

# “Islamic marketing as a new marketing trend: an application for determining consumers’ Islamic bank selection criteria”

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## Islamic marketing as a new marketing trend: an application for determining consumers' Islamic bank selection criteria

### Abstract

In recent years, Islamic banks have been preferred more and more by consumers. The purpose of this study is to determine consumer attitudes towards Islamic banks and to examine the criteria which affect consumers' bank selection. In this respect, following criteria are considered for the purpose of this study: transparency in transactions, running on Islamic law & principles, ethical behavior of employees, low service charges, speed & effective transaction, 24 hours ATM services, accessibility of ATM location, provision of interest free loans, bank reputation, ease of opening an account, ATM debit card with no annual fees, pleasant bank atmosphere, fast & efficient counter service, experienced management team, friendliness of bank personnel, accessibility of bank location, number of bank branches, ease of obtaining fund, provision of Islamic products and services, provision of profit sharing in investment products, reception at the bank, Internet banking, recommendation of relatives, Friday banking and recommendation of friends. Analysis shows that, among these, Islamic law & principles is the most effective criterion on consumers' preference of Islamic banks. Although the criterion which have an impact on consumers to choose Islamic banks are important to determine, limited research has conducted in this area. This study also limits itself by considering only the Islamic banks' consumers in Istanbul. Therefore, further research needs to be extended to other cities or to a larger number of consumers. Additionally, further research may be more comprehensive by comparing conventional and Islamic banks with respect to consumers' preferences. Having considered limited number of studies on the criteria which affect consumers' bank choices, and Islamic bank choices more spesifically, this study aims to make an important contribution to the literature.

**Keywords:** Islamic marketing, Islamic banks, consumer attitudes, bank selection criteria.

**JEL Classification:** G21.

### Introduction

Relationship among Islam, consumption and marketing is becoming more and more important day by day (Sandıkçı, 2011). This relationship is significant as the halal marketing value is more than US 2.3 trillion a year (Adnan, 2013). In parallel with this development new marketing trends are created for companies that perform their sales and productions in accordance with Islamic rules. Companies operate in many areas from food to cosmetics and from hospitality to banking by competing to deliver products and services to Muslim consumers who consider religious sensibilities. Banks carry out various functions by providing a variety of products and services to consumers (Ahmad et al., 2010, p. 137). Due to the benefits on economic strength banks have a key role in/for development (Hanif et al., 2012, p. 63) and are considered as the life blood (Qureshi et al., p. 2012) as well as the most important intermediaries and sources in the financial system (Ali et al., 2012).

Islamic banking emerged in a small scale of Egypt in 1963 (Usman and Khan, 2012). This banking system has become an alternative to the conventional banking in nowadays (Abu-Alkheil et al., 2012; Shah et al., 2012). Islamic banks avoid interest and act in accordance with the principles of Islam (Durmuş, 2012). Islamic banking is not a negligible phenomenon (Ariff, 1988) it has been growing rapidly and it has been spreading across the whole world, not only in Muslim but also in non-

Muslim countries (Iqbal and Molyneux, 2005; Khan et al., 2010) based on a growing rate of 2%-15% (Aggarwal et al., 2000).

Islamic banks provide all services to customers as any other conventional banks do (Khan et al., 2010). However, there are some differences between conventional and Islamic banks's operation since Islamic banks apply all activities according to Islamic laws (Moussawi and Obeid, 2011). In this respect, in Islamic banks interest payment in transactions and finance detrimental behaviors such as gambling, alcohol and pornography are prohibited (Abdul-Majid et al., 2010). Islamic banks especially focus on the issue of interest as they believe that money must be used in productive activities and the dividends of bank have to share the barren money (Duran and Garcia-Lopez, 2012).

In this respect, this study analyzes Islamic banking system in Turkey, more particularly consumer attitudes towards Islamic banks and the factors which affect consumers' bank selection behavior.

### 1. Literature review

Many studies can be found in the literature related to Islamic banks. In particular, studies on comparison of Islamic and conventional banks is quite high (Awan, 2009; Ahmad et al., 2010; Khan et al., 2010; Khattak and Rahman, 2010; Hanif et al., 2012; Usman and Khan, 2012). Abedniya and Zaeim (2011) investigated Islamic banks service quality in terms of differences between expectations and perceptions in Malaysia. In the concept of research, the data were collected through 34 self-administered and 62 on-

line survey. Using regression analysis it is found that there is significant difference between customer expectations and perceptions in relation to empathy, compliance, reliability, tangibility, assurance and responsiveness. Abu-Alkheil et al. (2012) aimed to examine efficiency performance of Islamic banks in Britain. For the purpose of the study researchers employ 40 banks and apply data envelopment analysis. They found that Islamic banks are inefficient and also have poor financial performance.

