

Thesis
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MARKETING OF BANK SERVICES
TO THE
SAUDI CONSUMER

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DEDICATION

To my wonderful mother, Fatima,
to my loving husband, Raad and
to my daughters Nuha, Lojain and Fatima
who are my inspirations.

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ABSTRACT

Services marketing is a relatively new concept for the banking industry. Intense competition has forced banks to take greater interest in consumer banking. The focus of consumer banking is the provision of retail bank services which meet individual customers' needs. Therefore, bankers need better ways to explore and understand the consumers' market and needs. Banks need to understand the attitudes which affect consumers' evaluation of bank services.

This thesis is concerned with assessing the attitude and marketing practices of Saudi banks and the consumers' attitude towards these banks. A conflict exists between the two parties. Interest is prohibited by Islamic law, however, commercial banks operate on the basis of interest. The views of the bankers and consumers were analysed through questionnaires administered in Jeddah in the summer of 1988. Issues raised include attitude, concept, and marketing approach, usage of and satisfaction with bank services, attitude towards banks and bank interest as well as views on Islamic banking.

While it is shown bankers grasp the concept and practise of marketing, consumers show reluctance and strong negative attitudes to dealing with banks due to the religious factor. It seems Islamic banking is an attractive alternative banking system for Saudi Arabia.

• CHAPTER 1

MARKETING OF SERVICES

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MARKETING OF SERVICES

Introduction

Despite the importance of the service sector to the world economy, service marketing has only recently attracted the attention of marketing academics. As a result there has been an increase in the writings and research covering different aspects of service, such as definition of services, the characteristics of services, the difference between goods and services and the marketing of services. All these issues have given rise to different view points among academics.

On the practical side of marketing in the service sector much research is still needed. The academic experts in marketing need to put their views into practice. This chapter constitutes an overview of marketing of services as follows:

- 1.1 - Aspects of services.
 - 1.1.1 - Importance of services.
 - 1.1.2 - Definition of services.
 - 1.1.3 - Characteristics of services.
 - 1.1.4 - Classification of services.
- 1.2 - Marketing concept for services.
 - 1.2.1 - Services are to be product-like.
 - 1.2.2 - Services are to be service-like.

1.2.3 - Integrated approaches to marketing services.

1.3 - Marketing strategy for services.

1.3.1 - Market segmentation.

1.3.2 - Marketing mix.

1.1 Aspects of Services

In order to gain better insight on the distinction between marketing of products and marketing of services, some aspects of services with regard to its importance, definition, characteristics and classification are discussed below.

1.1.1 Importance of Services

The world economy is shifting towards a service economy. The change towards a service economy is a feature of many developed countries, although the transformation to a service economy has been brought about slowly. The contribution of the service sector to the economy is frequently criticised as being unproductive or an impediment to future economic growth. For example, in the eighteenth century, the Physiocrats made land the most important factor in production. Labour, when applied to land, had the potential of producing a surplus or a net "product". No other industry, namely commerce, transportation or manufacturing, had the potential to produce a surplus, and were therefore regarded as sterile.¹

In dealing with the accumulation of capital, Adam Smith² again made a distinction between productive and unproductive labour. Productive labour such as the work performed by manufacturers produces a value. Unproductive labour, although useful, adds nothing to accumulated value. In the latter category, Smith classified churchmen, lawyers, physicians, musicians etc. He asserted that the production of material goods is just as capable of returning a net income to producers as is agriculture. In contrast he described services as being barren and unproductive. Jean Baptiste Say³ rejected Smith's distinction between productive and unproductive labour. Say was the first to treat goods and services on an equal basis. Alfred Marshall⁴ in his discussion of utilities, treated goods and services as equal. They are both utilities, they both satisfy wants, and both are important factors in determining exchange value. These thoughts are reflected in the recent views of modern economists who emphasise the importance of all economic sectors. The work of A. Fisher, M. Walfe, C. Clark and finally J. Fourastie⁵ stress the contribution of the tertiary sector to employment policies and to economic growth.

Economists have now recognised the importance of the service sector, and because of this it is useful to examine the role of the service sector in the economy.

1.1.1.1 The Importance of the Service Sector to the World Economy

The importance of the service sector to the world economy can be gauged by many economic indicators such as:

- The distribution of the Gross Domestic Product (GDP).
- The distribution of the labour force.

Table 1.1.1.1.1

Structure of production

Distribution of the Gross Domestic Product (GDP) (%) in 1965 compared with 1983 of the World Countries by group.⁶

Percentage of Gross Domestic Product in:

Defined groups of World Countries	Agriculture		Industry		Services	
	1965	1983	1965	1983	1965	1983
Low Income economies	43	37	29	34	28	29
Lower middle income economies	31	22	24	33	45	45
Upper middle income economies	17	11	35	37	49	52
High-income oil exporters	5	2	65	65	30	33
Industrial market	5	3	39	35	56	62

Table 1.1.1.1.1 shows the following points:

- The contribution of the service sector has increased for all but one economic group of World Countries during the period 1965-1983.

- The more the group developed, the higher the contribution of the service sector to the GDP. For example, the service sector constituted 29% of the GDP in the low income economies in 1983, while it constituted 62% of the GDP in the industrial market economies in the same year.

Table 1.1.1.1.2

Distribution of labour force in 1963 and 1981 of world countries by group:

Percentage of Labour Force in:

Defined groups of World Countries	Agriculture		Industry		Services	
	1965	1981	1965	1981	1965	1981
Low Income economies	77	73	9	13	14	15
Lower middle income economies	66	54	13	17	22	29
Upper middle income economies	45	30	21	28	34	42
High-income oil exporters	58	46	15	19	27	35
Industrial market economies	14	6	39	38	48	56

From Table 1.1.1.1.2 the following conclusion may be drawn:

- The percentage of labour working in the service industries has increased in the period 1965-1981.
- The more the group developed economically the higher the percentage of the labour force

become involved in the service sector; for example only 15% of the labour force in the lower-income economies worked in the service sector in 1981, while 56% in the industrial market economies were involved in the service sector.

A general trend in both highly developed and developing countries for an increasing demand for services in the future can be seen.

1.1.2 Definition of Services

In spite of the importance of services to any economy, there are some problems regarding the nature of services, the characteristics of services and the marketing of services which remain controversial. The issue of the nature of the services may be the most important aspect because it helps develop the unique marketing concept and management approach to services.⁸

To begin with, Judd⁹ stated that different approaches have been used in the attempts to define services. These are as follows:

- definition by illustration
- definition by listing
- definition by exclusion

The definition by illustration is always accompanied by a list of examples of services whereas the second type, definition by listing, is accompanied by the

listing of services offered. In 1960, the American Marketing Association cited its definition by listing as "Services - activities, benefits or satisfactions - which are offered for sale, or are provided in connection with the sale of goods".¹⁰ Examples of these are hotel services, transportation, barber and beauty shops, repair and maintenance, credit extension, delivery, etc. This definition of service deriving its meaning by listing is criticised for being incomplete. Since no one has attempted to make a complete list, it may be regarded as imprecise. In our dynamic changing world economy, even definition by illustration becomes outmoded e.g. the services of a chimney sweep are in ever-decreasing demand.

The third approach is definition by exclusion, which is limited to marketed services and stated as follows:

"Marketed services - A market transaction by an enterprise or entrepreneur where the object of the market transaction is other than the transfer of ownership (and title, if any) of a tangible commodity".¹¹ This definition focuses on the division of all service activities, and reveals a three way division: Rented Goods Services, Owned Goods Services and Non-Goods Services. This definition is restrictive because it is based only on the marketing aspect of services and does not include all aspects of services.

1.1.2.1 Definition Based on Characteristics

Rathmell¹² defined services as any intangible product bought and sold in the market place. Uhl and Upah¹³ on the other hand defined service as "any task (work) performed for another, or the provision of any facility, product or activity for another's use and not ownership, which arises from an exchange transaction. It is intangible and incapable of being stored or transported but there may be an accompanying sale of a product".

Finally Quinn and Geagan¹⁴ defined services as follows: "Services are actually all those economic activities in which the primary output is neither a product nor a construction. Value is added to this output by means that can not be inventoried - means like convenience, security, comfort and flexibility and output is consumed when produced."

Along with these three definitions of services, there are other definitions given by Stanton¹⁵ and Kothr¹⁶ which are based also on particular characteristics of services.

In the preceding definitions, there is little agreement on the common characteristics of services except for the matter of tangibility. Rathmell, Uhl and Upah stress intangibility while Quinn and Geagan deal more with the inseparability and the functional aspects of services.

1.1.2.2 Definition Based on Benefit-Providing Services

Eris and Roering¹⁷ stated "neither goods nor services are marketed, what is marketed is a bundle of benefits, often including tangible and intangible aspects". Similarly, Shostack¹⁸ defined services as a benefit-providing or a need-satisfying commodity.

U. Lehtenin¹⁹ argues that the benefit-aspect definition of services does not sufficiently distinguish services and products, since both provide benefits. Modifying this notion U. Lehtenin formulated his own definition based on a combined approach of its characteristics and benefits, "services are a benefit-providing object of transaction that is an abstract activity essentially produced and marketed at the same time as they are consumed".²⁰ An empirical test participated in by ten service experts considered the essentials and the characteristics of Lehtenin's definition as a fair judgement.

1.1.2.3 Definition Based on Consumer Perception

Richard M. Bessom²¹ redefined services from the consumer's point of view as any activity a buyer cannot perform or chooses not to perform himself, hence it is offered for sale and provide benefits or satisfaction to the consumer.

Bessom regards the consumer's perception as the most important aspect. With its marketing implications however, there is no definite demarcation between

product and service so this definition can also be seen as incomplete.

The researcher considers all other definitions incomplete. Uhl and Upah, along with Lehtenin, have emphasised the importance of making a service an object of transaction, whereas the majority of writers have ignored this factor, thereby including all services, even those which are not paid for.

1.1.2.4 Modified Definition of Services

From the consolidation and subsequent discussion of the above-presented definitions, the researcher forwards a modified definition.

Service is a benefit-providing activity which is the object of a transaction, performed for another's use - not to be owned and characterised, to a varying degree as being intangible, perishable, inseparable and heterogeneous.

Explanations of the terms used in this definition are listed below:

- Benefit-providing means that the user is "better off" in some way after the service is performed.
- Activity refers to the physical labour or mental efforts of the service performer.
- The object of transaction means that the service itself is the aim of the transaction and not any physical trappings that may accompany it.
- A service is performed for another's use. Not

owned, means that the purchaser of the service buys the right to use it e.g. machines, a hotel room, according to the specifications of the transaction.

- A service is termed intangible as it lacks physical properties.
- The perishability of services means that the unused capacity of a service producer is lost.
- A service is inseparable because it is produced and consumed simultaneously.
- Heterogeneity refers to the variability of services.

The researcher has qualified the four characteristics of services by stating that they exist to varying degrees. This factor will be discussed in (1.1.3.) Characteristics of Services.

1.1.3 Characteristics of Services

The more commonly stated characteristics of service are the following:

- Intangibility
- Inseparability
- Heterogeneity
- Perishability

It is frequently said that the above characteristics are the delineating factors between services and products. However, these cannot be applied generally or applied uniquely to services. In the following discussion, the researcher establishes the criteria

according to which goods and services differ not in kind but rather in degree in order to justify the definition of services given by the researcher.

1.1.3.1 Intangibility

This characteristic has caused some confusion and argument among marketing academics, some of whom are Shostack²², Lovelock²³, Wyckham et al²⁴, and Foxall²⁵. The benefits derived from owning a car (product) are as intangible as those which come from travelling to Glasgow from Jeddah on a Jumbo 747. Both groups of customers enjoy tangible and intangible rewards. Similarly buyers of life insurance experience the service-tangible "cash" and the things it buys and the intangible "security and peace of mind".

On the contrary, Donald Cowell²⁶ asserts that although the customer may have tangible evidence of the service purchased, this purchase is of course something intangible. In agreement is Bateson²⁷ who suggested that tangibility is the critical characteristic distinguishing products from services.

According to Shostack²⁸ "intangibility is not a modifier, rather it is a state. Intangibles obtained from pure services may come with tangible trappings." A useful example here is the experience of a member of a sports club who uses the facilities but does not own them. They have membership cards as tangible evidence of the service.

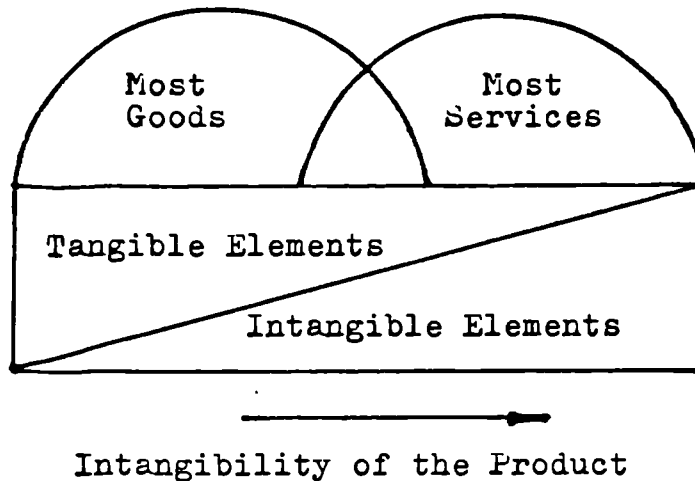
Moreover, attempts have been made to make the service more tangible as Leonard Berry²⁹ exemplified in the development of a specially designed encoded credit card. VISA, DINERS and others have overcome many of the difficulties in marketing the intangible.

The relationship between the intangibilities of service and marketing has been discussed by R.G. Wyckham et al³⁰ who stated that "the intangible nature of services does not seem to create uniqueness in its marketing." Though physical analysis either by tasting, feeling, seeing, hearing or smelling products can be done before any purchase, most consumers cannot judge alone and evaluate correctly the quality of complex products. Similar to services, lots of products are bought based on selections and investigations from previous buyers, friends and professionals rather on the physical analysis of the products.

Shostack³¹ presented the idea that there is a goods continuum with pure goods at one end and pure services at the other with most economic products falling between these two poles. As a corollary to this, Rushton and Carson³² presented an illustration of Product Intangibility, as shown in Figure 1.1.3.1.

Figure 1.1.3.1.1

Product Intangibility³³



Virtually all products have both tangible and intangible characteristics - what differs is the relative proportion of each. As in the figure, products based on goods tend to have more tangible characteristics while products with services tend to be more intangible. For this reason the researcher characterised services as being intangible to varying degrees.

1.1.3.2 Inseparability

Many authors claimed that the inseparability of production and consumption of services makes it distinct from goods. Inseparability means that production and

full or partial consumption of services occur simultaneously. In a restaurant, for example, the meal is consumed simultaneously along with the service of providing the meal.

On the other hand repairing cars, tailoring and building maintenance (i.e. plumbing, electrical, and air-conditioning) are some of the services where the characteristic of inseparability is not applicable. Benefits resulting from repair of a motor car or from repair of a house water tap, or an air conditioner are not enjoyed while the repair takes place and may be consumed over several years. In the same manner, the service being performed by a tailor could not be simultaneously consumed. In the light of these examples, inseparability of services is applicable only to a varying degree.

From the marketing point of view, this inseparability of services from the seller affects the production process. At the time of service production the consumer is involved and is influenced by or influences the production process. This is called buyer-seller interaction and is an important factor in the marketing of services since buyer-seller interaction must be managed as part of the marketing along with other marketing mix activities.³⁴

1.1.3.3 Heterogeneity

In terms of production, homogeneity means precise

standardisation of service output. Because services are performed and always involve a human component, precise standardisation of output is difficult to achieve, and service is always liable to some deviation in performance.

Based on consumer perception, heterogeneity is not a characteristic only of services, since a product or a service is not perceived in the same way by all consumers.³⁵ Furthermore, Foxall³⁶ in his example stated that no one can dissect an apple with absolute certainty and that most motor insurance policies offer practically uniform benefits nowadays.

In recent years however, attempts have been made to reach uniformity in providing services as in the use of automatic teller machines (ATMs). This automation leads to far less variability in bank services rendered than if human tellers were used, unless of course the machine malfunctions.

Consideration of these points has led the researcher to define services as heterogeneous to a varying degree.

From the marketing point of view it seems that heterogeneity does not create a distinctive difference to service marketers. Since buying goods includes the process of selecting from different varieties this leads the salesman to adopt the consumer's needs in the same way that the service producer adopts the consumer's needs in the service rendered.³⁷

1.1.3.4 Perishability

Perishability of services means that services cannot be produced and stocked to meet future demands. This is obvious in the case of unsold airline seats or unattended movie seats which are lost business. In fact, perishability is a characteristic of both services and products. The distinguishing feature however, is the speed of perishability. Physical delay and obsolescence limit the saleable life of products such as unsold doughnuts which some supermarkets destroy at the end of the day. Unsold movie seats are lost revenue for the cinema owners but moviegoers can still pay to buy or rent videotapes of the same movie, and the moviemakers still benefit. In the absence of demand, airline companies may offer unsold seats at reduced prices, or sell them on a stand-by basis just as product providers reduce prices when they suffer from the lack of business. Both have to build their own strategies to match supply and demand. Price differentials, increased consumer involvement, use of part-time employees, and reservations are some methods suggested by Sassar³⁸ for a closer match between supply and demand.

As presented, the researcher is of the opinion that the distinctions between product and services are applicable only to a varying degree. Also it should be borne in mind that there are similarities in kind between products and services. Both distinctions and similarities are equally important in specific cases.

1.1.4 Classification of Services

The preceding discussions reveals that services in general share special characteristics. Since service firms are diverse, a classification scheme is needed. This classification helps gain further insight into services and eases the application of marketing services. Marketing strategy for any firm is uniquely designed according to the firm's particular specifications.³⁹

Many attempts have been made by academics to classify services based on characteristics or other criteria. One such attempt is that of Chase.⁴⁰ He proposed a classification along the lines of customer contact. The level of contact, varying from low to high, is considered the defining feature of all services.

Another classification was proposed by Schmenner.⁴¹ The principle defining features which formed the basis of his classification were the degree of interaction and customisation and the degree of labour intensity. In a similar way to Chase, Schmenner used the ranges of high and low in defining these features. Schmenner stated that there is a general tendency for service firms to become less labour intensive. By way of explaining his classification he constructed a matrix and established that service firms move along the right to left diagonal towards a low level of interaction and customisation, and a low level

of labour intensity. An awareness of this movement will allow a service firm an advantage in marketing strategy. An example of this can be seen in the development of fast food restaurants which are characterised by low interaction and customisation and equally by a low labour intensity.

In view of the many characteristics of services, Lovelock⁴² proposed a classification scheme which was built on factors that affect the way marketing strategy is developed and implemented. He argued that service classification schemes have no value unless they offer strategic marketing insights.

Lovelock's proposed classification is presented in the following:

- The nature of the service act.
- Service directed at things vs service directed to people.
- High contact, low contact or no personal contact.
- Services which include tangible action and services which include intangible action.
- Type of relationship existing between service organisations and their customers.
- Discrete vs continuous relationships between customers and providers.
- Extent of customisation and judgement of services.
- Extent of personnel meeting customers' needs vs

extent to which service characteristics are customised.

- Nature of demand and supply.
- Extent of supply constraints to meet demand fluctuations.
- Service delivery system.
- Multi-site vs single site outlet.
- Customer goes to the service organisation vs the service organisation coming to the customer.
- Service delivered at arm's length.

Lovelock asserted that using a combination of classification schemes would perhaps lead to better marketing insight, rather than simply classifying service organisations on the basis of one variable alone.

Some of the implications for marketing strategies in services drawn from Lovelock's classification are as follows: The level of customer contact has an effect on the service process and delivery system; the delivery of a service on an ongoing basis will have an effect on the pricing; also customisation of a service will affect pricing.

The classifications of services presented in this section are not mutually exclusive, and in some aspects are compatible. Chase, for instance, classified services according to customer contact, a factor which

Lovelock also took into account in the extent of customisation and judgement of services. Lovelock stated that a classification of services must be based on a combination of the various factors of services. In this sense any classification which is built on other factors may still be incorporated into a comprehensive classification, e.g. Kotler⁴³ classified services according to people based and equipment based services, again, a further factor to be considered in classification. Therefore each classification scheme has its own merits.

Based on this assumption, the researcher presents a classification of services based on the characteristics which may apply to the overall classification as discussed.

Academics have identified four basic characteristics of services, each leading to unique problems for marketing services, i.e. intangibility, inseparability, heterogeneity and perishability.

The classification of services and the special strategies for dealing with the marketing problems which arise must be derived from these characteristics. As the characteristics are present in different services to varying degrees the marketer will gain an insight to the appropriate marketing strategy for the service in question, by being aware of this factor. Services are on a continuum according to the characteristics of intangibility, perishability, inseparability and

Table 1.1.4.1

Classification of Services According to Service Characteristics:

Service Characteristics	Extent to which Service Characteristics are Applicable.		
	<u>High</u>	<u>Medium</u>	<u>Low</u>
Intangibility			
Legal		Theatres	Freight Transport
Accounting		Healthcare	Air Travel
Telecommunications		Banking	Car Rental
Security		Restaurant	Fast Food Restau.
Education		Hotels	
Museums			
Perishability			
Security		Education	Freight Transport
Healthcare		Accounting	Air Travel
Legal		Restaurants	Telecommunications
Theatre, Museums		Banking	
Inseparability			
Theatres		Legal	Telecommunications
Museums		Accounting	Security
Restaurants		Healthcare	Broadcasting
Hotels		Banking	
Air Travel		Education	
Freight Transport			
Heterogeneity			
Healthcare		Education (except tutor)	Telecommunications
Legal		Hotels	Broadcasting
Accounting		Banking	Fast Food Restau.
Museums		Theatres	Air Travel
Restaurants			Freight Transport
			Car Rental

heterogeneity, that is to say different services may be characterised according to these elements to a greater or lesser degree.

Services, which to the same extent share the basic characteristics, will have a similar approach to the problems arising from intangibility, perishability, inseparability and heterogeneity.

The table given shows the existence of these characteristics in different services to various degrees. Although there are only three points shown, it must be noted that a service may move along the continuum.

