, 2005) in order to get a reliable solution. Such analysis is useful in gaining understanding on the main dimensions that inspire the observed sets of items (Hair et al., 2005).

Varimax-rotated factor analysis is, therefore, performed on the constituent items representing the different constructs to validate empirically the theoretical structure of the scale. Factoring ceased when all eigenvalues of greater than one were obtained and when a set of factors explained a large percentage of the total variance was achieved (Hair et al., 2005). Exploratory factor analysis is used in order to identify constructs and investigate relationships among key interval scaled questions regarding reasons for choosing a bank services from 201 respondents. This factor analysis summarizes data by grouping correlated variables and investigates sets of measured variables related to theoretical constructs

After the standards indicate that data is suitable for factor analysis, principal components analysis (PCA) is employed for extracting the data, which allows determining the factor underlying the relationship between a numbers of variables.

The total variable explained box is suggesting that it extracts one factor accounts for 59.69% of the variance of the relationship between variables. Loading on factors can be positive or negative. A negative loading indicates that the variable has an inverse relationship with other factors. The higher the loading, the more important is the factor. An accepted method of interpretation of factor loadings is to regard as significant any variable with a loading of 0.4 or greater as associated with the appropriate factor (Hair et al. 2005). Jeromy (2007) suggested that any value with loading of 0.5 and increased loading becoming more vital while value with less than this is very low in determining the factor. Rotation is necessary when extraction technique suggest there are two or more factors. The rotation of factors is designed to give an idea of how the factors initially extracted differ from each other and to provide a clear picture of which item load on which factor.

4.5.1 Explanation of Bank Selection Factors

Using the Eigen value greater than one rule, seven factors are identified. All characteristics with factor loadings of 0.40 and above are retained. In addition, means were computed for all attributes retained within each factor to identify the relative importance of such attributes to the customers in their bank selection process. In terms of overall factor means, the sixth factor is the most important in terms of bank selection and the first factor is (slightly) the least important.

The first factor in Table 4.6 delineates a selection factor based on low interest rate on loans, high interest rate on savings, attractive interest within short period of time and the e-banking facilities. This factor accounts for 15.70 percent of the total variance. This factor may be labeled a financial benefits/technology factor. Here, it can be noticed that low service charge (mean = 2.0945) and attractive interest within short period of time (mean = 2.0896) have the two highest means in this factor, indicating the vast importance of service charges and interest rate in determining bank selection for customers. The second factor identifies a dimension based good customer services, speedy services, reception at the bank and variety services offered. This factor accounts for 10.067 percent of the total variance. This factor

may be categorized service provision factor. Within this factor, the most important attributes are speedy services (mean = 3.2687) and reception at the bank (mean = 3.2189), while the least important item is variety of service offered (mean = 2.7463).

The third factor, containing items related to my employer uses the same bank and services offered by banks including extended operation hours and availability ATM services, has been named employers' influence. Attributes falling within this factor accounts 8.197 percent of the total variance. Within this factor, extended operation hours is the most important determinant item (mean = 2.9154) in customers' bank selection process. On the other hand, the least important item in this respect is my employer uses the same bank (mean = 2.3184).

The fourth factor has been labeled as "Reputation factor". Items load positively on this factor are establishment period of the bank (being established be for others), bank's reputation and being a government owned bank. Among the items in this factor, reputation is the highest ranked (mean =2.4279). An implication of this is that customers consider reputation to be an important measurement in their bank selection process.

The fifth factor comprises items related to promotion including advertising services via mass-media, availability of several branches and parking facilities. Hence, these items are considered as promotion strategy. Availability of several branches is the most significant attribute within this factor whereas accessibility of parking space nearby is the least important.

The sixth factor encompasses proximity to home and/ or workplace and security arrangement in which proximity is the most important item with a mean score of 3.6567. This factor may be considered as convenience.