Khan et al. (2010) compared Islamic and conventional banks in terms of performance in Pakistan. The data from 2006 to 2009 are collected from two conventional banks and two Islamic banks. Using financial ratios it is concluded that although Islamic banking is a new phenomenon in Pakistan, they are profitable as well as conventional banks. Likewise, Khan et al. (2010), Awan (2009) and Hanif et al. (2012) compared Islamic and conventional banks in Pakistan. Awan (2009) found that Islamic banks are more profitable than conventional banks. Hanif (2012) in his study the data collected from 22 conventional banks and 5 Islamic banks are used. He stated that in terms of liquidity and profitability conventional banks are in a good situation and in terms of credit risk management and solvency maintenance Islamic banks are in a good situation. Usman and Khan (2012) examined comparative financial performance of Islamic and conventional banks in Pakistan. Researchers stated that Islamic banks have more profitability and liquidity than conventional banks like the results Awan (2009) and Hanif et al. (2012) reached.

Regarding to customers, Khattak and Rahman (2010) investigated Islamic banks' customers and stated that these banks' customers are less satisfied than conventional banks. The reasons of unsatisfaction are that customers have not knowledge about products of Is-

lamic banks and also these banks do not provide efficient products like conventional banks. Qureshi et al. (2012) examine determinants of expected service quality in Pakistan. In the concept of study the data were collected from five conventional banks and five Islamic banks. Researchers found that while there is a relationship between expected service quality and tangibles, responsiveness and assurance for conventional banks, there is a relationship between expected service quality and tangibles, reliability, assurance, responsiveness and empathy for Islamic banks as well. Ahmad et al. (2010) stated that there is stronger relationship between service quality and customer satisfaction for Islamic banks.

Having examined the literature related to consumers' point of view towards Islamic banks, customer profile and causes of selection Islamic banks, less studies can be found (Gerrard and Cunningham, 1997; Almossawi, 2001; Okumuş, 2005; Haque, 2010; Farooq, 2011; Thambiah et al., 2011; Subhani et al., 2012; Thambiah et al., 2012; Khan and Asghar, 2012). Gerrard and Cunningham (1997) stated that Muslims and non-Muslims in Singapore have different attitudes towards Islamic banks. Haque (2010) found that consumers in Malaysia have positive attitudes but males and females attitudes are different towards Islamic banks. Thambiah et al. (2011) in their studies compared rural and urban regions in Malaysia stated that there is a significant difference according to awareness, observability, uncertainty and perceived complexity. Khan and Asghar (2012) examined attitudes towards Islamic banks in Pakistan and found that consumers have positive attitudes because consumers are willing to take products and services of Islamic banks. In terms of banking selection criteria we can see the most important criteria in Table 1. Researchers stated that consumers select Islamic banks according to these criteria.

Table 1. Bank selection criteria

Researchers	Criteria	Country
Okumuş (2005)	Religious based decisions Staff friendliness Efficiency and speed in completing a transaction	Turkey
Farooq (2011)	Adherence to the Islamic principles	Khyber Pakhtunkhwa
Quereshe et al. (2012)	Transparency in transactions Run on Islamic law & principles Ethical behavior of employees Low service charges Speed & efficiency of transactions	Pakistan
Subhani et al. (2012)	High profit & low service charges Religious motives Quality of services	Pakistan
Thambiah et al. (2012)	Relative advantage Promotional efforts Complexity Compatibility Awareness on attributes of Islamic retail banking	Malaysia

## 2. Methodology

### 2.1. Purpose, scope and limitations of the study.

The purpose of this study is to determine consumer attitudes towards Islamic banks and the criteria that effect Islamic bank selection. The main body of the study is 500 consumers of Islamic banks on both side of Istanbul. In this direction, the questionnaires were filled systematically and on a voluntary basis by consumers who get in 3<sup>th</sup> and 7<sup>th</sup> to the bank. Consumers' numbers were chosen from a pouch which contains papers numbered from 1 to 10. In a case where a consumer did not want to fill questionnaire, researchers moved on to the next consumer. Thirty three questionnaires were found not to be correctly completed and therefore, excluded from the analysis. So the sample size is 467.