Table 1.1.4.1 lists some examples of the variety of services and their position according to their constituent characteristics. Looking at services which are highly intangible, the marketers of legal services and education would have a similar approach regarding the problems arising from intangibility, such as being aware of the inability to display services and price setting. They may need to rely on word-of-mouth communications and personal selling. At the same time these two services have different levels of perishability. Legal services must be suited to the clients' particular demands, which cannot be done before an initial meeting. However, educators may prepare the content of a course in advance, and to a certain extent store information, e.g. on tapes. The two services would have different strategies to cope with the fluctuating demands.

Inseparability in terms of simultaneous production and consumption means these two services are similar, in

the sense that legal services may be, in the greater part, performed in the absence of the client e.g. case preparation, meeting other parties involved etc. Education, on the other hand, usually involves the performer and the user of the service but it can also take the form of television broadcasts e.g. the Open University.

The customer's role is of utmost importance in all aspects of the service. Regarding heterogeneity education and legal services are on different levels. While legal services are highly heterogeneous since each client's case is different in some way, educational services can be standardised to some extent as the educational system demands. Tutoring, however, caters to an individual's needs and in this respect it has a greater similarity to legal services, by offering a customised service, leading necessarily to different pricing.

A comparison of the services of telecommunications and museums reveals that they are different in every aspect save intangibility. For instance telephone services have a degree of variation. A user may choose to have a telephone which only receives calls, or which has various outlets, or one to make transfer calls but there is generally a low level of heterogeneity in the service. In contrast, museums are quite different from each other, and so are inevitably heterogeneous.

The marketing strategies regarding market

segmentation, pricing, people, product, process, promotion etc. are different except for those aspects affected by intangibility. The telephone services and museums must stress tangible evidence, and strive to create a strong organisational image.

As for banking services the researcher regards them as holding a mid position on the continuum, with respect to the characteristics of intangibility, perishability, inseparability, and heterogeneity. Banks can use tangible evidence which is attached to the production of the service, for example cheque books, cheque guarantee cards. Environmental factors e.g. furnishing and office layout, may also be used as tangible evidence of service quality, and a way in which banks can differentiate their services from those of their competitors. As for perishability, banks may package some services requiring preparation prior to service delivery. This goes some way to reducing both delay and staff and matching supply with demand. New technology such as ATMs, home banking, EFTPOS all help reduce the level of inseparability of bank services. This helps distribute bank services therefore a greater number of customers can be reached.

In addition to using customised services, banks can offer services which are standardised where customer and/or personnel follow predesignated steps. This increases efficiency in service delivery. Banks benefit from occupying a mid position on the continuum while

they tackle different problems arising from the characteristics of services they may select different marketing strategies from general marketing concepts. This concept of service marketing is discussed later.

It must be noted that services may move along the continuum. The researcher considers that this change is due to the way in which the service industry has developed including inter and intra group changes.

The research carried out by Zeithaml, Parasuraman and Berry⁴⁴ supports the classification presented by the researcher.

Their study concluded that the basis of the diversity in service firms is the varying levels of the applicability of characteristics of services.

In this section, the theoretical aspects of services have been discussed. The researcher's opinion is that services are characterised as intangible, perishable, inseparable and heterogenous. These characteristics, however, exist to varying degrees. The extent to which these characteristics exist on a continuum could be used as a basis on which to classify services.

1.2 Marketing Concept for Services

The increasingly competitive service markets are forcing service industries to become more professional in their marketing efforts. Recently, more and more service firms are taking marketing seriously, leading to the development of theories for service marketing.

According to Gronroos⁴⁵ these developments have followed two different paths. The two schools of thought are as follows:

- The first approach calls for services to be offered in a more product-like manner. If this is done existing product marketing theories could be applied.
- The second approach proposes that services are different from products. Therefore marketing concepts and models have to be developed in a more service-like direction.

In this section information and existing data on marketing concepts will be presented separately in accordance with the two schools of thought stated above.

1.2.1 Services are to be Product-Like.

Theodore Levitt⁴⁶ emphasises the point that service industries must seriously and consciously think of themselves as product manufacturers. Otherwise they will continue to suffer from an inappropriate attitude toward their "products" in the following ways:

- Services will be viewed as something secondary to the ultimate economic reality, since products are generally believed to generate more wealth.
- Service will be treated as purely a human task and so will never be regarded in the same way as manufacturing, inevitably leading to failure in generating wealth.

Levitt was of the opinion that the success of MacDonalds lies in its production of foods under highly automated controlled conditions as in a factory.

Levitt's opinion denies the heterogeneity of services which may arise from the customer's choice and needs, personality or cultural differences, and situational differences. Services may not be more product-like because some services are very customised e.g. a doctor does not apply the same treatment for every patient. Training a group of personnel to offer the same service may not be sufficient to create a homogeneous service because of personality differences. MacDonalds in Japan is different from an American MacDonalds mainly because of cultural differences not only of employees but also of the consumers. In Japan, hamburgers may be served with a bow and customers may not want to eat while walking in the streets while in America, it might be normal to eat while walking in the streets. In this case, MacDonalds in Japan may need more space for seating customers.

Wyckham et al⁴⁷ are of the opinion that the suggested four basic characteristics of services are not unique, hence services should be marketed in a more product-like manner. This marketing approach is preferable for Wyckham et al because of the variability of services. They stated that within a service group e.g. hotels, there is a great variation, and there is an equally great variation between service groups e.g.

hotels and hospitals. This high level of variation disallows a simple distinction between products and services, and so any attempted taxonomy of services will be highly complex.

Therefore Wyckham et al recommended the same marketing strategy for products and services. In each instance service offer characteristics and market characteristics must be defined before the development of a marketing strategy. However they do not define the terms of offer characteristics and market characteristics.

Goodfellow⁴⁸ supported Wyckham et al in the call for a complex taxonomy of products and services. This would be based on offer characteristics, market characteristics and the characteristics of the exchange process. In defining the former terms he allied himself with Wyckham et al and defined them as follows:

- Offer characteristics entail the variety of factors used to distinguish products from services i.e. tangibility, perishability, heterogeneity. For products these characteristics are physical features, branding and servicing.
- Market characteristics include the market situation, and the positions of buyers, distributors and manufacturers.
- The characteristics of the exchange process are frequency, duration activity and interaction which effectively add a time dimension, making the

strategy dynamic.

Although Wyckham et al believed that the characteristics of services are not unique, Goodfellow who is of the same view in defining offer characteristics depends on the use of the characteristics of services, i.e. tangibility, perishability, and heterogeneity in setting up a taxonomy for products and services. The result of these views of market and offer characteristics and exchange processes is not an increase in the homogeneity of service i.e. making services more product like but an increase in heterogeneity and therefore a need exists for different marketing.

1.2.2 Services are to be Service-Like

In view of the special characteristics already mentioned, this school of thought calls for services to be marketed differently from products.

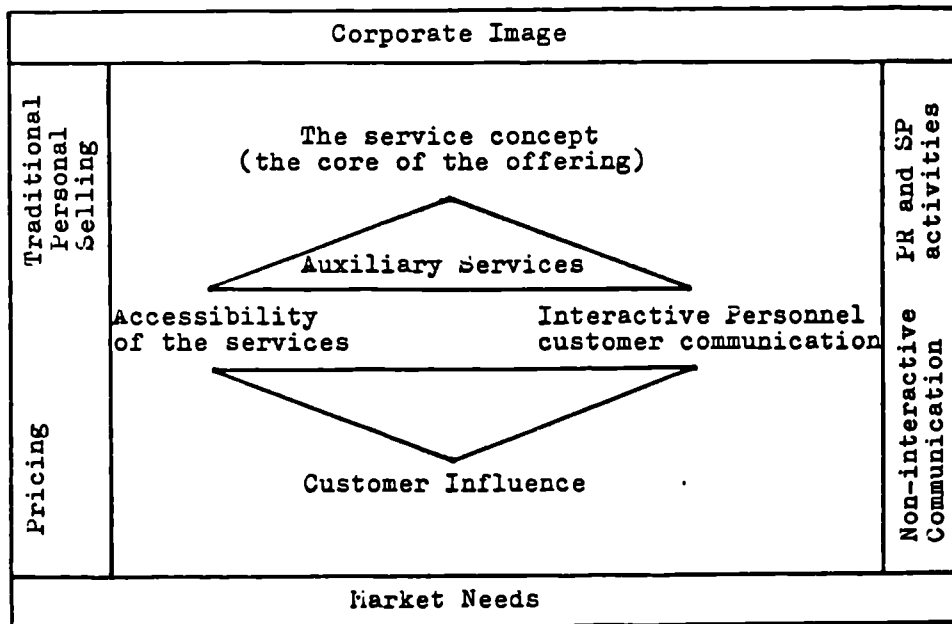
As developed by Leonard Berry⁴⁹, the special characteristics of services present a number of marketing implications. Marketing concepts and tools which may be applicable to both goods and services differ in their importance and in the way they are used in services; accordingly, he suggested the following as strategic marketing opportunities which are of particular importance to services: internal marketing, i.e. selling the job to the employee, service

customisation, managing tangible evidence, making the service tangible and synchronising supply and demand patterns.

Derived from substantial empirical and theoretical research, Gronroos⁵⁰ concept of marketing is geared to the basic characteristics of services, on the service firm's customer relations and on the marketing situation. Accordingly, there seem to be four basic characteristics: physical, intangibility, activity, and production and consumption which happen to some extent simultaneously. He then developed a service marketing model which is shown below.

Figure 1.2.2.1

A Service Marketing Model⁵¹



The central part of the figure shows the interactive marketing variables. These are also the components of

the service offering, which the consumer gets and evaluates.

The service concept is central to the service offering and must be based on the needs or wants of a specified target group of companies, which can, as such, be regarded as intangible. This intangible central point or core is made concrete by developing the four elements of the interactive marketing function: i.e. accessibility, interactive customer/personnel communication, auxiliary services and consumer influence.

Accessibility of the service to the target customer must be developed in such a way as to make it desirable for the buyers while guaranteeing their satisfaction. This could be done by both the use of contact personnel and other physical/technical resources which are often considered as accessibility resources.

The interactive customer/personnel communication concept is important to the service offering since it is usual for buyer/seller interactions to bring about contact between the customer and a representative of the service firm. The manner in which a service representative treats the customer, behaves, and communicates is seen as a critical point in a competitive market.

Auxiliary services are the "extras" which put the service on a par with its competitor. Though they are not necessarily needed in shaping the core service, care

should be taken in removing such "extras" as they usually become an integral part of the service in the mind of the consumers. Examples are the hotel booking and tour arrangements offered by airline companies.

The consumers' influences are twofold, as they participate in the production process and hence have an effect on what they get in return. They have an effect on the company's image as well as on the technical quality and functional quality of the offering. A consumer, for example may tell of time wasted in a long queue waiting to be attended to by a bank teller. Such bad reports may drive other would-be depositors away from the bank.

Lynn Shostack⁵² has the conceptual viewpoint that many insights from product marketing are not directly transferable to the service sector. She postulates that market entities (product versus service) are, in reality, combinations of distinct elements linked together in molecular-like wholes. Moreover, her scale of market entities states that "the greater the weight of intangible elements in a market entity, the greater will be the divergence from product marketing in priorities and approach."⁵³ However, Shostack stressed the importance of people as essential and tangible evidence of a service.

Finally, Bessom⁵⁴ listed the most important differentiating aspects between service marketing and product marketing as follows:

- Localisation of Service Marketing
- Inseparableness of Producer and his Services
- Limited Consumer Choice
- Intangibility of Services and Postdecision Evaluation.

Due to the particular characteristics of services the most important component, for the second school of thought, is seeing people, as both service providers and consumers. This aspect forces service companies to adopt a specific marketing approach. The notion of making a service more product-like is not rejected if it is appropriate for a service, but they do not regard this standpoint as an ideal approach to services. Once a service has been replaced by a product, service marketing is no longer relevant.

There is continuing research into the marketing concept of services, and a considerable amount of what has been written may not be classified under either of the two schools of thought, but rather takes an integrated approach.

1.2.3 Integrated Approach to Marketing of Services

Baker's⁵⁵ marketing overview is concerned primarily with exchange relationships in which the parties in the exchange are seeking to maximise their personal satisfaction. The general marketing functions are then applicable to both services and products while

at a fairly basic level specific marketing functions are sometimes too specific. However, Baker did not define either general marketing functions or the basic level at which they may be applied.

Along with Baker's opinion, Uhl and Upah⁵⁶ stressed that not all services are marketed differently from products. Services are most often marketed like a product when:

- They are dominated by the product component of the market offerings.
- They are of minor significance in a buying decision.

Services are usually marketed differently when:

- They are pure service i.e. haircuts, insurance, and accounting.
- They form part of a product-service hybrid in such a way that they dominate the service-product mix i.e. dinner plus cabaret, repair and maintenance or strongly influence consumers involved in the buying process.

Uhl and Upah's initial distinction seems incorrect. They identify two types of services which they recommend to be marketed as products. The researcher is of the opinion that the object of the transactions in the former type of service is a product and so should be marketed accordingly.

The second set of services Uhl and Upah identify

includes pure services and hybrids, where the service component is dominant. Thus these services should be marketed differently and in this aspect Uhl and Upah ally themselves to the second school of thought.

Cowell⁵⁷ summarises the debate about the differences in that the marketing of services is still developing compared to product marketing. Hence, marketers need to select and adapt from product marketing schemes that are relevant to services. The focus should not only be on the similarities and common factors of product and services marketing but should also be on the supposed differences for some product marketing.

Cowell, unlike Baker, believes that there are no generally applicable marketing functions, only those which may be selected and adapted to suit the marketing of services.

The researcher supports to some extent the approach to marketing services of the second school of thought. This approach capitalises on the distinguishing characteristics of services and the role of service providers and customers. This means tackling different problems to those faced by product marketers. This leads to the selection of different marketing strategies from general marketing concepts. The selection depends not only on the level of heterogeneity but also on the other characteristics of services. In this case the position of the service on the continuums of

heterogeneity, perishability, intangibility, and inseparability should be considered before determining marketing strategies.

1.3 Marketing Strategy For Services

Most academic literature on services focused on the theoretical side of the definition of services, and the difference between goods and service, the characteristics of services. When it comes to the operational side of exploring marketing problems and strategies for services, the literature is limited. Basically, the marketing strategies used for goods and services are the same. However, the procedures of analysis are different. The result of the differences in analysis is the selection and development of marketing strategies.

An appropriate service marketing strategy can be developed dependent on a segmentation of the market, and the formulation of a marketing mix to meet the needs of the target market.

In the light of this statement the following is a discussion of market segmentation and marketing mix. These two aspects will be discussed in opposition to each other.

1.3.1 Market Segmentation

Market segmentation is a decision-making tool for marketing managers to be used in the crucial tasks of

selecting a target market for a specific product or service, and to help in designing the appropriate marketing mix for each segment.

The theory of market segmentation is based on the assumption that consumers differ in their needs, preferences, age, etc. By segmenting these consumers into distinct groups, the marketing personnel can serve the need of each segment more efficiently.

Baker's concept of market segmentation is that "market segmentation rests upon recognition of a different demand for a product, while its use as a marketing tool depends on identification of the most appropriate variable or variables with which to subdivide total demand into economically viable segments".⁵⁸

By capitalising on market segmentation, marketers could differentiate their products or services to appeal to different segments of the consumer market.

As has been previously stated services are more differentiated in general than products so market segmentation is of a greater necessity in the service sector. According to Kotler⁵⁹ market segments should meet the following criteria:

- **Measurability:** The ability to determine the boundaries of each market segment.
- **Accessibility:** The extent to which the segment can be reached and served.
- **Substantiality:** The market segment is large enough

to be served.

- **Actionability:** The degree to which effective programmes can be formulated for attracting and serving the segments.

There is no apparent difference between the product sector and the service sector as far as these four factors are concerned. However, due to a great variation in people's needs for service, some service firms may not be able to segment the market properly due to difficulty in effectively utilising the four criteria. Therefore, the firm concerned may utilise mass marketing, and not segment the market, which is more difficult for the service firm.

1.3.1.1 Basis for Market Segmentation

There are many ways to segment a market. The main bases for segmentation are geographic, demographic, psychographic, and behaviouristic.

Additional areas for market segmentation include image segmentation, benefit segmentation, usage incidence or status or rate segmentation, and loyalty segmentation.⁶⁰

Basically, all of these market segmentation bases are applicable to products and services. However, Morden⁶¹ proposed two broad bases: Firstly, customer/user characteristics, and secondly, product-based segmentation:

- Customer/user characteristics

This is where customers are segmented according to their demographic differences, occupations, income level, life-style, social class etc.

According to this base, segmenting the market for leisure service by local authorities can be cited as an example.

Yorke⁶², stated that local authorities and private firms compete for the consumer's time and money and at the same time, local authorities have limited resources to meet multiple and conflicting demands. The best way to pursue their objective and meet the leisure needs of the community is to segment the market.

A multi-variable demographic segmentation was used by combining three variables: stage in family life-cycle, employment, and neighbourhood type. Each variable can be subdivided into a number of levels e.g. 6, 4, 12 respectively. The result is a three dimensional grid with 264 (6x4x12) distinct segments. In this way, the community is divided into meaningful groups who have different needs and different ways of reaching them have to be utilised. Being customer oriented, local authorities can direct their resources to serve chosen segments, and by being flexible, they can switch their resources from one task to another to meet the needs of different market segments.

- Product-based segmentation

In this approach the consumers/users themselves make the distinction between brands and products. This is dependent upon the usage contexts which dictate the benefits people seek in consuming a given product. This basis for market segmentation classifies buyers according to the different benefits they want from the product, and thus defines the segment by customer perceptions of what is required, or desirable in that product. Here there is a causal relationship which defines the market segment rather than the descriptive factors of demography, income etc., although these factors may be related to customer perception.

By studying the specific demand and usage perceptions of the firm's customer, the firm shapes its asset resources, financial resources, capacity planning and innovation. The company's organisational structure can meet customer demands and the demands of customers "down the line" who are also a part of the segment.

An example of a company which has shaped its service offer in terms of the benefits to customer is cited by Nykiel.⁶³ The research of a marketing company Yankelovich et al showed that a leading hotel company offered two types of "escape weekends". The first type projected the benefits for those seeking a honeymoon. Accordingly, the

honeymooners were given rooms in a quiet section of the hotel. The second type of `escape` catered for families with children who sought an activity type of weekend and these guests were accommodated near games, t.v. areas, and family-oriented activities.

1.3.1.2 Methods and Modelling of Market Segmentation

The methods and modelling used to segment the market in manufacturing industries are also available to the service sector, such as: multiple regression and discriminative analysis, Automatic Interaction Detection (AID), Multi-dimensional Scaling (MDS), Conjoint analysis, Compensational segmentation and POSSE.

To summarise, market segmentation is very important for services, especially for those firms who are not big enough to mass-market their services. Also, the consumers are requiring more differentiated services to satisfy all their needs. For instance a consumer may eat lunch at a self-service restaurant, go to a restaurant with table service for an evening meal, and eat at a nightclub at the weekend. Under the assumption that the market is changing and dynamic, service firms must constantly review their market segments and continually find ways to expand services into previously untried segments.

1.3.2 Marketing Mix

A marketing mix can be defined as "the mixture of

controllable marketing variables that the firm uses to pursue the sought level of sales in the target market".⁶⁴

A marketing mix is considered an essential component in any marketing strategy.

Since the firm has some control over the elements of a marketing mix, by modifying one or more marketing mix elements, the firm can stimulate sales, or gain an edge on competitors.

Marketing managers have to consider four market forces which have a bearing on the marketing mix, namely, consumers' buying behaviour, the trade's behaviour, competitors' behaviour, and government behaviour. These factors determine the behaviour of individuals and groups in every aspect of life.⁶⁵

Borden's⁶⁶ marketing mix for manufacturing firms employs the following elements: product, price, branding, channels of distribution, personal selling, advertising, promotion, packaging, display, servicing, physical handling, and fact finding and analysis.

Depending on how far one wishes to go into the classification of a marketing mix, the elements can be modified. The most popular modification of Borden's marketing mix is McCarthy's⁶⁷ '4P's' which includes product, price, place, and promotion.

Due to the special characteristics of services, Magrath⁶⁸ asserted that service firms should consider adding three more 'P's' to the above, namely, personnel,

physical facilities and process management. He considers these added elements interconnected and representative of vital marketing elements in the management of services.

An important factor was cited by Cowell⁶⁹ who believes that a service revised marketing mix was originally adopted from Booms and Bitner's marketing mix framework. The reasons behind the need for revised marketing for services according to Cowell are:

- The original marketing mix was developed for manufacturing companies.
- Marketing practitioners in services find the marketing mix may not be comprehensive enough for their needs.

The following is a discussion of each element of the service marketing mix namely, product, price, promotion, place, people, physical evidence, and process, emphasising the way in which they differ from a manufacturer's marketing mix. For a successful marketing strategy, each element should be evaluated in the light of the other.

1.3.2.1 Product

A product can be defined as "the total package of benefits the customer receives when he buys".⁷⁰

The service firm's decision on the product part of the service depends mainly on consideration of four

aspects:

- The service offer
- The service delivery system
- The service quality
- The productivity of the service firm

Yet these aspects are related and interact with each other, for instance, developing an automated service process to raise the productivity, has an impact on the quality of the service rendered. It also affects the delivery system, the time needed to produce the service, and as a whole the nature of the service offered. The change in the service caused by this interaction may be met with customer resistance.

Lovelock and Young⁷¹ explored the issue of a customers' sensitivity to changes in services, bearing in mind that the introductory period is crucial in attracting customers and persuading them to try a new service. They suggested steps to be adopted by the providers of services to avoid sensitivity to the consumer when changes in the services occurred. Some of these steps are:

- to identify what factors make the customer act as he does.
- to list new procedures and equipment which should be carried out before releasing a new service to the customer.

- to educate the customer to enable him to make proper use of a new service innovation.
- to put forward the advantages of a new service, encouraging the customer to try it.

Customer resistance to change in a service product should not deter any changes. In fact marketing managers should look at this issue and prepare customers for any probable changes to insure their acceptance in most cases.