Finally, the seventh factor includes items associated to bank image like pleasant bank atmosphere and external appearance of the bank. Pleasant bank atmosphere is the most important item (3.1592). Here, in the seventh component most of the variables scored the lowest loading (i.e below .4) except that of the pleasant bank

environment. However, it is worth mentioning that among the seven factors reported above, the sixth and the second two factors are characterized by much higher mean importance ratings than the other characteristics, emphasizing the importance of convenience and service provision for bank selection decisions by this market segment.

Recommendation from family and/ or friends is not included in any one of the components (factors) because of lowest score in its loading factor. This implies that customers did not choose banks and banking services depending on suggestion of other peoples rather they select based on other criteria. On the contrary, this factor the first most important factor for commercial bank selection in the study conducted by Anderson et al. (1976) and Kaynak (1991).

Table 4.6 Factor Analysis

Factors and Items	Factor loadings	Eigen Values	% of Variance
Factor 1: Financial benefits/ technology			
Low interest rate on loans	.787	5.667	15.700
Attractive interest within short period of	.784		
High interest rate on savings	.635		
Phone banking facility	.613		
Internet banking facility	.593		
Low service charge	.561		
Factor 2: Service provision			
Good customer services	.831	2.163	10.067
Bank has speedy services	.745		
Reception at the bank	.633		
Variety of services are offered	.417		
Factor 3: Employer's influence			
My employer used the same bank	.651	1.624	8.197
Extended operation hours	.643		
Availability of ATM services	.591		
Factor 4: Reputation			
Establishment time of the bank (oldest)	.695	1.470	7.994
Banks reputation	.633		
Being a government owned bank	.585		
Factor 5: Promotion strategy			
Advertising via mass media	.698	1.221	6.697
Availability of several branches	.546		
Availability of parking space nearby	.511		
Factor 6: Convenience/ security			
Proximity to home and/ or workplace	.792	1.167	5.791
Security arrangement of the bank	.411		
Factor 7: Bank image			
Pleasant bank environment	.778	1.014	5.245
External appearance of the bank	.528		

The average variance explained in the items by a component multiplied by the number of components. An Eigen value of 1 is equivalent to the variance of 1 item. 14 These represent the percentage of total variance in the items explained by a component. This is equivalent to the Eigen value divided by the number of items. The analysis from the above table yielded a seven principal components solution, which together explained more than half of the variance observed in the variables (59.69%), that satisfies the percentage of variance criterion for social science research.

4.5.2 Reliability Test

Reliability refers to the property of a measurement instrument that causes it to give similar results for similar inputs. Mathematically, reliability is defined as the proportion of the variability in the responses to the survey that is the result of differences in the respondents. Thus, to evaluate the internal consistency of each factor group obtained, the factors were subjected to reliability test. The assumption behind this approach is that the items of a measure work collectively as a set and should be competent of independently measuring the same construct. The items should be reliable in what they indicate about the concept being measured. The Cronbach alpha was used to measure internal reliability by unit weighting items with salient loadings in a factor where Cronbach's alpha coefficient at 0.5 or higher was considered acceptable (Mokhlis *et al.*, 2008, 2009). These factors produced alpha coefficients of .833 indicating high internal consistencies and reliability.

4.5.3 Ranking Importance of Bank Selection Factors

In order to analyze differences in the importance of bank selection criteria employed, a ranking table was produced showing the mean score of each factor. Table 9 presents findings with respect to relative importance of bank selection criteria factors.

The top two factors that found in the listing were “convenience/ security” (mean= 3.2513) and “service provision” (mean= 3.1008). The significance of the convenience factor has been seen in previous studies which have used students and other customers as their sample (Schram, 1991; Holstius et al., 1995; Owusu-Frimpong, 1999; Lee and Marlowe, 2003; Dusuki, 2007 and Katircioglu et al., 2011). On the contrary, in the study conducted by Mokhlis et al. (2008), this factor was ranked as fifth factor for the selection of banking services by the customers. Whereas, Almosawi (2001) ranked convenience as second most important factor for bank selection decision in Bahrain customers.