## 3. Results

Consumers' dispersion related to gender, marital status, education level, monthly net income, age group and occupational group are shown in Table 2.

Table 2. Demographic characteristics of consumers

Gender	Frequency	Percent (%)
Women	172	36.8
Men	295	63.2
Total	467	100
Marital status	Frequency	Percent (%)
Married	242	51.8
Single	191	41.5
Widowed	31	6.6
Total	467	100
Education	Frequency	Percent (%)
Elementary school	65	13.9
High school	177	37.9
University	147	31.5
Master/Doctorate	78	16.7
Total	467	100
Monthly income	Frequency	Percent (%)
750 TL and under	45	9.6
751 TL-1500 TL	92	19.7

1501 TL-2250 TL	106	22.7
2251 TL-3000 TL	94	20.1
3001 TL-3750 TL	78	16.7
3751 TL-4500 TL	52	11.1
Total	467	100
Occupation	Frequency	Percent (%)
Tradesman	94	20.1
Self-employed	83	17.8
Worker	68	14.6
Contracted personnel	61	13.1
Officer	53	11.3
Retired	47	10.1
Housewife	27	5.8
Student	25	5.4
Other	9	1.9
Total	467	100
Age	Frequency	Percent (%)
18-25	82	17.6
26-33	137	29.3
34-41	135	28.9
42-49	70	15.0
50 and above	43	9.2
Total	467	100

As seen in Table 2, 63.2% of consumer are men, 36.8% are women. Also, while 51.8% are married, 41.5% are single and 6.6% are widowed; 37.9% are high school graduates, 31.5% are university graduates, 16.7% are master graduates and 13.9% are elementary school graduates. 22.7% of consumers have between 1501-2250 TL, 20.1% have between 2251-3000 TL, 19.7% have between 751-1500 TL, 16.7% have between 3001-3750 TL, 11.1% have between 3751-4500 TL and 9.6% have 750 TL and under monthly income. 20.1% of consumers are tradesman, 17.8% are self-employed, 14.6% are worker, 13.1% are contracted personnel, 11.3% are officer, 10.1% are retired, 5.8% are housewife, 5.4 % are student and 1.9% are included in others group. Finally, 29.3% of consumers 26-33, 28.9% 34-41, 17.6% 18-25, 15%, 42-49 and 9.2%, are included 50 and above age group.

Table 3. Frequency of the consumer responses for questions about attitudes towards Islamic banks

Questions	Freq.	Percent (%)
Do you agree that if more branches of Islamic banking institutions open up throughout a country, more people will utilize the services provided by these banks?		
(1) Strongly agree	195	41.8
(2) Agree	150	32.1
(3) Disagree	26	5.6
(4) Strongly disagree	52	9.4
(5) Do not know	44	11.1
In case an Islamic bank announced that it had no profit to distribute on investment and savings deposits for any one year, if you were an depositor, would you:		
(1) Keep the deposit at the same or a different Islamic bank, because placing the deposit with a non-Islamic bank contravenes Islamic principles	125	26.8
(2) Withdraw all deposits at once and switch them to one or more banks which guarantee a return	67	14.3
(3) Remain a depositor at the Islamic bank because it could distribute high profits in subsequent years	205	43.9
(4) Consult relatives and neighbors, then decide what to do	29	6.2
(5) I do not know	41	8.8

Table 3 (cont.). Frequency of the consumer responses for questions about attitudes towards Islamic banks

Questions	Freq.	Percent (%)
Do you agree that the granting of interest-free loans by Islamic banks is considered a contribution on the part of the bank to help the community in a just and efficient manner?		
(1) Strongly agree	195	41.8
(2) Agree	136	29.1
(3) Disagree	53	11.3
(4) Strongly disagree	35	7.5
(5) Do not know	48	10.3
If I unexpectedly acquired a substantial sum of money, I would:		
(1) Deposit the money in a commercial bank which guarantees a return in accordance with an interest-based system	43	9.2
(2) Start up a small enterprise or project which would earn profits	109	23.3
(3) Deposit the unexpected sum in an Islamic bank operating in accordance with the profit-loss-sharing system	208	44.5
(4) Purchase a larger house	35	7.5
(5) Exchange my car for a new and luxurious model	72	15.4
Do you agree that the elimination of pre-determined interest rates charged on loans provided for investment projects, housing construction, purchasing cars and financing on the basis of profit-loss-sharing between the bank and the borrower will be advantageous to the borrower.		
(1) Strongly agree	162	34.7
(2) Agree	128	27.4
(3) Disagree	53	11.3
(4) Strongly disagree	44	9.4
(5) Do not know	80	17.1