1.3.2.1.1 The Service Offer

Decisions on service offers are concerned with what will be produced, when, how, and where services will be provided, and who will provide them.⁷²

For instance the service offer for a bank loan is regarded as the efficiency of handling the transaction, the speed of performing the paper work, the responsiveness to the customer inquiries, the subtlety and the appearance of the bank personnel. So the service offer includes the decisions on service elements, service forms and service level.⁷³

Determining the element, level and forms of services does not, of necessity, mean the service will be provided in the same way by every service provider.

Levitt⁷⁴ rejected the presumption that services are less differentiated than consumer products. He

argued that the opposite is true, so therefore, when services are undifferentiated, the service offer makes the difference.

In fact, some services are more differentiated than products because of the human involvement. Leaving services to individual talents and managing them on an individual basis would create a differentiable service that is designed specially for each customer, but it could include a risk of not being able to respond quickly to market needs.

Shostack⁷⁵ argued that the main reason for the service failure to respond to market needs is not the human incapability of performing the service, but the absence of a systematic method for designing and controlling the service. Services need a non-subjective and quantifiable detailed design for each step in the service process. To maintain quality and uniformity of services, Shostack projected a generalised and simplified blueprint for service design which includes:⁷⁶

- Identifying components and sub-components for each step, and mapping the service process.
- Identifying suspect points and building in a fail-safe measure.
- Developing a standard time frame allowing for a deviation from standard execution time.
- Analysing profitability with respect to time spent in performing the service - any delay could affect

profit.

Levitt⁷⁷ upheld Shostack's contention. He is of the opinion that manufacturing success is attributable to technocratic thinking. Service executives should stop thinking of themselves as being in servitude, rather they should consider themselves as manufacturers in the field.

By applying a manufacturing approach, services can give the same level of attention to the process, establish quality control, and new technology will be introduced to services where possible.

It can be concluded from Levitt's writings,⁷⁸ that the way a company manages its marketing can become the most powerful form of differentiation and that is why some companies in the same industry differ from each other.

The researcher agrees with the concept of a planned and controlled design for services, at the same time one which is flexible to meet the customers' specifications.

1.3.2.1.2 Service Delivery System

The delivery of service is an activity where production and consumption overlap.⁷⁹

A service is an integrated product since its components of product performance and delivery are inseparable. This factor differentiates service from a tangible product since manufacture and delivery in this

case are usually separable.

Whether or not the production and consumption of a service are simultaneous, the nature of the service affects the delivery system and vice versa. For example, switching from a full-service petrol station to a self-service one affects the process of performing the service and the delivery of the service. In the self-service station, the customer is fully involved in the production process. The delivery of the service is affected by the customer's ability to perform the service, the presence of the service personnel who can offer help to perform the service, and by the presence of other customers who can also help. So the key elements of many service deliveries are the people, both the customer and the service personnel and the equipment and facilities involved in the service delivery.

According to Lovelock⁸⁰ delivery systems could be grouped as follows:

- The customer goes to the service organisation. Hence service facilities and personnel form an important part of the service production, e.g. visiting the dentist.
- The organisation comes to the customer. In this case the target of service is an immovable item, e.g. "building repair".
- The customer and the organisation transact through the medium of people or machines. In this instance there is a low level of interaction between the

customer and the service firm, e.g. photo-booths and ATMs.

Lovelock stated that if the management knows which of the above mentioned groupings the firm falls into they can design a delivery strategy to make the customer satisfied. To ease service delivery the role of management is to change the service where appropriate from high contact with the customer to low contact or even to manufactured goods which aims for a more convenient service delivery. For example: educational services can be delivered by means of books, cassettes and videotapes which can be sold as manufactured goods. Also, educational services can be delivered through the use of electronic communications, T.V., a two-way communication system, e.g. close circuit television.

In summary, the means of service delivery is determined by customer satisfaction. Ultimately a low level of customer/service provider contact is desirable to ease the delivery of the service in question. Some services, nevertheless, require a high level of personnel/customer contact e.g. a high class restaurant.

1.3.2.1.3 Quality of Services

Philip Grosby defined quality as "conformance to specifications"⁸¹ while Eiglier and Langeard argued that "a good quality service is one that satisfies the customer."⁸²

Since services are to some extent labour intensive, maintaining a high quality level for services is not easy, and any attempt to operate at lower costs may result in a lower quality level which means a loss of prestige.

There are three principal schools of thought with regards to how customers evaluate quality:⁸³

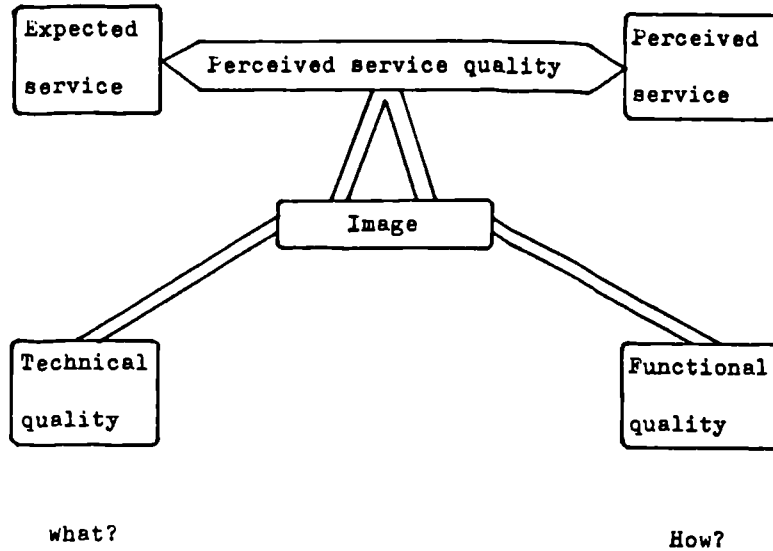
- service quality is indicated by the physical environment i.e. tangible elements associated with the service offering.
- service quality is shown by the attitude, behaviour, and performance of contact personnel.
- service quality is derived in terms of the degree of customer satisfaction.

Since most of the published work on product quality is applicable to manufactured goods, only a few models have been developed to explain service quality.

Gronroos,⁸⁴ in his model, distinguished between expected services and perceived services. He stated that service quality can not be developed unless it is defined how service quality is perceived and in what way service quality is influenced.

Figure 1.3.2.1.3.1

The service quality model.⁸⁵



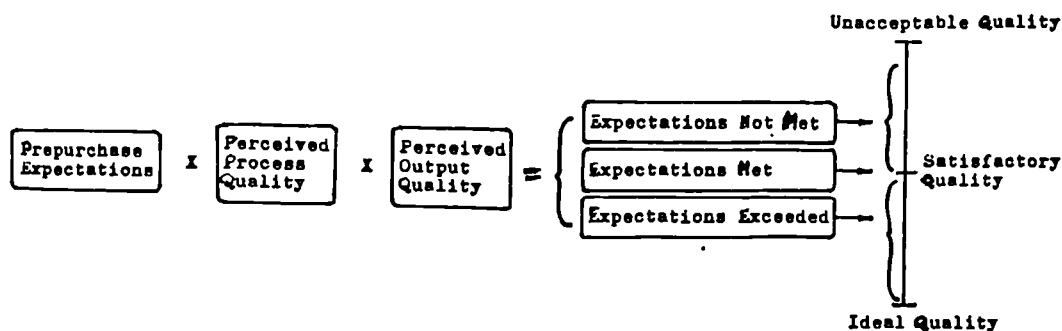
The model as shown in the above figure, shows that service quality is an outcome of a customer comparison between the expected service and the perceived service. An expected service (promise) is the image formed in the customer's mind through the traditional marketing activities (advertising, field selling, PR, etc.), and the external influences of tradition, ideology and word-of mouth. Perceived services which can be looked on as (performance) are the outcomes of the evaluation of the service process. The perceived service is of a technical and a functional nature. When a perceived

service is compared to an expected service the result is the perceived service quality. Gronroos, added a third quality dimension: corporate image, which is created by the functional quality, and the technical quality, which is carried out through traditional marketing activities.

Berry, Zeithaml and Parasuraman⁸⁶ developed a continuum for perceived service quality, ranging from unacceptable quality to ideal quality as shown in the figure below.

Figure 1.3.2.1.3.2

Continuum of perceived service quality.⁸⁷



This model is consistent with Gronroos's service quality model in that service quality is the outcome of a two way comparison between expectations prior to perceiving the services and the actual experience of the services. In the model, Berry et al argue that if the perceived process quality fits prepurchase expectations,

perceived service quality is satisfactory. If expectations are not fulfilled, an unacceptable quality is perceived then the customer is not satisfied. If perceived services exceed expectations, the customer perceives ideal quality and consequently is more than satisfied.

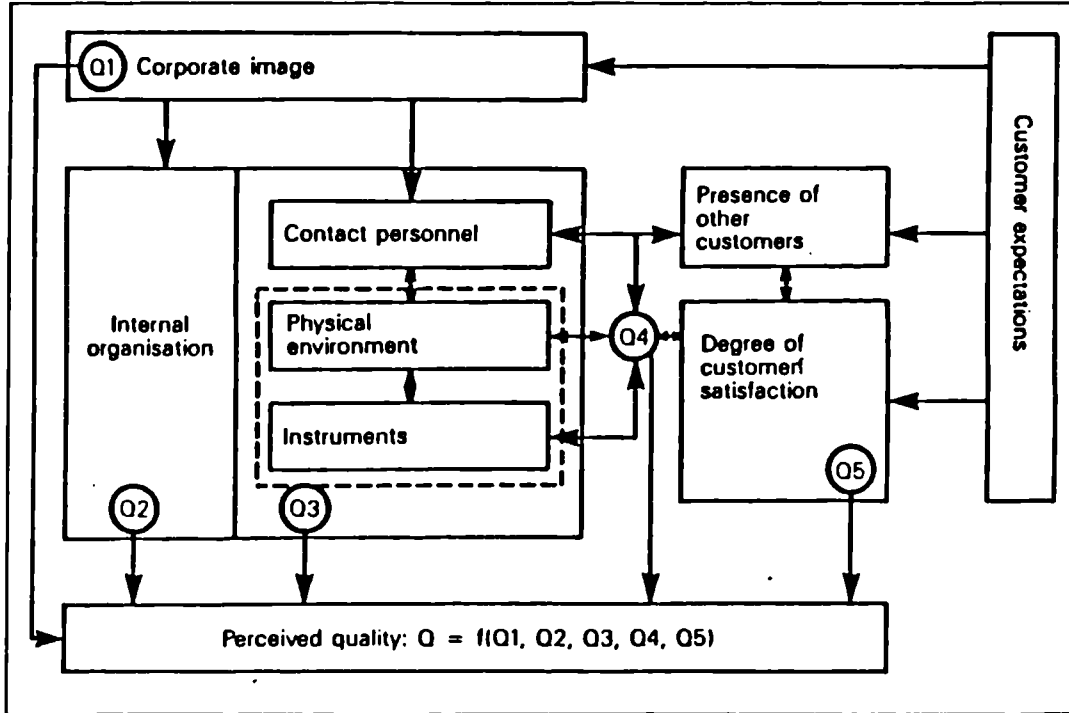
In other research conducted by Parasuraman, Zeithaml and Berry⁸⁸, the authors named ten dimensions that customers use in forming expectations about the perceived services. These dimensions are, reliability, responsiveness, competence, access, communication, credibility, security, courtesy, understanding customers and tangible evidence.

The third model developed by Le Blanc and Nha Nguyen⁸⁹ is based on certain characteristics integrating tangible and intangible elements of services. These characteristics include five quality components namely: corporate image, internal organization, (instruments and staff that are not visible to customers) physical support of the service producing system, customer/staff interaction and the degree of customer satisfaction.

The figure below shows that the perceived quality is a function of the five main components of service quality that managers should include in the design and control of the service offering.

Figure 1.3.2.1.3.3

A Conceptual Model of Service Quality⁹⁰



The above models present different criteria for evaluating service quality. To improve service quality, many ways are suggested:⁹¹

- Manipulating customer expectations to avoid promising too much to the customer.
- Managing the physical facilities e.g., equipment and appearance of service personnel, to give a good impression of service quality.
- Educating customers as to when and how to perform

the service could lead to a better service quality. Also, making the firm's policy clear could reduce customer disappointment.

- Developing a quality culture within the service providers' organisation and establishing standards among personnel, so that quality is valued.
- Making sure the equipment and physical appearance fit the desired service quality level.
- Introducing an automated system, where it is possible to substitute for human effort can stabilise the service quality.
- Following up customer satisfaction after the service has been performed can help to discover any service process stages that may need improvement.

1.3.2.1.4 Productivity of the Service Firms

As stated before, developed economies are shifting towards service economies. At the same time the developing countries are moving towards manufacturing. This means that advanced nations have a low productivity, labour intensive economy, and developing countries are establishing mass-production efficiency. Need it be said, the result is that some developed countries will be left behind unless the productivity of their service economies is increased to match that increase in manufacturing productivity.⁹² Consequently, service firms are facing pressure to raise their productivity and efficiency.

The element of the components of the service process which include the service personnel as well as the consumer, along with simultaneous production and consumption can cause difficulties if there is an effort made to heighten the productivity of the service firm. The customer for instance, should be considered carefully because without customer cooperation, any method used to raise service productivity would not be successful.

Many authors have proposed different avenues for raising service productivity. Levitt⁹³ for instance, proposed a way of raising the productivity of the service firms by altering the process of the service itself. He stated that "the concept of industrialisation of service once it entered our minds, can generate liberating new solutions to intractable old problems. It can bring to the increasingly service-dominated economies of the future the same kind of vaulting advances in productivity and living standards as the newly created goods-producing factory economies brought to the world in the past".⁹⁴ Levitt also supported raising the productivity of the service firm through specialisation which can take the form of a small range of services rather than squandering their resources on too many ranges without having market identity.

Kotler and Bloom⁹⁵ expanded on the role of service providers to improve productivity, by having service

personnel work harder or more skillfully, for the same pay, and by imposing more training programmes to raise their productivity. They also suggested that service firms can increase the quantity of the service offered at the expense of quality. The first recommendation would be hard to enforce and the last would be to the detriment of the service firm itself. The only useful recommendation Kotler and Bloom made is for the initiation of training programmes.

Other authors looked at the consumer as a means of increasing productivity of the service firms. This could be achieved through changing the consumer's expectations and behaviour and to some extent increasing customer involvement in the service process.⁹⁶

Blois⁹⁷ mentioned several methods of raising the productivity of service firms. Some of these methods are:

- Varying the range of services offered by dropping any non-profitable services without increasing staff.
- Making proper use of trained staff by allowing less well-trained staff to perform parts of the service as in hospitals.
- Changing the nature of demand to match supply more effectively.

In summary, many methods can be used to raise the productivity of the services, but the cooperation of the

customer is crucial to all of them.

The following is a summary of the guidelines service firms should follow as part of their product strategy:

- The need to take more into account the customer's views.
- Customers should have greater involvement in the production of the service.
- Since methods of raising productivity, and improving quality have an impact on the customer's perception of the service, customers should be prepared for any change in the service. This can be done by educating them about the benefits they get from imposing specific changes on the service, and educating them to perform their part of the service production properly.
- Manage customer expectations. This means that the service firm should not overpromise, and fail to fulfill the customers expectations.
- Survey clients to find out about how the quality level is perceived. Research is advisable in order to discover the service quality that fits the market.
- Develop a service design that is quantifiable and evaluate profit with respect to cost and time spent in the performance of the service.
- Replace service personnel with machines where

possible. This step leads to a more uniform and reliable service.

- Develop an appropriate measure of quality and productivity for services. In this case the customer should be the focus of any measure used, since this has an impact on the customer's perception of the service itself.

1.3.2.2 Price

Setting prices can be considered a very challenging task for service firms. This is due to the following reasons:

- The intangible nature of services means that the quality of service could be more variable than the quality of product, so there is more room for price discrepancy.
- The inseparability of service from its provider restricts customers to a certain area therefore, in some areas, customers may be overcharged.
- The characteristic of perishability does not allow service firms to stock the unsold services. This may lead to a lowering of the prices occasionally by providing for example, standby plane seats or theatre seats.
- Since "price can be a confidence builder"⁹⁸, customers usually associate high prices with good quality. If service firms set low prices

their potential clientele may perceive this as an indication of low quality service.

- Since customers are unable to foresee the benefit of a particular service, there is a danger that they may refrain from purchasing the service at the price set, in this sense lower-priced service may be more attractive.
- Some customers negotiate the price after having received a particular service without getting the information of the price in advance.⁹⁹

1.3.2.2.1 Developing a Price Setting Strategy

In developing a price setting strategy, service firms have to decide on how high or low they want to price their services. This strategic option depends mainly on the objectives of the service firm, the customer perception of the prices and the market forces. Each of these factors is discussed below:

- Company's Objectives

The company's objectives determines the pricing strategy. For example, service firms who are trying to penetrate the market, or even capture a large share of the market should set relatively low prices. Low prices are also acceptable if the service firm is aiming for a satisfactory rate of return. If a service firm follows the market skimming objective it charges higher prices. Here

the service buyers are ready to pay a relatively high price because of the positive attributes of the service.¹⁰⁰

- Customers' Perception of Price

Shapiro and Jackson¹⁰¹ believe that the perceived value of services by customers should affect the firm's price strategy. The firm sets its prices according to the highest prices customers are willing to pay. In this case, the firm should recognise the customer's perception of benefits gained from the use of the product, and the highest price the customer is willing to pay.

- Market Forces

Market forces include the following: economic conditions, level of demand, elasticity of demand, competitors' prices, costs and overheads, life cycle of the service, and government and institutional regulations. The price charged depends upon what the market will bear.¹⁰²

1.3.2.2.2 Methods of Determining Prices

Methods used by manufacturing firms to determine the prices of their products can also be used by service firms. The pricing of services is harder than the pricing of goods because of the expectations of differences in quality from different suppliers of

services. Also, because there is more personal risk involved in buying a lower quality service than a lower quality product e.g. the variation in hotels.¹⁰³

The three principle methods of pricing are discussed below:¹⁰⁴

- Cost-Oriented Method

The price includes calculated variable costs, plus a mark up which covers the overhead costs and a level of profit. Formulas exist to calculate different types of markups.

This method is distinguished by its simplicity, so service providers can explain the basis behind setting the final price.

- Demand-Oriented Method

The service firm examines its clients' perception of the appropriate price, their loyalty to the firm, their finances, and their knowledge of consultants' fees. The result is the firm charges different clients different prices depending on the level of care and any special arrangements. This method gives the customer the opportunity of trading off prices with the level of service.

- Competitor-Oriented Method

The competitor-oriented method includes a review of the competitors' price before determining

the firm's price. Thus the firm needs to have complete information about competitors' prices. By this method the firm either accepts the ongoing rate or charges different prices.

Service firms can use whatever method suit their objectives.¹⁰⁵ For example, firms with satisfying objectives tend to use the cost-oriented method, while the demand-oriented method is used by firms which have a skimming objective. The competitor-oriented method of pricing is mostly used by firms employing the penetration objective.

Below is a summary of the guidelines service firms may consider in setting their prices.

- Prices should correspond to the quality of service. In fact, setting high prices for low quality service would work against the service firm.
- There must be a clear list of prices made available to the customer.
- Service firms can adopt a policy of offering estimates of their prices to the customer where relevant.
- A service firm which provides an emergency service like plumbing, should have a clear policy of prices for normal and urgent cases.
- Service firms should be aware of the fact that the high prices could be conceived by the customer as an indication of high quality service. Therefore,

service firms should provide customers with more information about the prices and quality of service.

- Service firms abide by government regulations, self-imposed regulations and their social responsibility in setting prices.

1.3.2.3 Promotion

Service firms can utilise all the elements of a traditional promotional mix but they may differ in their methods and techniques of applying promotional strategy. As in product, the difference lies in the importance of each element, and the purpose for which each element is used.¹⁰⁶ For example, personal selling is considered the keystone of service promotion because buyers of services cannot evaluate the risk which may arise in their buying decisions. Therefore, they rely to an extent on the experience of others. Consequently, service providers may have to capitalise on word-of-mouth as a means of promotion more than manufacturers, although this is not a tangible means of promotion.

It must be noted that service promotions may be harder to carry out by comparison to packaged goods promotions because they are time-consuming, expensive and it is difficult to communicate their existence to consumers.¹⁰⁷

The traditional promotion mix consists of advertising, personal selling, publicity and sales

promotion. These elements are interrelated. Therefore, service firms should direct their policy to utilise the promotional mix in such a way as to maximise its benefits with the lowest possible cost. Overuse of any of these promotional tools may be detrimental to the service firms and therefore must be used with caution.

What follows is a discussion of each element of the promotional mix.

1.3.2.3.1 Advertising

The extent of advertising utilisation differs according to the nature of a product, for example, when a product is highly standardised, advertising is expected to play a minor role. On the other hand, when products are highly differentiated, advertising should play a major role.¹⁰⁸

Since services are often highly differentiated, advertising should play an important role in marketing services.

Until recently, some service firms especially professional practitioners did not utilise the role of advertising to promote their business effectively. This may be attributed to the following reasons:

- Consumers are not accustomed to the advertising of professional services, e.g. advertising doctors, lawyers, and dentists, might indicate a lack of competence. "If the firm is so good, it should not need to advertise",¹⁰⁹ is a common belief.

- Government regulations and professional associations in many countries restrict advertising of many professional services. Although some of these regulations have been removed, some service firms still have negative attitudes towards advertisements especially those who have practiced in a service occupation for a long period of time.¹¹⁰
- Many professional services are limited by smallness, as a result of their size, they cannot afford the cost of advertising.¹¹¹

In response to the change of practitioner/client ratios, professionals became more enthusiastic about advertisement. Accountants appear to be the most disposed to accept advertisement as a means of promoting their practice.¹¹²

Based on the special characteristics of services, a consideration of the following guidelines may be useful in the design of advertising.

- Advertising should be directed not at customers only, but also towards employees in order to influence and educate them to better serve the customer.¹¹³
- Tangible evidence should be associated with the service ads. This helps in giving a good impression of the service itself and reduces the element of risk in the customer's buying decision, e.g. using an umbrella or a blanket in some insurance companies

advertisements implies that the customer is fully covered by the insurance policy.