Similar to this study, in Gerrard and Cunningham (2001) study, the service provision factor was ranked third most influential out of seven factors. Whereas, in the study of Mokhlis et al. (2008) this factor was ranked as the fourth most important criterion out of nine factors. The “Employers’ influence” (mean= 2.5937) factor was rated as the third most important decisive factor influencing customers when deciding which bank to patronize. This factor was ranked least (seventh and ninth) important factor in the studies conducted by Gerrard and Cunningham’s (2001) and Mokhlis (2009) respectively.

The “promotion strategy” factor (mean= 2.2604) which involve in advertising the various services offered in banks and availability of several branches, came next in terms of relative importance. This is consistent with the previous findings in the literature (Gerrard and Cunningham, 2001; Mokhlis et al., 2008); Mokhlis, 2009; Katircioglu, 2011). This factor was ranked as the second most important criterion for bank selection decision by the Nigerian and Malaysian customers respectively (Maiyaki, 2011; Abduh, 2010). The “reputation” factor (mean= 2.1841) is ranked as least important by the customers. Likewise, in the previous studies Mokhlis (2009) and Gerrard and Cunningham (2001), this finding was ranked eighth out of the nine factors and sixth of seven factors correspondingly.

Table 4.7 Ranking importance of Bank selection criteria factors

Factor	Mean	Rank
Convenience/Security	3.2513	1
Services Provision	3.1008	2
Employer's Influence	2.5937	3
Bank Image	2.5538	4
Promotion Strategy	2.2604	5
Reputation	2.1841	6
Financial benefits/Technology	1.9544	7

Based on a four-point Likert scale 4 = very important; 1 = not important As opposed to the study by Almosawi (2001) in which technology related facilities and financial benefits ranked as the top most important selecting criteria for banks, in this study, these factors (mean= 1.9544) was found to be the last and least important criteria in selection of banks by the customers. The insignificance of the factors has been seen in previous studies (Anderson et al.,

4.5.5 Ranking of Importance by Occupation and their Explanation

Using the Eigen value greater than one rule, seven factors by the employees and students and eight factors by the businessmen are identified. All characteristics with factor loadings of 0.40 and above were retained. In addition, means are computed for all attributes retained within each factor to identify the relative importance of such attributes to the customers in their bank selection process.

Items falling within factor one mainly include questions like; high interest rate on saving, low internet rate on loans, attractive interest within short period of time and low service charge for both employee and student respondents.

This factor may be reduced to the common denominator “financial benefits” while “technology” related questions such as internet and phone banking facilities were grouped under factor one for businessman respondents. Three items falling within the second factor for employees and businessmen respondents, relate to, reputation of the bank (reputation, being a government owned and the establishment period of the bank). This factor may be identified as “Reputation”. Whereas for students it incorporates items correlated to provision of service (speedy services, reception at the bank, good customer service and variety services offered). Therefore, this factor may be categorized as “service provision”. Items in the third factor were different for all occupation respondents.

Availability of ATM services, internet and phone banking facilities are grouped as “technology” factor for employees whereas items related to “convenience” factor for those student respondents and for the businessman respondents; high interest rate on saving, low interest on loans and attractive interest within short period of time are labeled under the “financial benefit” factor. Factor four includes convenience, technology and bank image factors for employee, student and businessman respondents respectively. Service provision and promotion strategy was integrated under factor five and six for both employees and businessmen respectively while promotion strategy and bank image was for student respondents. Items related to bank image, reputation and secure feelings are labeled as the seventh factor for employee, student and businessman respondents respectively. The eighth factor for businessman respondents was convenience.

The following table clarifies the investigation results of the significance rank of bank selection criteria, with the mean scores for the sample distribution by occupation.