As seen in Table 3, most of consumers have positive attitudes towards Islamic banks. While most of consumers (73.9%) agreed that having more bank branches encouraged more people for using Islamic bank, only 20.5% of consumers don't agree that more branches means more people. For a situation that Islamic bank can't distribute profit, 43.9% of consumers stated that they remain a depositor at the Islamic bank and 26.8% keep the deposit at the same or different Islamic bank. For question on the granting, although 18.8% consumers don't agree, 70.9% of consumers agree that granting behavior help people. If unexpectedly acquired a sum of money, while 9.2% of consumers deposit the money in an commercial bank, 44.5% of consumers deposit the money in an Islamic bank. And also contrary to 20.7% of the consumers who think that charging loans is not an advantage, most of consumers (62.1%) agree that charging loans is advantageous for borrower.

Table 4. Ranking importance of bank selection criteria

Criteria	Mean	Rate
Run on Islamic law & principles	4.5289	1
Transparency in transactions	4.3597	2
Friendliness of personnel	4.3105	3
Low service charges	4.2848	4
Speed and efficiency of transactions	4.2698	5
Provision of Interest free loans	4.2013	6
Fast & efficient counter services	4.1970	7
Ethical behavior of employees	4.1756	8
ATM debit card with no annual fees	4.1627	9
24 hours ATM services	4.1349	10
Convenience ATM locations	4.0835	11

Ease of opening current account	4.0664	12
Bank reputation	4.0514	13
Pleasant bank atmosphere	4.0257	14
Convenient bank location	3.9979	15
Experienced management team	3.9786	16
Provision of profit sharing investment products	3.9615	17
Provision of Islamic products & services	3.9186	18
Several branches	3.9122	19
Ease of obtaining finance	3.9101	20
Reception of the bank	3.9079	21
Internet banking	3.8844	22
Recommendation of relatives	3.8737	23
Recommendation of friends	3.8415	24
Friday banking	3.7730	25

From Table 4 we can see that the most five important factors for selection Islamic bank are 1 – run on Islamic law & principles, 2 – transparency in transactions, 3 – friendliness of personnel, 4 – low service charges, 5 speed and efficiency of transactions.

## Conclusion and discussion

Banking sector is quite important for consumers and businesses. Banks are considered as life blood because of its important role on economics. Especially in recent years Islamic banking has become an alternative to the conventional banks. People who pay attention to Islamic rules prefer Islamic banks instead of conventional ones. Therefore, selecting and using Islamic banks has become important. In this direction we examined attitudes and bank selection criteria for Islamic banks in Istanbul in this study. Having reviewed responses in relation to attitudes towards Islamic banks, it was found that consumers



have positive attitudes. They tend to use products and services of Islamic banks. They think all of the operations like granting are in favor of the consumer and so they trust these banks. As a consequence, they deposit their money to the Islamic banks even if Islamic banks do not distribute profit.

Different consumers have different criteria for using a bank products and services. One may choose a bank for convenient ATM locations and while the other may choose for low charges. Therefore, this study examines the factors which are important and it was found that factors such as running on Islamic law & principles, transparency in transactions, friendliness of personnel, low service charges and speed & efficiency of transactions have a great influence on consumers'

choice of banks. This is consistent with the findings of Farooq (2011), Subhani et al. (2012), Okumuş (2005) and Queresh et al. (2012). Especially for the factor "Islamic law & principles", although importance rates are different all researchers found that this factor is considerably important for selecting a bank. This result is reasonable because all countries (Turkey, Malaysia, Khyber Pakhtunkhwa and Pakistan) are Muslim and therefore, consumers in these countries may think similarly.

Since customers generally prefer some banks to the others for the reasons highlighted above, banks management should pay attention to factors that have significant effect on the choice of banks.

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