- Advertising messages must only promise what can be offered, because raising the expectations of the customer without being able to satisfy these expectations leads to customer disappointment.
- Advertising may be used to give the customer information about the service, and maintain his cooperation in the service production process.
- Generally speaking, continuity is important in advertising. It is particularly important in service advertising as it implies a continuity in service quality, and should constitute the continual use of a symbol, a theme, or a certain format to reinforce the desired image. Continuity in advertising can overcome the intangible nature of service, especially if tangible clues are provided in the advertisements.¹¹⁴

1.3.2.3.2 Personal Selling

Personal selling is considered the most important element of the promotional mix because it is easier to encourage the customer directly or indirectly to continue using the service, and to recommend it to others. Since customer satisfaction is influenced by the attitude and personality of the salesperson, the customer is likely to be influenced more by personal recommendations than by advertising. For example

advertising and even the quality of service can be ruined in a restaurant if the waiter is rude.

Service firms should be selective in hiring employees and provide suitable training and recognisable qualifications.

The problem, as identified by Lovelock,¹¹⁵ facing service firms is when people who perform the service are not qualified or are not willing to perform the sales transaction. However, three options are available to service firms in assigning personnel to sales functions. These are as follows:

- Relying on a specialised marketer or selling personnel to carry out all of the selling procedures but letting professional service providers close the transaction.
- Assigning junior professionals to do most of the selling, but closing the transaction through the senior professionals.
- Allowing high level professionals to perform all sales transactions, and with assistance from other sales personnel.

The choice of an appropriate option relies on several factors such as the desire of the customer, the willingness and capability of the professional service provider and of the competitors.

Bloom¹¹⁶ believes that professionals can perform

both the service and the selling. He stated that "it takes an accountant to sell accounting services". According to him, to overcome the problem of incapability and unwillingness of professionals to practice the selling process, management should:

- Look for the ability to sell in the recruitment of new personnel.
- Professionals should be trained in selling skills, i.e. professionals should be encouraged to participate in marketing plans, and be exposed to the sales functions. This exposure should persuade them to take a real interest in sales.
- Professionals will be enticed to take part in sales if sales are made financially rewarding.

Service firms may consider the following recommendations in developing an effective personal selling plan:

- All personnel should be trained to be customer-oriented and to win customer patronage. It would be helpful in this case where relevant to develop personal relationships with the customers.
- Recommendations made by other professionals may lead to cross-selling which can be useful in the personal selling plan.
- In order to aid in the difficult task of marketing research in the services, information could be

collected at the time of the sale of the service.

- Regardless of who sells the service, sales people should be experienced with marketing capability and acquire technical know-how of the service profession. Sales people are looked upon by customers as professionals. The seller's appearance, and behaviour must comply with the customer's ideas of how a "professional" sales person should act.
- There must be a facilitation of sales procedures of services. Customers should be provided with full instructions, especially for infrequent purchase of services, or services accompanied by emotional stress.
- A follow-up should be completed in order to gain new suggestions for the service and to give an insight to the customer's perception of the service. It also shows the customer that they have not been forgotten by the service providers.

1.3.2.3.3 Publicity

Publicity involves "securing editorial space, as divorced from paid space, in all media read, viewed, or heard by customers or prospects, for the specific purpose of assisting in the meeting of sales goals".¹¹⁷

In order to get free access to media, service firms can rely on publicity by making the press interested in

promoting the service firms, e.g. in the case of a promotional party, the press could be invited by the service firms and so the event would make "news". Since publicity requires special skills, service firms have turned this job over to professional public relations firm. In this case, public relations should be considered a communication tool to advertise the firm's objectives.

Ultimately, there are no major differences between services and products as far as publicity is concerned.¹¹⁸ Publicity is used in the same way by service and product firms. Both provide the customer with leaflets or pamphlets informing them of their products or services.

1.3.2.3.4 Sales Promotion

Sales promotions can be defined as "those marketing activities other than personal selling, advertising, and publicity, that stimulate consumer purchasing and dealer effectiveness, such as displays, shows, and exhibitions, demonstrations and various non-recurrent selling efforts not in the ordinary routine".¹¹⁹

However, some types of sales promotion are not suitable for some types of services, e.g. it would be improper for a doctor to give a free coupon for the client's next visit. Sales promotions are gaining the increasing attention of service firms. For example, service firms may offer reduced tariffs for loyal

customers.

The method of utilising sales promotions is different for goods and services. This could be attributed to the characteristics of services, the characteristics of the potential clientele, and the suitability of the device.¹²⁰

1.3.2.4 Place

Any product or service is valueless until it is in the hands of the customer. There is a considerable body of evidence which supports the view that if a product or service is unavailable at the time one customer wants to make a purchase and a similar product or service is available, then undoubtedly the sale will be lost to the competitor.¹²¹

The need for accessibility has been recognised by service firms and made manifest in:

- the use of mobile offices to render services to customers e.g. lawyers.
- relocation in shopping centres e.g. dentists, librarians and opticians.
- the use of a variety of forms of intermediaries to expand the market and to help the service firms gain an edge on their competitors, e.g. travel agencies.

Deciding on a suitable location entails two decisions: the distribution decision and the location decision.

1.3.2.4.1 The Distribution Decision for Service Firms

The distribution decision may be regarded as a process, hence change in the procedure of delivery of a service could influence the entire service as perceived by the customer.¹²²

Using a distribution framework developed for goods in an area of services distracts the attention from identifying means to overcome the difficulties presented by the intangibility and the inseparability of services. This has led to the consideration of direct distribution as the only channel of distribution available to services.¹²³

Donnelly, JR¹²⁴ argued that there must be a conceptual distinction, in the area of service markets between the production of services and the distribution of services. He proposed that the idea of marketing intermediaries must be defined in terms of services: "any extra-corporate entity between the producer of a service and prospective users that is utilised to make the service available and/or more convenient is a marketing intermediary for that service".

As distribution depends on the nature of the services, Lovelock¹²⁵ separated services which require direct contact with customers, i.e. hairdressing and medical services, services that can be delivered at "arms length" i.e. ATMs, and services that do not require direct contact with customers, and which cannot be delivered at "arms length". He proposed that the

third type of service can be handled through intermediaries where certain components of the services are separated from the core service while transactions are carried out by intermediaries, i.e. hotel and airline reservations can be dealt with by a travel agent.

William George¹²⁶ brought to light the importance of many goods' retailers in coordinating or adding the retail services to their businesses. He asserted that since goods retailers have engaged in distributing services this would bring to services the same proven efficient methods used in distribution of goods.

At present, there is a variety of distribution channels available in the service market; agents, institutional middlemen, wholesalers and retailers. Innovations in service distributions are taking different forms such as the emergence of specialised offices to offer integrated services, franchising services, leasing services, services located in department stores, and the establishment of chain-type offices e.g. tax preparation and legal services.

1.3.2.4.2 The Location Decision for Service Firms

Location refers to the placing of people and/or facilities to perform services on a specific site. The importance of location must be looked at in accordance with the type of services, the characteristics of services and the nature of services. In the opinion of

Rathmell¹²⁷ services can be grouped in terms of location, into three:

- Location may be irrelevant or unimportant to some service firms such as household repairs, car breakdowns, because those services are delivered on the spot, in other words where the customers are found. In this instance, being located far away from the customer could be substituted by developing a speedy communication system which facilitates the contact between business and customers.
- Services may be concentrated, where centralisation is a feature of business tradition, where the customer is willing to be mobile, or where there is a low level of demand.
- Services may be widespread, where the nature of the demand and the characteristics of service require the dispersion of services.

Uhl and Upah¹²⁸ distinguished between convenient and non-convenient type services in terms of location. They proposed that convenient-type services are located where customers are less willing to travel long distances, or indeed spend a lot of time in looking for required services. Consequently, convenient-type services are located close to the customer, and distributed through a large number of outlets.

On the contrary non-convenient type services are characterised by the customer's willingness to shop and

spend a considerable time searching for them. Therefore, non-convenient type services can be located at a considerable distance from potential customers.

However, this distinction between convenient and non-convenient type of product is also true for goods.

The decision on location also entails selecting an office site. This depends on a variety of factors which include attitudes and behaviour patterns of the targeted customers.¹²⁹ Since the site of the service office has an impact on attracting customers, for example, some customers will patronise service firms if they are located in the city centre in a luxurious building or in a luxurious shopping centre with recreational facilities.

Below is a summary of guidelines service firms may consider in formulating their strategy concerning place:

- A decision on location is a process which should be reached with regard to the nature of the service, the characteristics of the service, the characteristics of the targeted customers, the cost and revenue of the selected channel of distribution, and the location of the site.
- Services can be distributed through an independent channel or a combined channel depending on the nature of the service.
- Service firms should make every effort to be accessible by converting services to physical goods or by delivering them at arms' length, where

possible or at least by separating some components of the core services to be delivered separately through intermediaries.

- Service decisions on place may take advice from the well-advanced framework designed for goods, but design a distribution framework with regard to the special characteristics of services. The use of intermediaries makes the service more accessible, but on the other hand, it may harm the service firm's image if the intermediaries are not capable of providing the service.

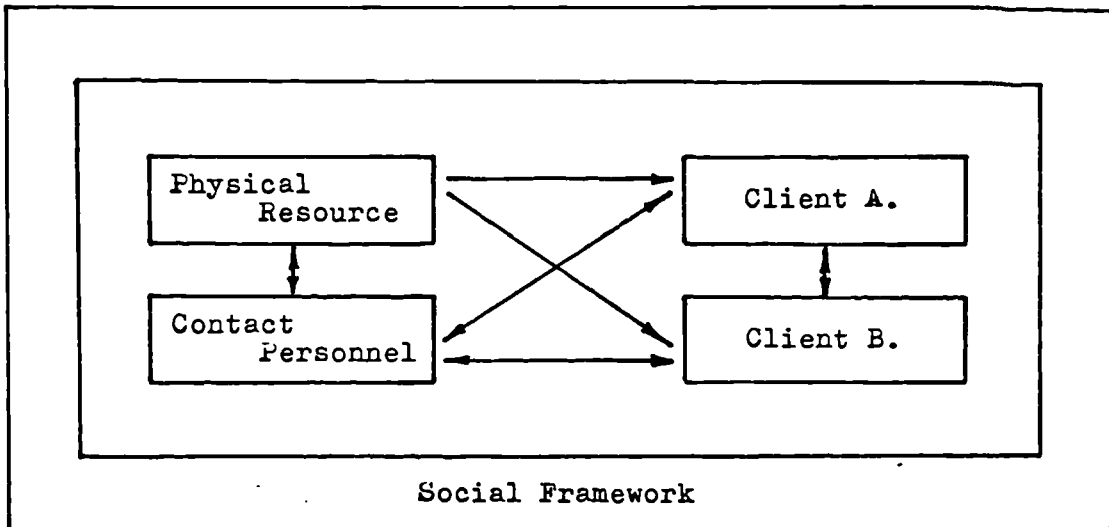
1.3.2.5 People

People as service providers and service consumers are the most important elements in the service system. Each element plays a dual role: the client is a consumer and a producer at the same time. The service provider is both a seller and a professional provider. This role has the characteristic of being relational and operational. These roles can easily generate conflict between the consumer and the service provider. In addition, conflict may arise due to roles being performed within a framework of social norms and patterns.¹³⁰

Adapted from Eiglier and Langeard, the figure 1.3.2.5 below shows the interaction between clients and service personnel along with the physical resource within the social framework.

Figure 1.3.2.5

Interaction Between Clients and Service Personnel¹³¹



The personal attitude of the client, along with his knowledge of the physical resources affect his perception of the service and his relationship with the contact personnel within the social framework. The clients (i.e. A,B) mutually affect each other in aspect.

The interactive role of the product and the service during the service production process has been the subject of much recent marketing literature, e.g. Gronroos¹³² Marketing Theory for Services distinguishes between the marketing of products and the marketing of services. The marketing of a product is based mainly on the traditional marketing mix, while the marketing of services is based on managing the customer interaction with the service firm as well as managing the traditional marketing mix for services. This is due

to the fact that the customer enters the production process and is influenced by the simultaneous consumption and production process. In addition, the customer's behaviours in these areas may indeed have an impact on the production process itself.

J. Lehtinen¹³³ also explored the role of the customer as a participant in the service production process. He asserted that the participation style of the client is dependent on the lifestyle and the personal attitudes of the client. Usually the lifestyle is consistent and formed during the socialisation of the person. The participation style of a client in the service production process may cause a change in how the service is presented and the client's lifestyle. Additionally, the contact person must fit his personal participation style with the style of the service, e.g. as in religious services. So it is necessary to analyse the psychological effect of service production on the two parties within the social norms.

Recognising the inter-relationship between the service providers and consumers, it is necessary to discuss each aspect separately.

1.3.2.5.1 Service Personnel

Generally speaking, personnel is a key factor in the success of any organisation, indeed, it is particularly important in the service industry for the following reasons:

- The attitude, the behaviour, the skill and the appearance of the service personnel influence the customers' perception of service quality.
- The physical appearance of the service firm and the service personnel help customers build up a favourable image of the service firm, through providing tangible clues.
- The automation of service magnifies the importance of personnel in service, in the sense that automation reduces the opportunity of business firms to build an image of personal service, due to the limits on customer/personnel interaction.
- In complex services, personnel have an important role in reducing the uncertainty of the customer's decision.

Berry¹³⁴ considered all personnel to be important particularly the contact personnel who are considered the secret of success in any organisation. David Davidson¹³⁵ asserted that for a firm to succeed in a service industry it has to turn the organisation chart upside down. In other words the contact personnel become the focus of importance for delivering and presenting the service.

Management personnel are also equally important. Lorsch and Mathias¹³⁶ indicated that service firms should avoid an inappropriate practice of choosing managers, i.e. promoting experienced and talented

professionals into management positions, recruiting professional managers from outside and choosing poor producers to manage. They suggested that the more appropriate manner of dealing with this problem is to choose the producing managers who retain their professional ties with clients i.e. those who still take part in the service process, while taking up managerial responsibilities. Applying this new concept of producing managers from within will reinforce the notion of producing managers from within is the firms' policy.

Below is a summary of the guidelines which can be considered in maintaining and developing service personnel at every level of the service firm.

- Surveying personnel as regards their perception of the quality of service. Working conditions, compensation and other related issues provide the management with feedback of personnel satisfaction. It can also be useful in discovering policy violations or any other organisational shortcomings.
- Selection and training can be tailored to the nature of the service and the customer's needs.
- Since customers frequently have access to all parties during the service production process, training programmes should be directed towards facilitating the achievement of marketing goals by considering the customer as the overriding objective. This is important since under the pressure to achieve short term sales, personnel tend

to neglect the long-term implications of total customer orientation.¹³⁷

- Providing personnel with detailed job specifications helps provide better quality services.
- Guidelines should be provided to employees to help them deal with unforeseen problems concerning the service.
- It is advisable for service firms to ensure their personnel are consistent with company standards in appearance and behaviour. The former can be ensured through the wearing of uniforms by appropriate staff while the latter could take the form of a guarantee i.e. service with a smile. The impression that a customer is being serviced by a team can also be helpful.
- There should be a system of multiple communications channels so information can move as quickly as possible among as few levels as possible.

1.3.2.5.2 Customers

According to Eiglier and Langeard¹³⁸ the service system consists of three types:

- Services can be produced by an individual, along with a product.
- Services can be produced by two individuals.
- Services can be produced by a product and more than one individual.

In any of the service systems, the customer is considered a vital element in the production process playing at least three roles as follows,¹³⁹

- They are considered as helping to produce the services, and from that standpoint can be considered as partial employees. This entails helping them to acquire the information and skill to be production participants, and can even help service firms reduce the size of a labour force when appropriate.¹⁴⁰
- They are considered as users of services. A successful marketing strategy entails an identification of the likely situation a client finds himself in when he is considering the use of a service. Suitable research into client behaviour helps in the prediction of potential customers.¹⁴¹
- They are considered as influencing other customers to use a service. For example, if a customer is not fully aware of how to use the ATM, he may delay other customers in receiving their services. The customer's skill and attitudes while in the service creator process affects other participants.

Below is a summary of the guidelines that should be considered in dealing with customers in service firms:

- Service firms should facilitate the flow of information concerning the use of services in order to make customers more able to participate in creating the service.

- Develop a clear policy in dealing with customers and avoid disputes with customers.
- Researching the customer's attitudes and buying behaviours may help to facilitate the interaction process between the customer and the firm.
- Utilise customer segments through making a match between the required production-related skill, knowledge and attitude and degree of involvement of the client required in the service production process, e.g. offering full services, partial services or self-service according to the customers desire.

1.3.2.6 Physical Evidence

Intangibility could be seen as the most important factor that distinguishes services from products. In fact customers can evaluate even the most complex products by using their five senses, e.g. when a customer buys a computer he can evaluate the product by feeling the type keys, seeing the graphic display, etc. However in services, the situation is somewhat different, customers use a process of deduction based on the evidence given by the service to achieve the "service reality".¹⁴² This supports the opinion that service personnel also can present something to show the customer as evidence of the service,¹⁴³ e.g. a dentist may use a model to illustrate a patients' treatment.

Since customers cannot evaluate the quality of

service directly, they make a judgement on the quality of services they hope to get on the basis of some environmental tangible cues, e.g., outward appearance of the place of business and the sales personnel. Consequently, the management of tangible evidence should be a priority for service firms, and used to differentiate the services offered, even identical services can be differentiated by manipulating tangible evidence. Furnishing tangible evidence is less feasible in professional services, but not impossible, for example, accountants and lawyers can outline procedures and provide environmental information.¹⁴⁴

Due to the simultaneous production and consumption of most services, service marketers are in a position to shape the environment to their specification since they distribute the services they produce.¹⁴⁵

Tangible evidence includes physical evidence and social surroundings, physical evidence entails the external and internal appearance of the location, e.g. furnishing, decor, lighting, etc. Other tangible evidence which is attached to the production of services are tickets, cheque books, stationery, etc.

Service marketers have long recognised the use of social evidence in the provision of tangible evidence of services. This means that they have capitalised on their use of staff in providing an image for their service firm. This can be achieved through various means such as staff uniforms, a reliance on the physical

appearance of the staff or even on age uniformity in the staff membership. There are many examples of this, e.g. beauty salons which employ staff of the same age group, usually young, and oblige them to wear uniforms.

In addition to the physical and human evidence, atmospheric surroundings has an effect on customers and employees. Environmental effect include, scent, sounds, and feel of the provision of service. For example service firms have used background music for a long time for music is believed to produce certain desired attitudes and behaviour among employees and customers.¹⁴⁶

It is not only the use of music, but the type of music selected which is important. The music selected can fit the intended objective e.g. services that need the customer to relax and wait for some time to be served, as in medical clinics, use soft music to produce the desired effect. On the contrary, if the objective of a restaurant is to increase the turnover of seats, soft music would be inappropriate because it makes people slow. Equally, the feel of the furniture, and the smell of the office all represent evidence which affect customer attitudes as well as employees.

Physical, human and atmospheric evidence can be deliberately planned and managed as a package to serve the intended objective of using the tangible evidence for different markets.

Below is a summary of the guidelines in managing the

tangible evidence:

- Service firms should give the tangible evidence some thought even before launching their business. The name of the service firm can be used to indicate the tangible evidence.
- The association of service with tangible evidence can be developed in the customer's mind through the use of an effective media representation.
- Personnel can provide the most effective role for services, and they have to be selected and trained carefully to enable them to represent the best social evidence.
- Personnel can be shown while processing the services. This gives a clue of not only the quality of service perceived by customers, but also it gives the customer an idea about the interaction with the service personnel of this firm.

1.3.2.7 Process

Service process deals with how the service is performed and delivered. The service process is important in the sense that customer satisfaction is not only obtained from the quality of the service rendered, but also from the way the service is processed. Or as Gronroos¹⁴⁷ earlier stated in the service quality model "the consumer is not only interested in what he receives as an outcome of the production process, but in the process itself". Managing this functional dimension

means the management of the interaction between the buyer and seller which includes a powerful marketing function for the services.

Service production usually consists of three components; customers, service providers and physical facility. A service process is a system in which the customer, and service providers interact within the physical facility. Each of these components has a role to play. Without having a system which determines the role of each of these components, services may not be produced effectively.

The roles of these components are discussed at length in other sections. However, an insight to their importance to the service process can be seen, in the case of services with high contact. Service production scheduling is very difficult to set, due to the fact that customers have an impact in the service process so that they may demand extra services or even eliminate part of the service process. By contrast, services with low contact find it easier to rationalise and are substituting technology when appropriate.¹⁴⁸

J. Lehtinen¹⁴⁹ highlighted the importance of contact people in the service production process, and its managerial implications. He divided the service process into three stages:

- The Joining Phase: The customer is given advice and ideas of how they will be expected to participate beforehand.

- The Intensive Phase: Customer guidance which takes place during the intensive phase is the physical resource and interaction phase. This means that customer participation in the service process will be influenced by contact staff, other customer participants, and by physical devices.
- The Disengagement Phase: Personnel help to encourage the customer to use the service again. This stage relies on physical support, also. This results in the preservation of the impression of the service which the customer experiences during the intensive phase.

J. Lehtinen¹⁵⁰ also highlighted the importance of "the moment of truth" in the service process. According to him, "the moment of truth" is the situation where the contact personnel and the client form a close social relationship with each other, and so produce the service. Posturing, eye-to-eye contact, and tactile elements are all physical factors important at "this moment of truth". The service personnel are made aware of the importance of their attitude towards the customer at every stage of the service process.

The role of the physical facility and the layout of the physical facilities are both important to produce services that are characterised by efficiency, low cost, and great customer satisfaction. Levitt¹⁵¹ asserted that to speed the service process, services can be

industrialised in three ways through hard, soft, and hybrid technologies.

Despite the notion that "the process is the service product" little process description has been found in the marketing literature of services.¹⁵² Several production management approaches which have been originally developed for manufacturing goods, have been applied successfully to the process of services, especially in low contact services such as scheduling, forecasting back-office operations, C.P.A., etc. In fact these approaches are the concern of the operation management and the marketing management since the service process has marketing implications.

Shostack¹⁵³ described the process of the services in two ways.