Table 4.8 Ranking importance of Bank selection criteria factors among different occupations

Factor	Employees		Students		Entrepreneurs	
	Mean	Rank	Mean	Rank	Mean	Rank
Convenience/Security	3.3472	1	2.4902	3	3.6705	1
Services Provision	3.1759	2	3.1059	2	2.2557	4
Employer's Influence	3.0833	3	3.0376	1	3.3409	2
Bank Image	2.3889	4	2.0628	5	1.9470	5
Promotion Strategy	2.3380	5	2.0118	7	1.8636	6
Reputation	2.1759	6	2.2392	4	1.4925	7
Financial benefits/Technology	2.0972	7	2.0235	6	2.9546	3

Based on a four-point Likert scale 4 = very important; 1 = not important at all. The most three important factor considered by employees and student customers when selecting a bank are “convenience”, “service provision” and “bank image”. However, convenience factor is the considered as a first choice by employees” hence third most important factor by students and bank image was the most essential factor by students as ranked third by employees. The first two findings of this study are consistent with previous studies (Haron et al., 1994).

On the other hand, businessmen customers considered “bank image” as the second most important factor, while ranking, secure feeling as the third most important factor. “Bank’s atmosphere” is ranked third by employee customers while student customers ranked convenience as their third choice for selecting banking services. This difference might have resulted from the general lack of trust for banks in

Tanzania. Businessman customers tend to rely on secure feelings because they might feel banks are the best alternatives to save their money in a secured manner. The findings of technology as a least important factor in this study is consistent with findings of previous study Cicic et al. (2004) in which the technology related facilities considered as the least important factors when his study compared to the studies in developed countries. Financial benefit, reputation and promotion strategy related items are also considered as the least important criteria by the customers to patronize bank services.

It is interesting that the determinants of the bank selection related to the reputation are not that highly ranked as expected. The “convenience” is the only determinant that is highly ranked by most of the respondents that also leads to the conclusion that the respondents consider the proximity to their home and/ or workplace criterion for selecting banks and banking services.

Based on the above results, we are able to attain a conclusion that the more advanced technologies are so far to acquire embrace in Tanzania to facilitate reduction of the visits to the banks or reduction of personal contacts with the employees of the bank.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The objective of this study was to investigate factors of bank selection decision based on their importance and identify the knowledge and understanding of the bank's decision makers on the determinants for their customer's banks selection in Tanga City Tanzania. To trace such objectives, we used a convenience sampling procedure comprising 201 observations. The sample size used was 200 respondents including students, employees and merchants in the city.

Descriptive analysis revealed that most respondents fall in the age group of below 27 years. Concerning their education, about 32 percent of the sample respondents have attended at least a college. In talking about bank selection by customers, the level of income of the respondents matters more. In this regard, the results show that about 21 and 59 percent of the respondents received a monthly income of less than Tshs 200000/= and 200001/= to 400000/=. This is followed by a very few number of individuals – 33 and 7 respectively – that has an average income of Tshs 400001/= to 700000/= and above 700000/=.

An important issue in dealing with bank selection is to see the affiliation of respondents with the respective bank(s). Results show that about 8 percent of the customers have a less than two year experience of getting service with a particular bank. About 45 percent- have indicated a relationship that lasts for 2 to 4 years. Furthermore, 32 percent and 15 percent of the beneficiaries reports as having a 5 to 7 and more than 7 years affiliation range respectively. We observe that the Commercial Bank of Tanzania, NMB Bank and CRDB Bank are the top most preferred banks by customers. Users frequently choose the two former banks perhaps because of their wider operation and quality of service provision respectively.

Looking at the specific banking services, customers are widely noticed using a saving account, money transfer services and current account. The respective numbers of beneficiaries are about 71 percent, 42 percent and 29 percent across males and females due to convenience, we see that males prefer bank image to service provision. The reverse holds true for female customers in Tanga.

5.2 Recommendations

Based on the findings of the study, we forward the following recommendations.

Customers place more emphasis on factors like convenience, provision, employers' influence and bank image. Therefore, such factors should be considered seriously by the commercial banks in designing their marketing strategies by widening their branches and providing good customers services to customers.

Customers suggest some additional improvements in the banking industry other than the services currently offered. Consequently, focusing on well-integrated application of technology and staff through operations that respond to customer needs encourage customers to use a whole range of banking services rather than just a few. It also helps to build loyalty by creating deeper and fuller customer relationships.