- According to the steps and sequences that constitute the process, i.e. the "complexity of the process"; this can be defined by analysing the intricacies of the steps required to perform it.
- According to the executional latitude and variability of these steps and sequences, i.e. the "divergence of the process".

She contended that every service can be analysed with regard to its overall complexity and divergence. The extent of complexity and divergence dictate the service market position, and has implications for the company's marketing strategy. As a result, a

positioning chart can be constructed with regards to the degree of high/low divergence and complexity. Service with high complexity, low divergence e.g. hotel services and self-service restaurants, can be analysed according to the sequence of steps for the purpose of standardised services. Whereas services with low complexity, but high divergence e.g. educational services; the sequence of steps can be easily charted but the operation of process brings greater difficulty.

Shostack asserted that a blue-print is needed to visualise the service system even for high complexity high divergence services such as medical services. This blue-print documents all process steps and points of divergence to what ever level of detail is needed.

Below are some guidelines which can be considered in regards to the process of the services: The first five points are generally applicable, the last point however, is more specific.

- In order to attract customers to the services, which are characterised by a multiplicity of identical competitors, service firms should design a specific service process which would improve customer satisfaction.
- Any change or shift in the overall process, or the introduction of any new process design, should be implemented with regard to the most important service system components, people and the physical

facility.

- Positioning the services with regard to the extent of complexity and divergence, and taking into account the market, helps to determine which elements of the components is more likely to have marketing implications.
- Co-operation between marketing management and operation management is important since the service process in part dictates customer satisfaction, and since service quality is dictated in part by the performance of the service.
- Designing a blueprint helps to create more standardised, or uniform services.
- Reduced contact with the customer can lead to minimising the influence of the customer and provide opportunities to achieve efficiency, where relevant.

Conclusion

Throughout this chapter, the discussion of marketing of services concentrated on the characteristics that differentiate services from goods. Besides not being subject to ownership, services are characterised by intangibility, perishability, inseparability and heterogeneity. Although it has been proved that these characteristics are applicable to services only to varying degrees they still present special challenges to the service marketers. These challenges have been met

with new developments in marketing concepts which allow for the special characteristics of services. New approaches to marketing services have come from these developments, such as:

- Customer involvement: the implication of high or low contact for services.
- Customer perception of the service process and service quality.
- Effect of customer involvement on service productivity.
- The effect of personal interaction on service quality and productivity.
- Personal knowledge, training and appearance have important marketing implications.
- The use of tangible cues i.e. physical and social evidences to overcome the intangible nature of the services.

This brief overview of marketing services concentrates on the features which distinguish service marketing from product marketing.

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CHAPTER TWO

MARKETING OF BANK SERVICES

CHAPTER 2

MARKETING OF BANK SERVICES

Introduction

This chapter deals with marketing as applied to the banking industry. The discussion presented is mainly on personal banking services.

Deregulation, economic and social trends, and evolving technologies have created competition among banks and other financial institutions. Banks therefore started to exploit personal customers as a major target market of their services.

Realising the importance of personal accounts to the banking industry the following topics are discussed:

- 2.1 - Marketing Concept and Banking
- 2.2 - Market Segmentation for Bank Services
- 2.3 - Marketing Mix for Bank Services

2.1 Marketing Concept and Banking

The following discussion focuses on the myth of bank marketing brought about by the bankers' reluctance to adapt marketing concept, the changes in the market place that forced bankers to adopt a positive approach to marketing and their application of marketing.

2.1.1 The Myth of Bank Marketing

Despite the rapid growth of the western economy and

the need for financial services during the 1960's, financial institutions and banks were reluctant to change their methods of providing service to the customer. This reluctance was apparently due to a variety of reasons in both the U.S.A. and U.K. One reason was due to the fact they viewed themselves as "gentlemen" professionals playing a major structural role in the national economy.¹ Governments contributed to the establishment of this unique role by placing regulations on banks which enabled the bankers to continue and cope as they always had. Learning to work in a comfortable oligopolistic situation, they tended to wait passively for the customer to come to them. Another reason attributed to their reluctance to adjust was the absence of a substantial body of marketing theory specifically for banks or for services. Although there was plenty of literature about marketing of goods, still bankers looked at marketing as irrelevant to their services.² A further hindrance to adaptation was the lack of personnel who had both banking and marketing experience. This led to a myopic approach; banks looked upon themselves as being product-oriented and were not seemingly aware of the importance of customer-relations.

From the other side, the customer was well aware that banks were not customer-oriented. They felt bankers had a supercilious attitude towards individual

customers. In general, people thought banks projected themselves as being "holier than thou", and treated their customers child-like.³ This attitude was projected onto customers' expectations. It became expected that bank staff would be unsympathetic and would not be interested in their particular money problems especially if they were dealing with small sums.⁴ Customers' perceptions of banks could be summed up as a British journalist in 1969 stated "whatever the name of your friendly neighbourhood bank, it is likely to be managed with an identical degree of incompetence and (it) is one of the worst investments you could find".⁵ This view of bankers towards marketing was eventually modified as changes in the market place emerged.

2.1.2 Changes in the Market Place

In the 1960's and 1970's, new trends emerged in the market place in the United States and Europe. These trends forced banks to consider their whole approach to customers which created a need for change. The trends having the most effect on banking practice are deregulation, competition, technology, social attitudes and concept application.

2.1.2.1 Deregulation

In the late 1960 's Britain as well as the United States began to free the financial firms from government

regulations restricting the changes of financial institutions to react according to market needs. The objective of this deregulation was to encourage competition in the sense that competition would bring about a better regulatory environment. Deregulation caused re-evaluation of interest rate ceilings, product development, flexible pricing and market segmentation.

2.1.2.2 Competition

Competitors have entered the financial services field from two sides: foreign banks and non-financial corporations and building societies.

Foreign banks have seized a large portion of the commercial banks' market. In Britain, the reason can be traced back to the fact that it had a more conservative lending policy in comparison to that of other countries.⁶ In the United States this evolved because foreign banks were less regulated with respect to their reserve requirement.⁷

Non-financial corporations in the United States have diversified into the financial business market as a result of the lack of growth in the industrial field. These non-financial institutions have triggered the mass marketing of financial services to the lower-income sector. Meanwhile in Britain, banks faced more competition from building societies.

In addition to the above two sources of competition, merged banks increased competition between themselves

and other non-financial institutions due to their combined greater economic size.

2.1.2.3 Technology

Technology has facilitated the production and distribution of financial services. Technology has produced cheque cards and bank based credit cards. Services for example have been improved with the introduction of Electronic Fund Transfer (EFT), Automated Teller Machines (ATMs) and home-banking via computer.

2.1.2.4 Changes in Social Attitudes

The change in peoples' attitude toward banking services is mainly a result of higher levels of educational attainment. People have changed their perception of spending, saving and borrowing and this has led to members of the lower socio-economic strata participating in the banking system.

Another socio-economic trend has been the growth in consumerism which has led to a change in attitude of both banks and customers.⁸

2.1.3 Banks' Application of Marketing Concept

Due to the success of the application of the marketing concept in the industrial sector, academicians began to look at marketing theories in relation to banking. Academicians determined the importance of the

marketing concept to banking because of the nature of the customer's relations with the bank. The customer has a dual role. Firstly, providing the raw material i.e. the money and secondly, making use of the services that a bank provides. The writings of these academics (as discussed below) constituted an attempt to open bankers' eyes to the concept of marketing.

In the section below there is a discussion of how successful this attempt was.

Broadening marketing concepts and applying them to the banking field led to confusion on the part of professional bankers. Bankers seemed to confuse marketing with advertising and public relations. The problems were exacerbated by reluctance to change on the part of bankers. For instance in 1977, studies in the U.K. showed that "Bank managers dislike the marketing approach that is being forced on them at this time".⁹ The resistance to change came from the highest level of banking management. Senior executives regarded the level of change required as rocking the traditional banking foundations to the very core. On a lower level the executives were prepared to accept some changes, and proceeded to require the counter personnel to be more customer oriented. However, these changes were merely cosmetic since they did not permeate every level, and market orientation was looked on by most personnel as salesmanship¹⁰

There has been in general, an increase, in the

applicability and principles of service marketing which has been paralleled in the banking community. This increased interest in marketing concept by banks came about primarily as a result of the changes in the market place.

To begin with, McIver¹¹ recommended that the concept of bank marketing should be widened. He thought banks should carefully consider their role in a changing economy and society. After all, they are responsible for maintaining the economy as well as the government. Bank marketing in McIver's view must be carried out at two levels: the senior management of the banks, and in the marketing department. On the senior management level, the strategy for the long term is set. They must determine what type of business the bank should be involved in, the introduction of innovations, and assessment of channels of communication. In addition and most importantly, bank managers need to be concerned about building a corporate culture allowing the personnel to be humane and to be seen as competent advisers and administrators. The marketing department's concern is the representation of the customer's interests to the organisation. To this end, they train personnel in how to handle customer orientation. The marketing department's role in product development is to be a monitor assessing new products and withdrawing any product which is not profitable or serving the customers' needs.

Watson¹², like McIver, proposed two levels of bank marketing. The senior management made up the first level, being the strategists who adapt to changing conditions. Watson identifies the second level in bank marketing as branch management. Branch managers are in a position, because of having close customer relations, to assess increases in customer demands and so can influence the behaviour of customer groups. However, at the present time, where an appropriate marketing information database is not available from a branch bank, marketing efforts, according to Watson, are largely Head Office prerogatives launched through centralised marketing departments.

The researcher agrees with McIver and Watson that the senior management should be the bank marketing strategists. However, the departmental managers including the marketing department and branch managers should work at the operational level to apply the marketing concepts and to ensure that all personnel, both in the front offices and those behind the scenes are working to satisfy the customer.

The usefulness of marketing for banks can best be illustrated by the definition presented by Maiden¹³ which is as follows:

"Bank Marketing is the creation and delivery of customer satisfying services at a profit to the bank".

The definition acknowledges, firstly, that the customer must be satisfied, and secondly, that marketing

is a creative process involving all the bank staff. This definition is supported by Berry's¹⁴ concept of bank marketing where the marketer must discover the needs and desires of the customers and shape his products/services to both satisfy the customer and make a profit. Optimally this concept will clearly spotlight four priorities of bank marketing as identified by Berry, namely:

- emphasising relationship banking i.e. the relationship between the banks and the customer
- developing multi-tier delivery systems
- marketing to investors
- building a personal selling organisation

First, relationship banking, is a "way of thinking" and a "way of doing" - both a marketing objective and a marketing strategy. The concept of relationship banking has five key elements. Firstly, banks must become segmental institutions. This means that they must focus resources on a defined market segment. Secondly, banks must offer a core service around which the relationship can be built. The third key element is the need for an account representative, who can offer a high level of personal contact with the customer and so cement their relationship. Fourthly, the bank may offer relationship pricing. Here the customer's level of business must be considered when setting the price as in loan

negotiations, lines of credit, etc. The fifth element of relationship banking is communication management. The staff and the customer must both be educated to ensure that both are well informed in the area of complex financial services.

The second priority for bank marketing is the development of a multi-tier delivery system. Service delivery costs must be matched with customer requirements. Berry stated that this should bring added convenience for the customer since more than one limited service delivery can be introduced for the same costs as one full-service facility, e.g. several ATMs can be installed for the price of a traditional branch.

A third priority, marketing to investors, can be seen as a change in attitude toward the public by the banking industry. Bank users are no longer savers, but investors who are seeking the highest yield from their investment. Banks must be aware that the customer does have the choice to invest in other areas, for instance in the stock market, real estate, etc.

Fourthly, banks must practise a change in the "bank culture". This entails reinforcing selling by encouraging listening skills of bank employees through a continuous training programme. Examples of other types of selling which could help change "bank-culture" are through telephone sales, home group selling, etc.

Above all, the overriding priority in Berry's view

is for banks to be more `strategic` in their marketing; developing client relationships, being innovative in delivery systems, and being more convenient for customers using the banks` service while being cost-efficient.

Although Berry`s concept of bank marketing is comprehensive, he chose not to give details of how to put it into practice. Maiden listed the actual marketing approach in four steps:¹⁵

- research to determine who the customers are and their prospective financial requirements
- design new services or innovate old ones according to the findings
- develop marketing services to the customer for whom they were researched and designed at a profit including pricing, promotion and distribution
- satisfy the customer`s financial needs

The four steps extensively supported by market research embody the bank`s marketing mix towards satisfying customers and profitability.

Banks can succeed in achieving customer satisfaction and profitability although it is difficult due to the complex nature of banking services and the duality of bank customers. Actually, there are two major facets to banking, the first involves banking services to the commercial sector and the second involves personal

financial services. Within each facet the customer plays a dual role, at the same time he is a depositor (an investor) and a borrower. Banks can benefit from exploiting this duality in marketing, for example:

- In the area of new product development, research findings can be applied to one market and tested before they are applied to all other markets. This was seen in the introduction of home banking. Commercial customers were first offered a computer link-up which was then expanded to the personal customer.
- Advertising credibility may grow from the duality of bank customers. The bank can appeal to the commercial sector by projecting a sophisticated image and reconciling this image with the demands of an individual customer.
- Integration of the functional management of the two markets is possible. For example, employees of corporate customers may be encouraged to use the same bank as their employers.

The following is a discussion of market segmentation and marketing mix as applied to personal bank services.

2.2 Market Segmentation for Bank Services

Market segmentation is not a new phenomenon in the banking industry. It is a firmly established concept

and an important resource allocation tool. However, as the bank market grows and evolves, segmentation is characterised by many issues, problems and controversies. In view of the prevailing market trends, it is now of particular importance to develop segmentation bases that assist bankers in quality and competitive position-related decisions. Yorke's¹⁶ concept of linking the nature of the business to the structure of the total market is based on the customer as central to the adoption of market segmentation. By making the customer central bankers' views will be outward-looking giving customer satisfaction and developing customer loyalty while at the same time committing the banks' limited resources effectively. Furthermore, banks if focused in that direction can easily spot opportunities in the market place and capitalise on them more quickly.

2.2.1 Some Bases of Bank Market Segmentation

Croisdale-Appleby¹⁷ listed demographic, product usage, sociographic and psychographic segmentations as some of the few bases of segmentation that have been much used in banking. In addition, Wills¹⁸ asserted that geographic segmentation is also a traditional basis, e.g. bank chooses to locate in an industrial estate hoping to attract commercial customers. On the other hand, Haley¹⁹ pointed out that geographic, demographic and product usage merely describe buyers in

a market. He claimed that benefits to customers provide the causal factors for predicting their buying behaviour. Optimally customers seek to benefit from bank products. As a result, benefit segmentation is emerging in the financial industry. Penetrating further into the problem of the customers and based on the concept that customers are "adaptive problem solvers", John Martin²⁰ stated that problem segmentation bases can be applied to bank services.

A discussion of each of the previously mentioned bases of bank market segmentation is given below.

2.2.1.1 Demographic Segmentation

Demographic segmentation is the simplest and most widely used segmentation in the banking community. Different age groups, different income groups, as well as, sex and family life cycle require different bank product offerings. For example, historically bank marketing programmes were aimed principally at men since they were the financial decision-makers. The study of Yorke and Hayes²¹ reflects the current trend for the changing role of women. Women currently have a growing influence and involvement in the level and direction of family expenditures and financial management. Based on marital status and life cycle alone, studies showed that demographic segmentation of the working female market is comprised of many segments each having a variety of needs. As such, banks will have to design separate

marketing strategies that will serve to satisfy the needs of woman. For example, an unmarried women over 25 years has the greatest need for a variety of services and would appear to be a target for loans, mortgages, credit cards and financial advice.

2.2.1.2 Psychographic Segmentation

Psychographic segments are identified according to the way bank customers think, their innate preferences and life styles.²² Since basic personal values (e.g. individual customers' value, do they plan for the future, do they concentrate on leisure activities or do they live by traditional values) are tied so closely with one's financial behaviour and expectations, segmentation by innate individual values is often very fruitful. Life style is a combination of age, income and attitudes about the world as it describes the different ways people live and make certain purchasing decisions. Segmenting by how bank customers think, consumer preferences may exhibit significant differences and thus make marketing decisions obvious. For example advertising may be aimed at leisure-orientated young people showing images of holidays and desirable consumer goods (e.g. hi-fi equipment.)

2.2.1.3 Sociographic Segmentation

Sociographic Segmentation involves buyers' behaviour

and the factors that influence the decision to buy. These influences come from social groupings and the culture in which the buyer lives, and it is these factors which go to create the buyers' personal values. A prime example is the increase and greater desirability of credit cards which cater for those belonging to a certain income bracket, such as the American Express Gold Card.

2.2.1.4 Product Usage Segmentation

This segmentation refers to how a bank product is being viewed and used by the customers. There are numerous ways of identifying customers with respect to usage: i.e. heavy savings customers, heavy current account users, etc. Most heavy current account users regard time and convenience as the most important factors. To deal with this, bankers are educating and encouraging this segment to make use of ATMs more than the live tellers.

2.2.1.5 Geographic Segmentation

This segmentation locates the source of market demand and endeavours to integrate the heavy markets into the system. Once the markets are identified, methods of reaching them and servicing them follow. For instance, findings showed that students are more influenced in their initial choice of bank by the locational convenience than the services offered.²³

2.2.1.6 Benefit Segmentation

This is a market-oriented segmentation which seeks to identify consumer needs and to satisfy these needs by providing banking services with the desired benefits. This approach bases market segments on the reasons why people buy the service and not merely on who will buy the service as in demographic segmentation. For example, a loan-seeker and a value-seeker would probably have many common demographic and lifestyle characteristics, but in terms of benefit sought, the two segments can easily be distinguished. A loan seeker would be after a low rate of interest and availability, whereas a value-seeker would look for quick service and high savings interest.

2.2.1.7 Problem Segmentation

The problem approach is determined by both the buying process and the type of complaints made by bank customers. This method of segmenting the market is in line with the marketing literature that the customer is basically a problem solver who ceases to use unsatisfactory services and chooses those which solve the problem. Basically, identifying customer problems, as presented by Martin,²⁴ involves creating a list of heavy user problems and assessing these problems based on three scales: frequency of occurrence, bothersomeness and solution possibilities. Determinants, appropriateness and predictive power are the problem

bases for this segmentation. In the banking industry, some of the problems that can be used for market segmentation are inconvenience of service hours and location, waiting, cost-interest imbalance and bank personnel attitude.

Some banks have now started to develop the customer complaint programme as a key strategy to acquire the elusive competitive edge.²⁵ These banks may now be in the position of applying problem base segmentation since customer's complaints and problems may be collected through this programme.

The fact is there is no magic formula or procedure for segmenting a target market. Banks need to conduct detailed studies since there are fundamentally different sub-segments with different needs arising from broad segments of the population. Moreover, an effective segmentation calls for an integrated mix of the bases as each is not mutually exclusive from the other. For instance, the study conducted by Barbara Lewis²⁶ on weekly cash paid workers showed that they are reluctant to be paid other than weekly, by cash. Evidence of fear, ignorance of banks and other negative attitudes towards banks present a major hurdle and challenge for bank marketer in trying to reach this segment. Banks can use a combination of the problem segmentation bases and other demographic bases such as age, sex and life cycle. In addition, geographic segmentation could be considered since most of the low socio-economic income

levels are dwellers in specific residential areas.

SUMMARY

Segmentation is a useful approach as, ideally, it can indicate to whom and in what way banks should target their marketing strategies. For segmentation to be successful, bankers must first establish the differences that distinguish one segment from another, and then decide whether there is a substantial market demand to justify the existence of each segment. Likewise, any combined segmentation bases are effective if the market segments fulfilled the already mentioned criteria of measurability, accessibility and responsiveness.

An appropriate segmentation base for banks could combine the traditional ways of segmentation (demographic, psychographic, sociographic, product usage and geographic) with the more current ways (benefit segmentation and problem segmentation).

2.3 Marketing Mix for Bank Services

The following is a discussion of the "7" P's of marketing mix as applied to bank services.

2.3.1 Product Strategy for Banking Services

Similar to other business banks are multiproduct organisations. Banks cater to commercial and retail customers offering various intangible products involving

acquisition of funds and employment of funds. Recently however, technological advances, especially computer technology, has created a range of banking services which meet new product requirements. Aside from the existing technology, bank prosperity is largely dependent on the economic environment. There have been dramatic changes in the market place as a result of deregulation, inflation and high interest rates. As new markets are developed, competition grows in both domestic and international banking. A proliferation of new products arises as major new competitors move into the area that was once the territory of banks.

The variety of services and products offered nevertheless, belongs to the following general product classification.²⁷

- Product item... specific product e.g. certificate of deposit for one year
- Product line... closely related products e.g. entire group of savings accounts
- Product mix... composite products e.g. mortgage facilities plus house insurance

In response to the continually changing market, new services are developed. New bank services are taking the following forms:²⁸

- Major Innovations - basically new bank products involving new technology, a considerable investment and risk, and significant potential. They are often

regarded as "high-stake services".

- New Services Line - refers to bank products from nontraditional sources e.g. insurance services, real estate brokerage services, etc.
- Additions to existing Service Line - refers to the variation of an existing service. This is sometimes known as "line-stretching" or "product proliferation" services.
- Modification of Existing Services - alters an existing service by the creation of a new product from an old one. The rationale is to improve the performance of services by adding enhancements, making them simpler to use and lower costs to the customers.

An example of new product development evolving from a combination of the above is Midland's Cash Management Services (CMS) product launched in 1982. The CMS consists of the following series of modules:²⁹ The Balance Reporting Module, Transaction Reporting Module, Netting Module, Minimum Balance Accounting Module, Electronic Funds Transfer, Cash Flow Projection, and Information and Advisory Service.

The electronic fund transfer module, is a major innovation from the traditional manual system to the use of electronic links. Netting and Cash Flow Projections are recent service lines. Netting benefits the companies by allowing intra company debits and credits to be netted off while the Cash Flow Projection aids

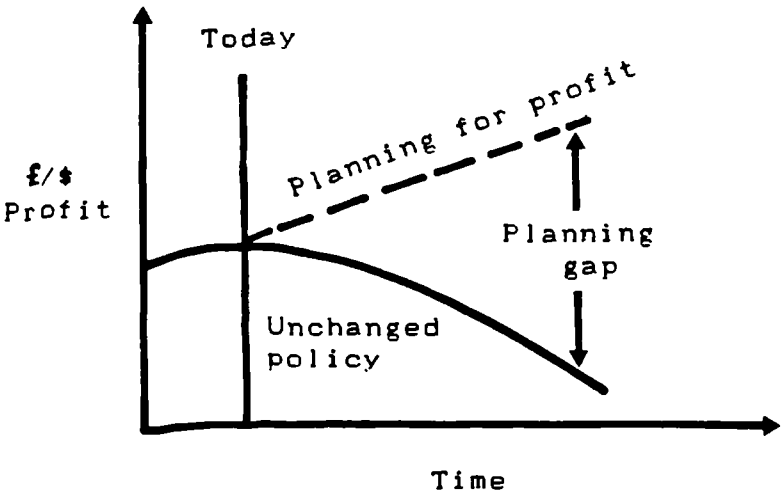
managements of multi-currency corporations. Information and Advisory services are complementary to the existing foreign exchange advisory service. Balance Reporting, Transaction Reporting and Minimum Balance Accounting are modifications of existing service lines. For example, the Balance Reporting Module provides trend movements in cash balances available at the close of business on the previous day.

NOW Accounts (Negotiable Orders of Withdrawals) can be cited as an example of a new product taking the form of modification of an existing service. To bolster the appeal of current accounts, NOW emphasised the promotion of interest on current accounts, minimum daily balance requirements and an overdraft protection plan.³⁰

2.3.1.1 New Product Development.

Based on a real understanding of the market place the key point in new product development as stressed by Gordon Wills³¹ is the "gap analysis".

Figure 2.3.1.1.1 The Gap Analysis³²



The figure shows that the profit curve is dependent on time which represents the product life cycle from introduction to growth, through maturity and saturation. If the product policies remain unchanged, then a gap would be created between the actual profit and the management planning for profit. Hence, management should always be alert to the time when new products have to be developed or else a new gap will be created.

Wills points out that the product life cycle can become complex when applied strictly to banking products because the cash flow associated with product development can easily be confused with the product itself - cash. Nevertheless, the portfolio analysis "Boston Matrix" makes the distinction between cash flow and profit easier.

In order to fill the gap, two strategies can be implemented:

- The predetermined-package or Benefit Package which is the marketing of a package of banking services that will best meet the perceived needs of a target segment.

Almost any product comes with a related string of products e.g. mortgaging a house through a financial institution automatically requires home insurance, legal services, certified appraisers, etc. Lloyds has opened its own real estate agent services offering the "package" approach, for

example.³³

- The personalised package is the marketing of customer tailored services via the personal bankers' approach. Since no bank can be all things to all people, the personalised bankers concept can be a source of marketing information needed for new product development answering the specific financial services needs of customers.

In order to determine whether a new product will help fill the gap a three-phase process is required. First, is the initiation phase which includes exploration, screening and business analysis involving the collection and analysis of basic data on the product idea, the customers and the profitability. Next is the evaluation phase which includes the development and testing of the new product. The third phase is the implementation or commercialisation of the new product.³⁴

Further, Berry and Donnelly³⁵ suggest four guidelines to be followed to ensure success in launching new products:

- The product must truly be seen from the viewpoint of the consumer.
- The research on various market segments is taken to discover unfulfilled needs.
- It is important to reduce the psychological

discomfort of customers in relation to new products which require strong behavioural changes.

- The benefits of new products developed must be clearly and graphically communicated to the market segment.

These generally are for all organisations developing new products but are particularly applicable for the successful launching of new products in the banking field.

2.3.1.2 Product Differentiation and Imitation

As has been stated previously, banking services need not be patented. For this reason, and in the absence of considerable capital equipment or investment required, most bank products, except those requiring new technology, are quickly imitated. "Me too" products start to flood the market. Banks should, therefore, clearly differentiate their products from competitive offerings by identifying both its own and competitors' strength and weaknesses. Tight product competition needs definite product differentiation although this differentiation may be minimal.

An example of strong product differentiation was achieved by Rocky Mountain Bank Card System (RMBCS).³⁶ RMBCS, sole issuer of Visa Credit Card till 1978, faced a problem when three of the leading banks' Master Charge issuers in the region announced

that they would also issue Visa Credit Cards. RMBCS, however remained offensive in the market by designing a unique Plus Symbol on its Visa Card. In a competitive environment, the Plus System Program was furthermore strengthened by massive advertising with the theme "A little Plus Makes a Big Difference". This graphic Plus Symbol helped in solidifying their market position and lessening the confusion in the minds of Visa Cardholders.

2.3.1.3 Technology

With the advent of computers, technology becomes prominent in the banking industry. Bank culture continually changes along with technology, so do customers' needs. Technological advancement, the major factor of change, is a response to customers' needs.

Competition has driven many banks to adopt new technology in order to increase sales, decrease operating costs and more importantly to field new products quickly. Others are introducing electronics just for the sake of being "one of the crowd". Electronic banking has gone as far as reaching a third wave. The three waves are:³⁷

First Wave - The Automated Teller Machine (ATM), Home Banking and Electronic Fund Transfer at Points of Sale (EFTPoS) produce cost savings and centralisation of accounts.

Second Wave - Remote Terminals have the objective of reducing costs by decreasing customer contact.

Third Wave - Mini-computer systems are a customer - based intelligence file, have an interactive terminal and include artificial intelligence (AI). The objectives of those systems are to deliver customer information in the right form, in the right place, at the right time and to know as much as possible about the specific needs of a customer.

Attaining the goals of the first two waves consequently reduces customer contact. Through the use of intelligent terminals, customer contact for more effective marketing is brought back.

The power of technology can be used not to reduce staff skills and to de-personalise customer service, but rather to create the level of personal services the customers expect. Finally, it can be stated that technology in the banking industry has increased productivity, sales and profits, improved the quality of services and opened the door for new products.

SUMMARY

To meet the technological advances and the prevailing state of the economy, new bank products have necessarily emerged.

A new product can take the form of any of the following: a major innovation, a new service line, additions to existing service lines, or modifications of existing services.

The first signs of a new product development start in the marketing department and not in the product management groups. The "gap analysis" is the key point in the new product development. The predetermined package and the individualised package are the two marketing strategies to help fill the gap.

Technology hastens change in the banking industry through electronic deliveries and computer based products.

In a competitive environment, the marketers stand to benefit in so far as the customers are benefited. Hence, new products must be customer-driven i.e. viewed from the viewpoint of the buyers.

2.3.2 Bank Pricing Strategy

Customer satisfaction as well as profitability are the marketing concern of the banking industry.

Pricing of a new product was traditionally set by the first bank to launch the product. Other banks then

priced to be competitive, neglecting hurdle rates, profit objective, and rational economics³⁸

In view of the deregulating measures, the pricing of bank products has become a major factor in maintaining customer loyalty.

Unlike goods where pricing could be easily related to operational costs, charges on bank services and products are difficult to establish. For example, the minimum balance is not directly related to the cost of running the account.³⁹ Moreover, customers' perception of the real operational cost of bank products is weak. For instance, a customer could not easily decide whether 25p is a fair charge for a transaction. They pay the charge unquestioningly because of the need to use the banks' financial services. Even if customers' comprehension of the pricing system is nil, one can not deny the fact that every individual naturally has "picky-rate".⁴⁰ That means the customer looks for the best value for his money. Midland, for example, gained a big market share with its original free-banking services which other UK banks did not copy for eight very expensive months.⁴¹

Customers, nowadays, are on the whole more sophisticated, always on the move searching for the best offer not only product-wise but price-wise as well. However, the desire to stay in one bank from cradle to grave still exists for some customers who are bewildered by the variety and number of bank charge policies.⁴²

Hence, to stay ahead in the banking community is to look at bank pricing as a primary concern.

2.3.2.1 Pricing of Bank Services

Based on empirical evidence Robert Ford⁴³ states that bank pricing strategy for noncredit products, e.g. withdrawing money, can be divided into five principal stages:

Stage I: Launching the Campaign

Services are offered free of charge or prices are set low. Usually the start-up cost is low at this stage and therefore profitability is not an issue.

Stage II: Fast Tracking

The price of a new product set at Stage 1 is retained at Stage 2. The objective is to increase market share, protect current customers and capture new customers by offering more sophisticated products.

Stage III: Pricing for Profitability

If a considerable market has been established in Stage II, the pricing objective now is aimed more at short-term profitability rather than protecting the existing business.

Stage IV: Harvesting for the Long Haul

At this stage, pricing strategies are integrated with the overall business strategy. Pricing is related to the real operational costs while being competitive and sensitive to the market.

Stage V: Pricing by Multiple Considerations

Pricing is dictated by multiple considerations of the rational economic returns and value-added services to the customers. Some alternatives might include unit pricing, flat rate pricing, minimum charges to control volume and recover costs, tiered pricing and volume discounts. As a result, three pricing trends emerge. First, banks, at a minimum, price to cover their costs. Second, pricing becomes custom tailored to match specific marketing and to achieve product strategic objectives. And thirdly, rewards to users of automation e.g. ATMs are incorporated within the pricing system .

The aforementioned five stages of pricing strategy evolve when penetration pricing objectives are employed. Other pricing objectives i.e. skimming could be attained via a different approach by starting with a high initial price in order to project an image of quality and prestige. This strategy attracts customers who are less sensitive to price and generates more profits at the early stages.

Motley ⁴⁴ introduced a new era of bank pricing

strategies blended to a whole constellation of variables to try to achieve the best balance between profitability and market share when decisions on bank pricing objectives are made. These strategies are based on more multi-dimensional factors rather than on the sole idea of simply raising service charges. Motley's strategy may be operated during the five stages of pricing as described by Ford. Motley's pricing strategies are explained in the following section.⁴⁵

2.3.2.1.1 Hunker and Holler Strategy

A strategy of sometimes paying below market interest rate and keeping quiet about it is "The Hunker" phase. At the "Holler" phase bankers pay above the market interest rate during which time they shout about the superior rates in all the media. The trick is for each "Holler" week banks spend two or three weeks in a "Hunker". Timing is the critical price sensitivity information to consider when employing this technique. Whenever a large share of deposits are maturing, the banker would "Hunker" down. When small deposits mature a rise in the market rate is a "holler up".

The Hunker and Holler strategy can be successfully used for money-market rates because of the highly flexible nature of interest rates. Care should be taken when applying this pricing strategy along with other bank products or the bank's image would be at stake.

2.3.2.1.2 80/20 Pricing Strategy

This is based on the frequent flyer discount concept used by airlines where 80% of the profits come from 20% of the customers. The strategy is to lock-in these people and hopefully make them less price sensitive. It would seem to work well in banks using highly computerised facilities for seeking out the 20%.

Although this is possibly a useful marketing strategy, the remaining 80% of the customers can not be neglected since they could be the best customers for other bank products such as loans and mortgages. The promotional tactics of attracting, rewarding and locking-in the 20% can be best achieved via the personal selling approach because of the limited number of customers.

2.3.2.1.3 Interest Plus

This strategy calls for upholding customers' loyalty by keeping as much of their money as long as possible by providing awards. Grand prizes like a "Summer Pleasure Trip" are given to customers achieving a certain level of interest earned on their aggregate deposits. In actuality, however, since these grand prizes may never be claimed by a substantial percentage of depositors, other smaller prizes are given to customers as immediate gratification.

Another way of gaining customer loyalty is by giving awards to customers who keep minimum deposit accounts

for a certain period of time. These are possible useful marketing strategies covering all income levels of the entire market segment.

2.3.2.1.4 Bonus Coupons for Low Balance Accounts

The strategy is designed to attract and lock-in the mass market by making them less susceptible to large price increases. Bankers who are having to raise service charges and finding it difficult to do may use coupons, bonuses and relationship awards to lock-in the lower-income market segment. Discounts or credits are also given to the users of ATMs which could also help them in adapting to the modern technology.

This pricing strategy captures the mass market, the greater part of which pays the higher service charges since they may not usually be able to manage the minimum balance required for free-banking and interest-earning banking which is discussed next.

The best strategy that could be adopted depends upon the bank's objective, target market, competitor's strategy and on the nature of services to be offered. However, it should be noted that a combination of strategies could be used to capture different levels of customers. For instance, the 80/20 pricing strategy primarily for the affluent 20% might work well in combination with the bonus coupons for low balance accounts. The pricing strategy of banks will need to be

continually updated to create and maintain its attractiveness to the market.

2.3.2.2 Pricing of Current Accounts

With the proliferation and diversity of bank products the researcher deemed it proper to limit the discussion of bank prices to current accounts only, which are used widely in Saudi Arabia. Writings on pricing have concentrated on current accounts and the diversity of pricing strategies affecting bank services. Most banks price current accounts based on the following systems:

2.3.2.2.1. Free-Banking

Banking services are generally free, the debit transaction costs are offset by interest earned on the minimum balance required. This interest is notional and not credited to the account. Free-banking is an ingenious marketing strategy wherein banks have avoided the unattractive chore of explicitly charging customers yet the customers are being offered a service that is not so much free as it is less expensive.⁴⁶

Generally, "free-banking" is simple to understand and is more convenient to the customers. Maintaining a required minimum balance frees the customer from all the hassles and worries of understanding the debit transaction cost.

There are well-established advantages and

disadvantages of free-banking to the customers.

This pricing policy benefits:

- customers with low balances and frequent transactions
- customers maintaining low balance and who are never overdrawn

on the other side, the "free-banking" is disadvantageous to:

- customers with high balances and fewer transactions
- customers with high balances but who are overdrawn and are being charged penalty fees.

Moreover, customers maintaining balances of more than the minimum required have never been adequately rewarded, since no interest is being incurred on these higher balances.

This system might be regarded as following the traditional socialist principles where the rich subsidize the poor.⁴⁷

2.3.2.2.2 Interest-Earning Account

To earn interest on a current account, a minimum daily balance must be maintained. When a minimum balance is not maintained, the customer has to pay a service charge.

For the bank marketers, this strategy could pose a threat to the bank's profitability if it is not handled properly. On the other hand, this policy could increase the revenue remarkably since interest-earning accounts may attract new accounts, and could maintain customer loyalties.

The Negotiable Orders of Withdrawal (NOW) Account is an example where interest is paid based on a minimum daily balance (MDB). However, the MDB required is rather high to cover the cost of processing cheques. The interest credited to the account provides an additional overdraft protection plan for the advantage of the customers.⁴⁸

2.3.2.2.3 Fixed Service Charges on Current Accounts

Banks have difficulty in determining the actual cost of keeping a current account. Any charge passed on to the customers is generally accepted even if they have no real knowledge of the cost.⁴⁹ While some banks require fixed charges or an annual subscription charge, other charges are for transactions only or over a minimum number of transactions.

Customers understand the cost particularly when it is broken down into justifiable items. A break-down of the levied charges on current accounts could be itemised as Account Maintenance, Withdrawals and other withdrawals.⁵⁰

Many banks believe that costs are to be precisely

allocated to the customers. Marketing free-banking and interest-earning accounts can induce banks to widely implement the first two pricing policies. The fixed service charge system is used to detail transaction costs. Such charging of transaction costs is also useful to the first two strategies when a minimum balance is not maintained.

SUMMARY

In view of the diversity of products caused by deregulation and competition, pricing has become a primary concern in the banking industry.

Based on established objectives banks can adopt either one or a combination of the following strategies: Hunker and Holler, 80/20 pricing, Interest Plus, and Bonus Coupons for Low Balance Accounts.

Pricing on current accounts, can range from charging customers on every debit transaction to giving them free-of-charge. Recently adopted on current account pricing is the crediting of interest to customers who maintain a minimum daily balance.

2.3.3 Banks Promotion Strategy

After the particular new product idea has been market-tested, banks require certain promotional mixes to enhance market acceptability. Competitive leverage is not only in the development of new services but in

order to stay in business, banks have to promote their products aggressively. In a world of minimum differentiation between products, promotion is a must though many bank executives feel this is out of character with the solid and conservative image they seek to project.⁵¹

Different Bank products require different promotional mixes.

In the following discussion, the four promotional mixes - advertising, personal selling, sales promotion and publicity - are presented.

2.3.3.1 Advertising

As previously stated, formerly bank management had little knowledge of marketing concept. The prevailing environment forced banks to step into marketing and they relied heavily on advertising to do the entire marketing job. Hence, a major portion of the marketing budget was allocated to advertising.⁵²

Although this is not necessarily inconsistent with marketing orientation, banks seemed biased against other promotional elements

In conjunction with the other promotional mixes, every advertisement fulfills an objective conforming to the specific stage of the buying process. Generally the buying processes are:⁵³

- fulfilling unsatisfied needs
- identifying pre-purchase behaviour
- capturing purchase decisions
- reassuring post-purchase feelings

In the first stage of the buying process, awareness is the primary advertising concern in helping to fulfill unsatisfied needs. For example, a bank wishing to inform its customer about their cards' acceptability to the ATMs of other financial organisations could develop a message that would say "Deposit and withdraw anywhere; you are still with us."

The second stage is aimed at attaining a full comprehension of how the product can best satisfy the needs of the customer. In some cases, leaflets are used to detail the benefits of new products. An example is the Bank of Scotland's Home & Office Banking Services (HOBS) television advertisements backed up by leaflets which capitalised on the code message HOBS = Instant Access.

The purchase decision on bank products is the third stage of the buying process. Bank advertising has to induce the buyer to try the bank services. Two examples can be cited: The Royal Bank of Scotland depicts the dreams of one man owning a shoe company focuses on the cash in the man's hand. The second example is the TV advertisement of the Trustee Savings Bank (TSB) which became popularly known as the bank that likes to say "Yes".

Customers need to be always reassured about the products they buy. Reassurance is the objective of the fourth stage. An example is the personal bank loan package offered by the Bank of Scotland. It consists of the following features: favorable APR, cash-in-hand, fixed monthly repayment automatically taken from the personal account and a comprehensive Scotguard Insurance policy. A simple slogan which reads "Bank says, check before you buy", sums up the Bank of Scotland's attitude towards their loan package.

To attain the advertisement objectives related to the buying process, bank advertisers communicate properly encoded messages revolving around a powerful but simple idea explicitly in a language understood by the audience. Though "me-too" services are very common among banks and other financial institutions "me-too" advertising should be avoided. A distinctive advertising which stands out and is centred on the bank's image and not on the "me-too" products is required.⁵⁴

Key services, both traditional and new, need to be periodically readvertised to establish an awareness among the customer who may not have had the capacity to buy when the product was introduced.

In addition, banks should create challenging, difficult-to-ignore advertisements and at the same time incorporate tangible evidence of the service.

2.3.3.2 Personal Selling

In addition to their dependence on advertising, banker's personalities and their perceived roles are some of the difficulties they have now to overcome in shifting from a media-based to a personal selling marketing approach.⁵⁵

Before deregulation bank products were limited and deficiencies in personal selling were not a problem.

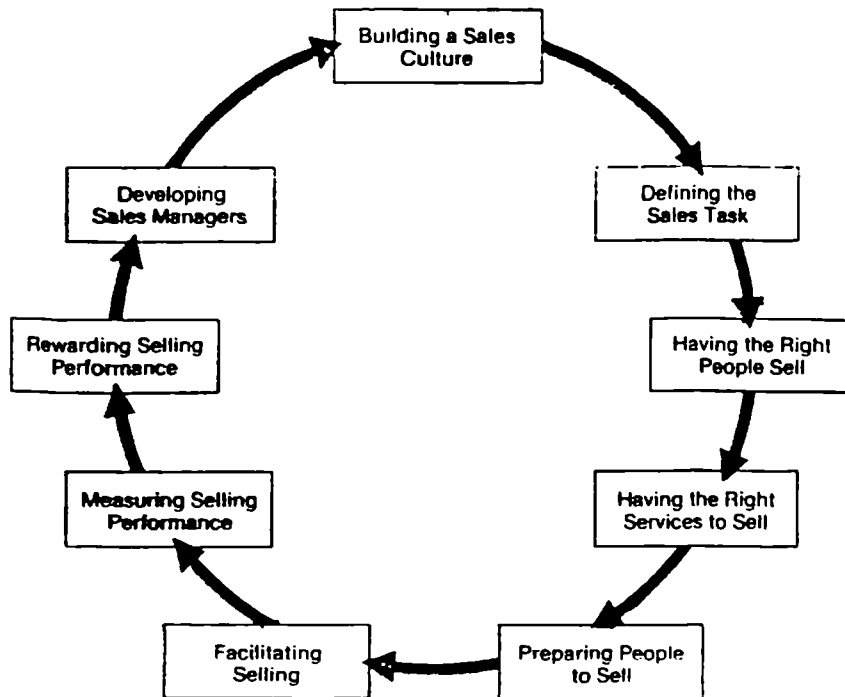
Now bank products are in abundance and so are the needs of the market. More complex financial services like cash management accounts, retirement accounts, variable rate mortgages, etc. require an interactive dialogue that is provided by salespeople, not by advertising. Advertising and selling can not substitute for one another. Advertising is for creating awareness, reassurance and stimulating interest while personal selling accomplishes trial usage and product adoption.

To augment this idea, Berry's⁵⁶ relationship banking (which was discussed earlier) is a powerful concept in building effective personal selling. The main objective is to turn customers into clients. It requires high-touch promotion and selling that can only be done by a real person. Neither machine nor advertising can perform this role. In relationship banking, the buyer is buying the bank not just the product. Also, through it, loyalty and bank patronage are cultivated.

A study conducted by Berry et al⁵⁷ to identify the

attributes that are the "key" success factors in developing a sales programme arrived at the "Sales Loop Model". It describes the actual, rather than the recommended elements of a successful sales programme.

Figure 2.3.3.2.1 Sales Loop Model⁵⁸



From the figure, the "Sales Loop Model" consists of nine key elements - building a sales culture, defining the sales task, having the right people to sell, having the right service to sell, preparing people to sell, facilitating selling, measuring selling performance, rewarding selling performance and developing sales managers. The elements are in a sequence and the loop must be kept closed. The authors have since found that the model as developed is universally applicable to all organisations, and can be a factor in their success.

It is worth noting that the "Sales Loop Model" is a continuous cycle, a repeated activity in the development of effective bank personal selling.