Since the age category below 27 has the most usage and more representation in the sample, banks should target its marketing mix toward this category. Such a technique will ensure attraction of job-market entering people towards bank service and also retention of the people who are likely to remain long-term loyal customers. In addition, banks should try to find out some ways to better familiarize their customers with the borrowing products for customers respectively. Striking, however, is the finding that customers are not using the loan services available across banks. Apart from the current services, clients highlighted some further improvements in the banking industry.

Among others, introduction of internet banking, phone banking, and access to ATM over all branches and inter-branch networking were identified as a key future requirements that banks should fulfill. The factor analysis results revealed that convenience, service provision and employees' influence as fundamental determinants of bank selection, among others. Finally, differences in bank choice are examined from the gender perspective. The finding demonstrates that while there exists no variation

Though about 50% of the customers report as satisfied, banks should keep their customers more satisfied with the services provided. Based on the results of this study, customer satisfaction and loyalty would be increased by focusing on different, but related, factors: bank service processes, including well experienced bank personnel, inter-bank networking and service facilities required conditions for receiving the needed services, internet banking facilities and speed facilities.

Bank management should be aware that some of the bank selection determinants differ from one segment to another in the business firm market. These results would enable bank managers to identify the important bank attributes that affect bank selection decisions made by each segment in the business market in Tanzania. Also, the results indicates some different on ranking important factors between customers and banks managers, therefore, managers should be well informed on what their customers real rank high.

Since the results of this study are based on customers and managers perceptions only, investigating the correspondence between male and females' perceptions could be an important research area among interested future researchers. This will help the industry to better understand whether both male and female have the same perceptions regarding issues relevant to bank selection criteria. In addition, future researches should explore the bank image dimensions which customers perceived as applicable to their selection decision, giving emphasis to the choice between private and public banks in patronage situation.

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APPENDICIES

APPENDIX 1; Questionnaire

This questionnaire is purposed by the researcher to collect information on the factors that influence the choice of banking services in Tanga city. Please provide your few minutes to fill in this questionnaire. Thank you.

1. Gender:

() Male () Female

2. What is your age?

() year old

3. Which Country/State do you come from?

Country/State :

4. What school level have you completed?

() Primary & Secondary school () High School/College () University/Graduate school

5. For how long have you been using banking services?

() Less than 3years

() 3-6 years

() 7-10 years

() More than 10years

6. Are you using the following banking services? (Tick in the appropriate cell)

Banking Services	Yes	No
Current Account		
Savings Account		
Loan Facilities		
Money Transfer Services		
ATM Services		
Internet Banking		

7. If you are the user of banking services are you satisfied?

() Yes, I am satisfied with the current services offered

() No, there is the need for additional services to be offered

8. Do you intend to continue using the current services offered?

() Yes, I intend to continue

() No, I do not intend to continue

9. Indicate in the following table, the level of importance of the criteria you did consider when choosing the bank on a scale of 1 to 5 as follows: 1= unimportant; 2= of little importance; 3= did not even consider; 4= important; 5= very important

	1	2	3	4	5
Factors and Items					
Factor 1: Financial benefits/ technology					
Low interest rate on loans					
Attractive interest within short period of					

High interest rate on savings					
Phone banking facility					
Internet banking facility					
Low service charge					
Factor 2: Service provision					
Good customer services					
Bank has speedy services					
Reception at the bank					
Variety of services are offered					
Factor 3: Employer's influence					
My employer used the same bank					
Extended operation hours					
Availability of ATM services					
Factor 4: Reputation					
Establishment time of the bank (oldest)					
Banks reputation					
Being a government owned bank					
Factor 5: Promotion strategy					
Advertising via mass media					
Availability of several branches					
Availability of parking space nearby					
Factor 6: Convenience/ security					
Proximity to home and/ or workplace					
Security arrangement of the bank					
Factor 7: Bank image					

Pleasant bank environment					
External appearance of the bank					