Bank personnel from top management to the lowest rank e.g. board of directors and advisory committees, officers, employees including receptionists, guards and telephone operators who in one way or another are in contact with prospective clients have an element of personal selling in their job. This does not mean that a sales driven financial institution is necessarily required to turn all personnel into high pressure sales people; but at least each member of the staff must understand the customer's needs and hopefully meet these needs with the bank products and services.⁵⁹

No matter how banks organise their sales function, training in selling skills is a fundamental precursor to business development success. Training changes the "culture" of financial institutions by modifying the selling behaviour of each type of sales person. Moreover, sales training produces quality personnel and sets those bank personnel apart from other employees. The sales process must be identified and communicated to the bank personnel by defining everyone's position. Deciding specific selling tasks, setting clear cut and precise sales goals and rewarding sales achievement are necessary for people in these positions to work as a team.

Top management must be aggressively committed to

supporting the implementation of sales development and overcoming any barriers that prohibit effective selling that are rooted in banking culture.

2.3.3.3 Publicity

News and opinions about the world of finance are often read very carefully by the public. In this way banks can attain effective publicity through publishing articles. Also, through these articles, an image of the bank with its objectives is created in the public's mind.

2.3.3.4 Sales Promotion

Sales promotion has the great potential to bring customers to the conviction and ordering stage by capitalising on awareness and comprehension attained through advertising. Complementary to advertising and personal selling, sales promotion is used to generate repeat usage and to develop continuity of purchase.

Sales promotion in banks can take many forms such as the following:⁶⁰

- Premiums/refunds - attract new customers, generate frequency of visit and continuity of usage. Premiums are a gift-giving promotional device. In banks, the gift is free to those opening a new account. To attract students, some banks credit an initial amount to a newly opened savings account. Also discounted rates

can be given to early buyers of a new bank product.

- Contests are held among bank customers to promote patronage while at the same time create a learning situation about the specific services of the bank.
- Games/sweepstakes - offer an opportunity to win prizes. Both are used to generate excitement and awareness. For instance, rub off gamecards provide instant reward and involvement immediately after buying a bank product.
- Coupons - have not been frequently used in sales promotions of the banking industry, some banks have recently started attaching coupons to their catalogues/leaflets. For example, when Seafirst Bank printed coupons for bank services offered with its catalogue, a remarkable response to the services was noted.⁶¹

SUMMARY

In the present banking environment where parity prevails and there is a minimum differentiation between bank products, promotion is a must. Effectively promoting a bank product requires a combination of the four promotional mix elements: advertising, personal selling, sales promotion and publicity. Advertising is primarily concerned with the awareness of customers at

each stage of the buying process. Personal selling is aimed at accomplishing trial usage and product adoption. Sales promotion brings customers to the conviction and ordering stage while publicity creates an image in the public's minds. The relationship banking centered on high-touch promotion and selling is a powerful concept in building effective personal selling. The sales loop model developed for banks could be considered a prerequisite for a productive sales programme in any organisation.

2.3.4 Bank Place Strategy

In an area where competitive advantages are few, financial service firms are beginning to look at distribution and site location as a competitive weapon. The following is a discussion of some banking strategies in the selection of distribution channels and site location.

2.3.4.1 Distributing Bank Services

According to Frias, Gregor and Reid,⁶² a study carried out by the Management Analysis Centre in the U.S.A. uncovered three misconceptions that have guided bankers in their financial distribution decisions; more is better, old is bad and new customers are more profitable. While technology has helped foster "the old is bad" myth, deregulation has provided many opportunities for banks to add more new services

catering more to the new rather than to the existing customers with high hopes of improving profitability. Instead of adhering to these three misguided conceptions, the authors suggested that banks should choose distribution alternatives that are market-focused and profit-based to sustain a competitive advantage

Traditional distribution was carried out through the networks of branch banks. Indeed, in the past, the branches provided a highly effective way for administering and distributing a wide range of banking services.

modifying the inseparable characteristics of the bank services, some banks are trying to reduce customer contact by distributing their services at "arms-length" (i.e. electronic banking) and through the use of different intermediaries e.g. franchising agreements and corresponding banking networks. However, direct distribution of bank services through branch banks is still the primary option for bank products where customers need financial advice.

For many years, industry analysts have predicted that the brick-and-mortar branch banks are "doomed" with the emergence of the push-button society. Some of these predictions have come true. Indeed the wide spread construction of branch office buildings has slowed substantially in many places while ATM has soared.⁶³

However, the old reliable full-service branch office is not futile in today's market, rather, its role and

image are evolving.

With the use of ATMs and other computerised facilities the full-service branch can:⁶⁴

- provide the customers with more services - both traditional and new
- Provide the speed and convenience of electronic processing while at the same time experiencing the "human touch"
- be flexible to allow functional changes to meet the customers' needs at a low cost.

Peter Rose⁶⁵ sorted future branch offices into two levels. The full service branch office at the center of an expanded trade area and the mini-branches, ATMs and POs terminals. The full-service branch provides personalised service (e.g. negotiating loans and lines of credit, opening new accounts, etc.) and the mini-branches, ATMs, and POs handle routine banking transactions. This way each branch office serves as many people efficiently while at the same time attaining effective financial services distribution.

With its time-saving and flexible properties, ATM is winning consumer adoption hence the growth of ATM has been remarkable. ATMs primarily provide cash-dispensing services, but also include cash enquiry, statement and cheque book request and deposit collection facilities. Further, personalised and marketing messages can be flashed onto the ATM's screen.

The EFTPoS is essentially a payment system, but it

may also be described as a distribution system and it works on the same ATM - sharing principle. EFTPoS systems access an account on which automatic credit facilities are available.

Though there are inherent dangers in mail and telephone-based distribution systems, they are highly cost-efficient in developing customer relationships and product usage through specific telecommunications strategies. These methods work both for the customer, who saves time by simply dialing a number instead of going to a bank and for the bank because their efficiency reduces expenses.

Home Banking, unlike the previously mentioned distribution systems, does not rely on an established customer franchise. Its marketing base is to provide more convenience by answering the needs of the customers while at their homes.

The need of consumers for more rapid and convenient service convinced bankers to adopt the electronic-based distribution system. Although this method has proven to be cost-efficient compared to the branch network, it is somehow disadvantageous as it continues to draw customers out of the branches decreasing the personalised-touch. In some cases, however, the absence of person-to-person contact is preferred especially by loan seekers who use telephone banking.

2.3.4.2 Location of Bank Services

There are two conventional styles of setting up branches. First, the decision in most cases is made on ad hoc if not on an impulsive basis, second, whenever a branch is opened, it is seldom if ever, closed.⁶⁶

Locations of banking facilities are of key importance in the distribution of bank services. A good site may possess twenty times the business potential of a poorly chosen site.⁶⁷ Since banking is fundamentally a convenience business, a good site should be chosen by considering two factors:⁶⁸

- selecting the general location or area.
- selecting the specific site within the most favourable area.

The general area could mean a section or the entire community. Basic information on its population characteristics, commercial structure, industrial structure and banking structure are some of the necessary data needed for the general area analysis. Within the selected general area, a specific site can be chosen considering:⁶⁹

- access to various sites
- location of competition
- proximity of public transportation
- economic condition of the area
- real estate costs
- driving time to residential places, business district or industrial plants

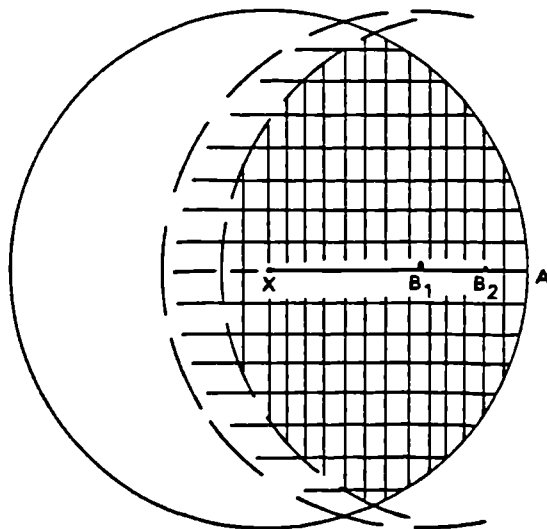
Although there is no complete agreement on the key factors that make for a good branch location, recent research shows that the most significant factors in branch location center upon the following:⁷⁰

- demand for banking services such as the number of retail stores, shopping centres, and population proportion (retired, business owners, people working, etc)
- degree of financial-services' competition in the local area

With regards to the competition in the local area, the figure below was developed by K. lee⁷¹ as an illustration of the development of the best site location for a branch bank.

Figure 2.3.4.2.1

Relationship between Distance from the Centre and Percentage Covered in the Primary Trading Area⁷²



In the figure, the proposed branch site is on X, the centre of the circle, with XA as the radius (reasonable distance serviceable by the branch office) encircling the primary trading area. Assuming that competitor Y has a branch B_1 , then the primary trading area of branch X will be shared by competitor Y. In the figure, the area with horizontal lines represents the shared trading area of branches X and B_1 . (Here, B_1 is the center of the circle with a radius equivalent to XA). In the same way, branch B_2 of another competitor shares the area represented by vertical lines as in the figure. It can be concluded that the percentage of area covered by a competitor will be greater when its location is nearer to the proposed site.

Aside from the above mentioned two major factors i.e. the demand for banking services, and the degree of competition, bankers need to consider the profitability of each branch. This could possibly lead to relocating some of the existing branches in older commercial centres to the most active shopping areas. The technique of Computer-aided mapping can be used to demonstrate many factors related to the decision of branch location.

In the same way, the location of ATMs consider profitability and convenience factors. Thus ATMs have been successfully located in supermarket and department store environments.

SUMMARY

The effect of competition, new technology and the sophisticated market create a variety of distribution channels to make bank services available for the convenience and satisfaction of the customer. The traditional branch net work is still central to retail banking distribution systems boosted by the present day ATMs, EFTPOS, cards, etc.

A good distribution site should be chosen after studies concerning population characteristics, commercial, industrial, and banking structures of a community. Other factors such as the degree of competition and the demand for services should be considered when choosing a viable bank location.

2.3.5 Banks Strategy Towards People

The role of consumer attitudes has been extensively documented as a major influence in the buying decisions of customer.

The attitude that bankers have towards themselves as "gentlemen" professionals who have a structural role in the national economy has been established in the customers' minds who believe that bank staff are unsympathetic toward the individual. Though these negative attitudes have been slightly corrected through the wide application of bank marketing, it has been established in a report published in the U.S.A. in 1985

that still customers' confidence in banks is low.⁷³ This low confidence affects the "interactive marketing" which Gronroos identified as the buyer-seller interactions in service marketing.⁷⁴ The needed cooperation between the banker and the customer would be difficult to realise if each is having a negative attitude towards the other. And this is where the previously mentioned relationship banking concept of Berry would enter. To bridge the emotional gap between themselves and their customers bankers need stronger internal and external marketing. This concept has been discussed previously.

The following is a discussion of the bank personnel and customers as integral key factors in the overall bank marketing mix.

2.3.5.1 The Bank's Personnel

Since products are broadly the same, customers discriminate banks over many attributes. Topping the list of criteria are the friendliness of the banks personnel, the services offered, the convenience and reliability.⁷⁵

The fact that most bank employees were not selected for their jobs on the basis of selling the organisation and that product development and marketing strategies were being devised in remote head office by people who had never worked in branch banking are among the many reasons for poor bank-customer relationships.⁷⁶ To

overcome this problem, the banking industry if it has not already, needs to redirect policies to its staff who are in contact with the customers. Bank personnel too, like the customers have needs and to have satisfied customers the staff of the bank must be satisfied first. It could be stated that the success of the banking industry depends to a great extent on the marketing effort to its employees which has been termed "internal marketing" as detailed in the previous chapter.

Changing behaviour is a difficult task that takes years to accomplish yet a plan for an overall sales training programme for bank contact personnel conducted periodically would be a tremendous start. However, merely providing the staff with knowledge, training and sales skills is not enough; staff involvement and staff commitment are much more important. Tellers, platform personnel and lending officers are the recommended participants of these sales training programmes.⁷⁷ Furthermore, while technology spreads, bank personnel must be trained to commit themselves to the use of electronics. In turn they are expected to advise customers to realise the convenience of new technology and how to use it.

Lloyds Bank, for example, has been using interactive videos ranging from an introduction to the bank for new staff to topics such as standing orders, direct debits, cheque returns, etc. Also, TSB has made use of

video-disk to train lending managers.⁷⁸

Some banks have renamed their tellers using the term C.S.R. (Customer Service Representatives), implying that the teller is there to advise rather than serve. For example, Barclays dispensed with their traditional teller positions and opted for open-plan offices manned by personal bankers to serve customers as counsellors.⁷⁹

2.3.5.2 Bank Customers

Beside the customers' low confidence in banks, customers generally show resistance to change. The absence of the customers' emotional attachment to the bank is mainly due to the vast array of bank products available but yet not understood by the customer. Others are the difficulty in coping with fast changing technology and in perceiving bank pricing policy. Customers need more reciprocal confidence building relationships.⁸⁰ Providing customers with the right kind of information and affording them the opportunity for persuasive communications could improve the confidence in banks. As a matter of fact, the banking industry can make use of customer education programmes to reach its marketing goal of customer purchase action. Education not only teaches but it also leads to positive decision-making. Some examples of effective customer education vehicles are instructional booklets, easy-to-use forms, well-designed mailers, videotapes,

seminars, telemarketing and recently computer controlled laser disc.⁸¹ Nonetheless, it should be noted that especially for electronic bank products, an emphasis on customer education must be thoroughly understood prior to the launching of a new product.

SUMMARY

Bank reputations are determined mainly by the customer perception of bank personnel. Bank personnel, from teller to top management, are now being moulded to change the way they think about themselves and to be more customer-driven service personnel.

The simultaneous production and consumption nature of bank services along with the relatively high human contact require sound management in both internal and external marketing activities. Hence, as training is directed towards bank personnel, customer education should always be a continuing process.

2.3.6 Physical Evidence Strategy for Banks

As has been stated earlier enhancing physical evidence plays a vital role in the marketing of services to overcome the intangible characteristics of services.

Image improvement plays a critical role in bank marketing. The image of traditional banking is sombre and dull. Owing to the severe and intimidating atmosphere, customers felt uneasy inside banks; and so

some were driven to building societies which tended to be brighter, happier places to go into.⁸²

As there had been a long recognised need for a physical renaissance of bank offices, banks started to create a more impressive and modern look at the same time providing efficient customer traffic and efficient workflow.⁸³

Interior decor has been redesigned and converted into open-planned and customer friendly offices. The armoured glass barrier between teller and customs has been brought down. Moreover, the queuing spaces are now provided with comfortable seats and often decorated with potted plants.

Plush-looking systems furniture consisting of various components - desks, pedestals, partitions, etc., linked together in a modular form provide extra floor space since they are flexible and can be conveniently configured.⁸⁴

There are a number of key trends in interior designing of new bank offices which include:⁸⁵

- use of task-oriented low glare lighting
- improved temperature and air-circulation systems
- greater sensitivity to the need for employee's and customer's privacy
- greater use of computer simulations in planning new facilities

Banks' exterior structures are now more daring.

Many bank front offices are laid bare to the critical eyes of the public. The intention is to disclose the pleasant bank environment. Also, in this way, a prospective customer can easily perceive how bank personnel process the services even from a distance.

Apart from the concept that they should do what needs to be done, personnel do perform but now with a warm, accommodating feeling and more importantly with a smile. This social and human evidence are further achieved through the use of staff uniforms.

Tangible evidence attached to the production of services i.e., cheque and bank credit cards have been used successfully to imprint a distinct image of the bank in the customers' minds. There has been a noticeable transition from the old plain cheque books to more colourful attractive ones. For example, themes depicting the "Safari World", the "Beauty of Nature" and the "Zodiac Signs" are now used in cheque books.

Finally, since name and symbol have all kinds of conscious and subconscious connotations, banks realised that their conservative names could be a constraint putting them behind other financial institutions. To cite an example, the N.Y. Thrift name change to "Apple Bank" has enabled it to project a new corporate retail image. The Apple name, signifying something wholesome and simple actually brought three times the normal new accounts rate to the bank within the first month.⁸⁶

SUMMARY

Enhancement of tangible evidence for bank services touches on both the interior designing and exterior structure of bank offices. Human evidence portrayed by bank personnel and tangible evidence such as cheque books, credit cards, etc. over other factors are used to overcome the intangible characteristics of bank services. Bank products' names, symbols and definitely the bank's name are important considerations.

2.3.7 Banks Process Strategy

As has been previously stated, little marketing literature has been published about the "process" of services; especially the "process" of bank services.

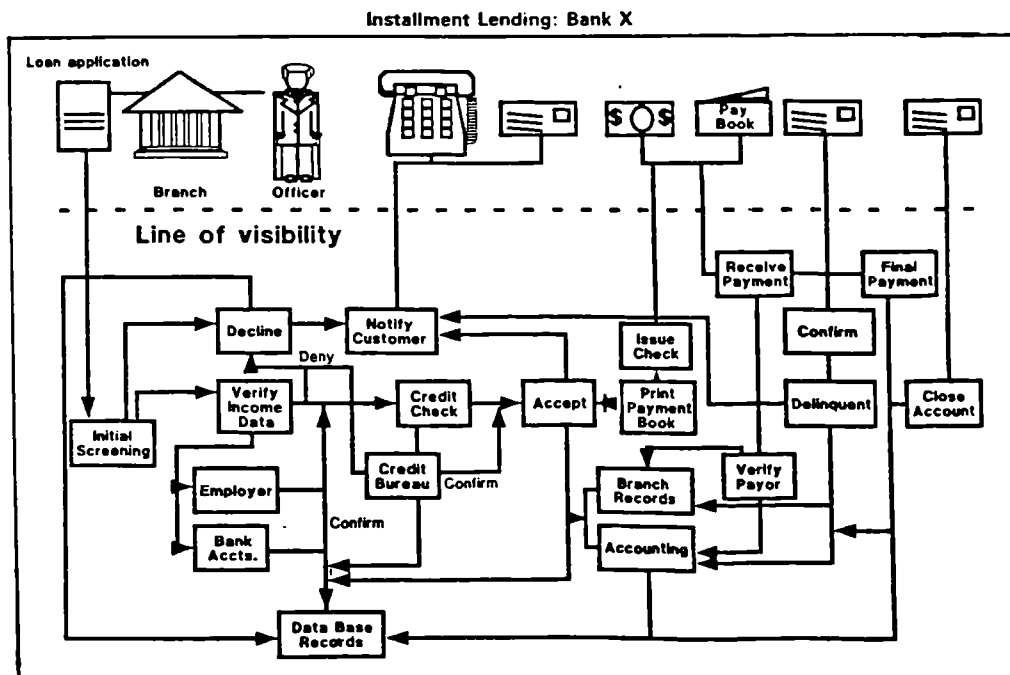
Banks service processes include the performance of bank services according to predesigned steps and sequences. Both standardised and customised bank services can be broken into steps and sequences from which many benefits can be gained.

Some bank services consist of orderly mechanical procedures as in computer-based products (e.g. ATM, EFTPoS, Home Banking) where customers follow predesignated steps leading to standardisation of bank services. "Standardised" or "industrialised" processes increase efficiency, and are more convenient for customers while definitely reducing the banks' administrative expenses. Other customised services e.g.

mortgaging, investment, loan negotiation can be designed to follow specific steps and procedures. Predesignated steps can be set out in a blueprint which is a visual representation of the steps of managing a service process. It identifies steps more precisely than verbal definitions. In addition, it saves time through controlled implementation.

The figure below is a blueprint designed by Shostack⁸⁷ representing the process in installment lending.

Figure 2.3.7.1 Installment Lending Blueprint⁸⁸



The figure shows in sequence the process involved from application, screening, credit investigation/confirmation, approval/disapproval, to

installments and final loan payment. Though a time-scale is not indicated on the figure the main steps mentioned are supported by sub-steps, purposely for better time control.

A blueprint design has many advantages which recommend its adoption by the banking industry. But two particular parts need careful attention: Firstly, an appropriate time scale should be allowed for "cross-selling", "personalised touch" and "customising services since different customers respond differently to the steps of the process. Secondly, points of divergence on potential events should be left to the judgement of the service provider. Processing of bank services can be facilitated by the following:

- bank personnel should be engaged in continuing training programmes to speed up the service process.
- customers should be educated on how to make best use of the service available.
- the use of technology specifically computing and link terminals give a degree of customisation to the service process.

SUMMARY

Standardised processes of bank services are now evident in computer-based products while a unique process is needed for customised bank services. Though

a blueprint can increase the efficiency in processing the service, care should be taken to allow for time and steps deviation especially for services requiring high personal contact, e.g. financial advice, loans, etc.

Banks can explore the service process to differentiate themselves from other banks by designing unique processes in which customers, personnel and physical facilities are addressed effectively.

CONCLUSION

Despite the difficulties encountered by banks in the adoption of marketing concepts, the banking industry is realising the huge opportunity provided through personal services.

This chapter dealt with areas of consideration for the implementation of banks' marketing concept. A microeconomic concept based on a more basic differentiation in bank services provides a distinct market segmentation among consumers who are socially and culturally different. New product development does rely not only on market pulls from the consumer but also on technology pushes, from technological innovators and product designers. Since customers tend to move from one bank to another, the barrage of new bank products, the varying pricing policy, promotions and location are all aimed at maintaining customers' loyalty. In addition, personnel friendliness developed by the

banks's sales-oriented staff enhances customers' loyalty and perceptions of banks.

In the light of a mature marketing concept for banks, consumers centre research is periodically conducted not only on depositing and borrowing behaviour but also on spending behaviour as banking needs are dictated by both patterns of behaviour.

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CHAPTER 3

THE FINANCIAL SYSTEM IN

SAUDI ARABIA

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INTRODUCTION

Analysing the commercial banking activities in Saudi Arabia would not be complete without considering the financial structure of the kingdom. Although dominated by commercial banks, other financial institutions such as money changers and Islamic banks provide considerable competition and their activities affect the role of commercial banks in the economy.

Special emphasis is given to the commercial banks' lending activities since this banking function influences the people's attitudes towards banks. Furthermore, a detailed discussion of the banks lending activities would manifest the different aspects that affect a commercial bank's operations within Saudi Arabia especially in regards to the practice of charging and receiving interest.

The following topics are presented in this chapter:

3.0 Financial system of Saudia Arabia.

3.1 Commercial Banks

3.1.1 Development of Commercial Banks

3.1.1.1 Attitudes towards interest

3.1.1.2 Foreign banking practices

3.1.2 Commercial Banks' activities

3.1.3 Lending activities

- 3.1.3.1 Allocation
- 3.1.3.2 Regulation and Securities
- 3.1.3.3 Bad Debts and Disputes

3.2 Specialised Banks

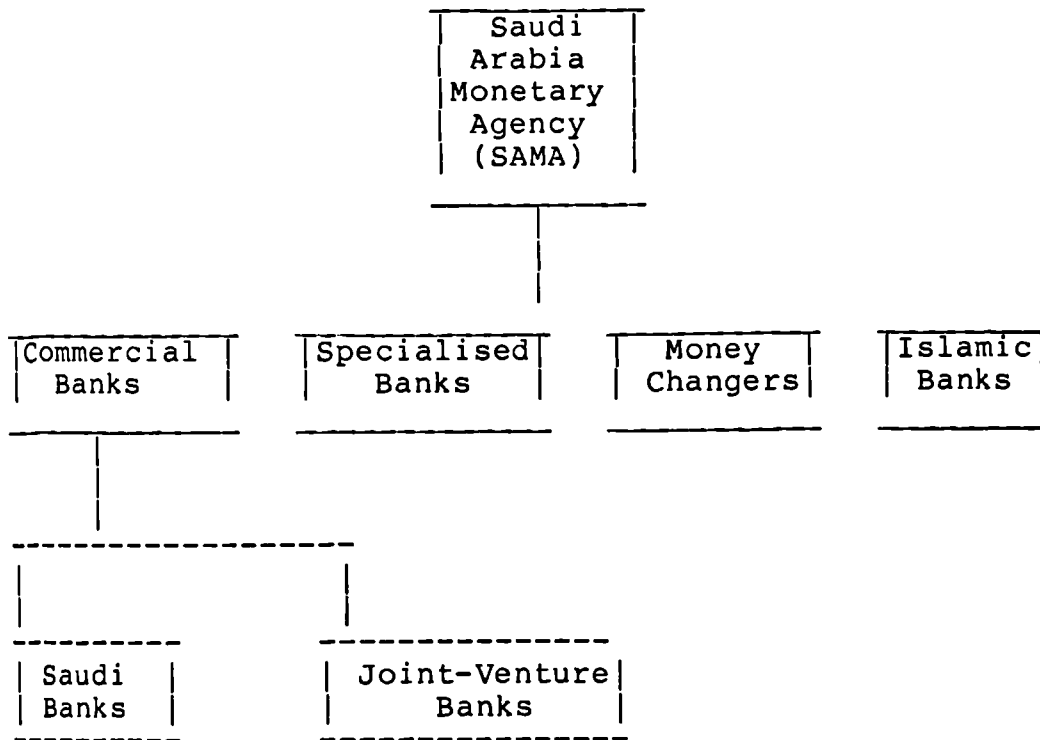
3.3 Money Changers

3.4 Islamic Bank

3.0 Financial System of Saudi Arabia

The structure of Saudi Arabia's financial system is shown in the figure below:

Figure 3.1 Saudia Arabia's Financial Structure:



At the apex of the figure is Saudi Arabia Monetary Agency "SAMA". It was established to act as a government bank with the main objectives being to issue

notes and coins and to control and supervise the financial system of the country.¹

Under the umbrella of SAMA are the commercial banks, specialised governmental banks, money changers and the Islamic banks. Furthermore, commercial banks are classified either as Saudi Banks or Joint-Venture Banks.

The following is a description and elaboration of structure and its importance in the economic development of Saudi Arabia. In line with the area of concentration of this research, special emphasis is given to commercial banks including their development, operations, lending procedure, allocations, regulations, securities and disputes.

3.1 Commercial Banks

3.1.1 Development of Commercial Banks in Saudi Arabia.

The development of Commercial banks in the kingdom has been influenced by both the people's attitude towards interest and foreign banking practices.

3.1.1.1 Attitudes Towards Interest

The object of studying Saudi attitudes to banks is to identify the role of religious belief in determining these attitudes and, following the multi-attribute model of Fishbein², to examine how attitudes affect intention, and hence behaviour. Since attitude is the outcome of the consumers' beliefs about each component alternative, the probability of attitude change varies

inversely with the intensity of the effective component. In Saudi Arabia, religious belief is the strongest determinant of attitude. However, as religious beliefs and attitudes are not only intensely held but also have high centrality, it could be said that they are more resistant to change, for example by marketing techniques. The following shows how Islamic religion affects Moslem beliefs towards dealing with banks by the severe punishment of those who deal with interest.

Saudi Arabia has its uniqueness in the Moslem world because it is the birthplace of Islam and the site of the two Holy Cities, Mecca and Medina. The central core of Islamic religion is laid down in the Holy Koran, the Muslim's revealed sacred book and the Sunna, (the Prophet Mohammad's deeds). Other sources which tackle issues not covered by the first two sources are the Ijma, (scholarly interpretation), Qiyas, (analogies), and Maslaha, (public interest). A believing Moslem tries to model his life to conform as much as possible to the Islamic rules. Islam for Moslems provides a comprehensive lifestyle entailing not only the spiritual welfare of man but also secular practices. Similar to all aspects of life, mentioned in the Holy Koran, economic issues are included in the main sources of this religion in order that followers may know how to function financially in their daily lives.

An impact on Islamic economics is the issue of interest (usury). The prohibition of interest is total

and complete in Islam. The Holy Koran has laid down strict injunctions on receiving and/or giving interest for those in any manner participating in its transaction. Examples of these injunctions which are repeated over and over with the same force and emphasis found in the Holy Koran and Sonna are:

"Those who swallow usury, cannot rise up save as he ariseth whom the devil hath prostrated by (his) touch. That is because they say: Trade is just like usury; whereas Allah permitteth trading and forbiddeth usury." "O ye who believe! Observe your duty to Allah and give up what remaineth (due to you) from usury, if you are (in truth) believers." "And if ye do not, then be warned of war (against you) from Allah and His messenger. And if ye repent, then ye have your principal (without interest). Wrong not, and ye shall not be wronged." "And if the debtor is in straitened circumstances, then (let there be) postponement to (the time of) ease; and that ye remit the debt as almsgiving."³

In the second source of Sharia law, Sonna, narrator Jabir said: "God's messenger cursed the one who accepted usury, the one who paid it, the one who received it and the two witnesses to it, saying they were all alike," and Muslim transmitted it.⁴

Islam does not recognise interest as a rightful

payment. A definition of interest is given in the Hadith of Prophet Mohammad and shows why Muslims are prohibited from gaining or paying interest: " Whoever makes or receives an additional payment is guilty of an interest transaction. The receiver and the payer (of the same) are alike (in the guilt)." ⁵

The verdict makes no distinction between usury and interest, between its simple and compound forms or between money and commodity borrowing. ⁶

Aside from the severe punishment for those who are giving and/or receiving interest, there are various moral and economic motives behind the prohibition of interest in Islam. ⁷ The moral motive revolves around the principle of not exploiting the poor and the needy through charging interest on borrowed money. Economically, the motives are:

- Principle of justice. This is the sharing of both gains and losses between business partners i.e. money lender and customer are liable for the business losses as well as eligible for its profits.
- Encouragement of hard work. Money lenders should give up idleness by not just simply waiting for interest to be earned but rather do actual work for their livelihood.
- Wealth monopoly. Instead of concentrating the wealth in the hands of only a few through the accumulation of interest funds, they could be

diverted to other investments in order to promote the economy.

- Economic growth equilibrium. When the interest rate is zero (in which capital, labour and output are growing at a constant relative rate) resources are allocated only to the productive sector. The general opinion is that this will stimulate healthy economic growth.⁸

Today's Islamic economy is confronted on all fronts by the interest system of foreign banks.

Although bank interest is identified with usury by Muslim clergymen and is prohibited by the same Islamic laws,⁹ many studies have raised questions on the issue of interest as being distinct from usury. As a result different views have emerged. For example, only exorbitant interest charges are seen as illegal by some. Others say interest may be charged as penalties for debtors who do not fulfill their obligations, etc.¹⁰

One study published in Saudi Arabia and written by Alnasir¹¹, viewed bank interest as not usurious on the basis that banks were established later and there are no specific verdicts against banks mentioned in the first three sources of Islamic laws. According to the fourth source of Sharia law, Giyas (analogy), bank interest is distinct from usury on the assumption that borrowers generally are rich persons who use loans to accumulate more wealth. In which case, to balance monetary

distributions depositors can accept interest. Moreover, in the fifth source of Islamic law, Muslaha (public interest), AlNasser contends that since banks are favourable to the society, bank interest is allowable.

The publication of Alnasir's article in Saudi Arabia has had an effect on the banking community considering that the Sharia Court has loosened its grip and the debate has begun which could lead to a change in the bank regulations.¹²

However, many publications against the views held by Al-Nasser emerged. One of these is written by Sheikh Saleh El-Hassain¹³ presenting a very strong opposition supported by his consideration of the economic, moral and religious factors.

This researcher is of the opinion that the modern interest-based banking system is illegal according to Islam and it could be said that since AlNasser skipped the first three sources of Islamic laws with explicit injunctions against interest, his research is nil and hence interest is illegal. It could be predicted that Saudis would adhere to their religious values though the situation is still at stalemate.

Stemming from Islam's strict prohibition of bank interest, the negative attitude towards interest is reflected through people's actions towards banks. Examples of Saudis' behaviour that are also proven in the survey are:

- avoiding getting employment in a bank which would make them sinful according to the Prophet Mohammad's teachings.
- not depositing money in a bank.¹⁴
- not repaying bank loans.¹⁵
- not taking interest on deposits.¹⁶

Being aware of the Saudi people's attitudes towards interest, banks try as much as possible to disguise interest by labelling interest rates as administrative fees.¹⁷ As can be seen in the next section foreign banking practices have affected how interest is dealt with in Saudi Arabian banks.

3.1.1.2 Foreign Banking Practices

In order to gauge the effect of foreign banking practices on the current banking system, a brief review of the banking history of Saudi Arabia is presented.

In the early stages, the wide circulation of mostly foreign coins throughout the kingdom gave rise to money changing activities. Until Saudi currency became widely used (1927), money changers were the only institutions converting foreign currencies into Saudi currencies and vice versa. These activities however could not be regarded as actual banking business but as a forerunner of the present system.

Banking practices in the kingdom were historically controlled by foreign interests. In 1927 the Dutch Bank

was the first foreign bank to operate the western banking system in the Kingdom. The Dutch Bank had as its main objective to serve those on religious pilgrimage from Indonesia. The Banque de L'Indochine et de Suez performed a similar function for the pilgrims from French colonies. Neither of these banks conducted business at the local market level.¹⁷

The first Saudi Bank was established in 1938 when one of the largest money changers was converted into the present National Commercial Bank (NCB).¹⁸

After the advent of oil in the Eastern region of the Kingdom, the British Bank of the Middle East was established in 1950 to serve the European community within the Saudi environment.

The establishment of The Saudi Arabian Monetary Agency (SAMA) in 1952 in Jeddah, the Kingdom's financial center, was with the ultimate objective of creating a central monetary agency. SAMA found itself dealing with only one local bank and three foreign banks. To boost the Kingdom's banking system, SAMA allowed the establishment of the AL-RIYADH Bank in 1957. However, the accumulation of a significant amount of debt led to a loss of confidence in the Al-Riyadh Bank and to considerable withdrawals of deposits.¹⁹

Resulting from SAMA's forced rescue of the bank, a cautious policy on the establishment of new banks in the Kingdom was adopted. SAMA only permitted foreign banks to establish themselves within the Kingdom if the

countries from which they originated had a significant number of nationals employed in the Saudi workforce, or a considerable volume of bilateral trade. The idea was for the banks to handle remittances and to provide ancillary services for expatriates. A third constraint was the limitation on foreign banks to establish only one branch in the Kingdom.²⁰ In addition, SAMA required all foreign banks to have a 15% deposit reserve plus paid up capital ratios and a minimum reserve requirement.²¹ These requirements limited the activities of foreign banks and thus only Saudi banks were able to expand.

The growth of the economy due to the oil boom necessitated the expansion of other foreign banks in the Kingdom. However, in view of the foreign banks' immense multi-national economic power, SAMA made the decision to Saudi-ize the foreign banks in 1977 and to permit them to expand their activities. Rather than SAMA or the government taking a share in the ownership, foreign banks were converted into joint-venture banks. This resulted in 60% of the ownership being held by Saudis.²²

The board of directors of joint-venture banks is thus dominated by Saudis according to the 60 per cent Saudi to 40 per cent foreign ownership ratio.²³ In spite of the above, the foreign banks have to retain the responsibility of management for eight years after Saudi-isation.²⁴

In view of the shortage of competent personnel, full Saudi management of the banking industry is taking a longer period as evidenced by the renegotiation of management contracts.²⁵

Table 3.1.1.2.1 lists the commercial banks and the corresponding number of branches:

Table 3.1.1.2.1.

Commercial Banks operating
in Saudi Arabia in 1988²⁶

<u>Name of Bank</u>	<u>Number of Branches</u>
<u>Saudi Owned Banks</u>	
1.The National Commercial Bank	198
2.Riyadh Bank	153
3.Saudi Investment Bank*	5
<u>Arab Joint Venture</u>	
1.Saudi Cairo Bank	44
2.The Arab National Bank	98
<u>Foreign Joint Venture</u>	
1. Saudi British Bank	29
2. Saudi American Bank	31
3. Al-Bank Al-Saudi Al-Hollandi	27
4. United Saudi Commercial Bank	13
5. Al-Bank Al-Saudi Al-Franci	55
6. Bank Al-Jazira	26
Total	<u>908</u>
(excluding seasonal branches)	

* Licensed as 20% joint venture and 5% already sold to Saudis. 15% sale is ongoing and management is already controlled by Saudis.²⁷

3.1.2. Commercial Banks' Activities

A profile of Saudi Arabia's commercial banks'

activities could be viewed from the consolidated balance sheet as shown in table 3.1.2.1

The overall bank growth can be measured by the growth rate of total absolute monetary assets.²⁸ Saudi Arabia's commercial bank assets have increased sixteen fold from 1975-1988. This growth could be attributed to the increase of oil prices and Saudi-isation which brought about mergers and joint-venture banks.

On the asset side of the balance sheet, claims on the private sector accounted for 46% of the total in 1975 steadily decreasing down to 33% in 1988. Most of these claims are made up of loans. Direct equity investments for private companies accounted for only about 1% of the total assets.

Liquid assets which are in the form of cash and deposits with SAMA are within SAMA's liquidity requirement (15%-20% of deposits, and subject to necessary change.) Liquid assets, according to SAMA, are to be converted into cash within 30 days.²⁹

The total foreign assets of the Saudi commercial banks accounted for 20% in 1975 increasing to 51% in 1988. Most of these assets are in the form of deposits with other Western banks, despite the fact that SAMA discourages this form of investment, as evidenced by taxes imposed by SAMA on interest earned by banks from off-shore lending.³⁰ However, in the last few years, there has been a move away from Euro-lending to Eurobond

financing and securities, particularly floating rates, notes and revolving underwriting facilities.³¹

Despite the liquidity of foreign assets which are withdrawable on demand, foreign assets are not considered liquid assets per SAMA's regulation.³² However, it is well understood that Saudi banks have larger cash holdings than what is required.

Another way of looking at bank liquidity is the traditional loan-to-deposit ratio which measures the extent to which deposits have been used to meet loan requirements. A low ratio indicates a liquid bank with an excess lending capacity while a high ratio means that a bank is relatively illiquid.³³ In 1975, the loan to deposit ratio of Saudi banks was about 59% steadily declining down to 47% in 1988. Meanwhile Western banks in 1979 showed a 70% loan-to-deposit ratio and the trend is for increasing the loan-to-deposit ratio.³⁴ Since the loan-to-deposit ratio is the quotient of the loan-to-asset ratio and the deposit-to-asset ratio, the downward trend of Saudi Banks' loan-to-deposit ratio is not only a result of a decline in loan-to-assets or an increase of deposit-to-assets but a decline in both. However, the decline in loan-to-assets is greater than the decline in deposit-to-assets ratio. (See table 3.1.2.2). The causes and relevance of the decline in loan-to-assets is discussed later in the section on lending activities.

On the liabilities side of the balance sheet, the

table shows an overwhelming increase in the current account deposits from 1975 to 1980 and a moderate increase from 1980 to 1985, after which deposits fluctuate slightly. The sheer magnitude of these deposits and their growth over the last decade indicates that they are well in excess of what depositors require for transaction.³⁵

The increase of time and saving deposits is relatively modest from 1975 to 1980 though there was a steady growth from 1981 onwards. The 1988 figure of time and savings is still low compared to the current account deposits. In 1988, savings deposits made up only 21% of the total liabilities in Saudi Arabia. By comparison to Western banking the time and savings deposits were 50% of the total liabilities in the United States of America in 1980 and the trend is going upward.³⁶ The low patronage of deposits and savings accounts by Saudis could be due to both the attitudes of banks and the customers reluctance to participate. Banks do not launch savings promotions because this could be viewed as an indirect form of encouraging interest. Banks prefer to continue making easy profits by taking interest-free deposits (current accounts) while charging interest on loans.³⁷

The consideration of Foreign Currency and Letters of Credits on the balance sheet indicates that commercial banks are predominantly engaged in commerce. The figures reflect the country's dependence on imports

which makes guarantees another lucrative area for commercial banks during the construction boom period.

With respect to foreign liabilities, it shows that from 1975 to 1988 Saudi banks' foreign liabilities are less than 10% of their total liabilities. This could be due to the lack of investment opportunities and the low level of financial disclosure most companies and banks are prepared to provide.³⁸

In summary the trends in Saudia Arabian banking are:

- domestic loans are declining.
- domestic investments are very low, meaning that there is no real participation in the economic development of the Kingdom.
- foreign investments are mostly in the form of bank deposits.
- banks are liquid because of their vast deposits in off-shore banks.
- current accounts are in excess of what is required for daily transactions.
- patronage of time and savings deposits is low.
- foreign liabilities are quite low compared to foreign assets.

A general observation is that banks have tended not to run the various services offered with the integrated approach e.g. promotion of loans, time and saving deposits are low while current accounts patronage is high.

Table 3.1.2.1

Consolidated Balance Sheet of Commercial Banks: 39

(million Saudi Riyals)

Assets	1975	1980	1985	1986	1987	1988
<u>Claim on Private Sector:</u>						
-Loans	5,401	29,240	59,280	58,081	56,136	61,858
-Investments	113	735	1,256	1,549	1,781	2,425
<u>Liquid Assets:</u>	3,530	8,997	11,018	13,018	16,725	19,133
-Cash	248	1,259	1,439	1,281	1,194	1,331
-Deposits with SAMA	3,282	7,738	9,579	11,905	15,531	17,802
<u>Foreign Assets:</u>	2,370	23,937	73,400	72,770	92,571	96,532
-Due from banks abroad	2,252	21,628	67,738	65,621	81,194	83,508
-Other	118	2,309	5,662	7,149	11,377	13,024
<u>Unclassified Assets:</u>	1,211	6,925	14,998	17,517	16,233	18,559
<u>Liabilities</u>						
<u>Deposits:</u>	9,008	49,590	114,146	113,372	125,132	124,963
<u>Current</u>	5,623	30,449	48,361	46,171	47,246	49,926
-Business and Individuals	4,977	27,774	43,915	43,458	43,646	45,543
-Official Entities	655	2,675	4,446	2,713	3,600	4,383
<u>Quasi-Money</u>	3,375	19,141	65,785	67,201	77,886	75,037
-Time and Savings	1,539	11,630	36,589	39,682	41,089	39,697
-Foreign Currency	498	2,480	23,015	22,606	32,136	30,164
-Letters of Credit	587	2,787	3,681	2,701	2,829	3,405
-Guarantees	751	2,245	2,500	2,213	1,832	1,771
-Foreign Liabilities	1,077	5,938	8,944	11,145	16,047	26,817
Capital and Reserves	501	3,520	11,893	13,008	13,268	13,624
<u>Unclassified Liabilities</u>	1,200	6,464	17,583	17,003	21,682	23,427
<u>Total Assets & Liabilities:</u>	11,786	65,512	152,566	154,528	176,129	188,831

Table 3.1.2.2

Consolidated loan-to-deposits, loan-to-assets and deposits-to-assets ratios of Saudi Commercial Banks:

YEAR	Loan-to-Deposits %	Loan-to-assets %	Deposits-to-assets %
1975	58.7	44.9	76.4
1980	57.5	43.5	75.7
1985	50.8	38.0	74.8
1986	49.9	36.6	73.4
1987	43.4	30.9	71.0
1988	47.5	31.5	66.2

3.1.3 Commercial Banks' Lending Activities

The previous discussion gave a brief description of the profile of the banking activities of commercial banks in Saudi Arabia.

Since significant differences exist in the lending activities of commercial banks in Saudi Arabia, it is the intention of the researcher to present a detailed discussion on this basic banking function.

The discussion includes: Credit allocation, regulations and securities, bad debts, disputes and loan collections.

3.1.3.1 Credit Allocation

A breakdown of the credit allocation in table 3.1.3.1.1 indicates that the business sector was

revealed to be the largest recipient of bank credit over the last five years. Since the country depends largely on imported goods, short-term loans to business are preferred because the payback is usually immediately after the goods are sold.⁴⁰

Building and construction companies are the second largest recipient of bank loans. Although the state run Real Estate Development Fund provides interest free loans to private home builders and the Credit Fund for Contractors gives highly subsidised loans to Saudi Building Firms, the participation of commercial banks in construction lending could be due to the volume of construction activities in this still developing country. Another reason could be the lower risk involved as the property is considered to be collateral for the loans.

Bank lending to the manufacturing and processing industry ranks third. Although the annual amount loaned from 1983-1987 is around a quarter of the total credit given to commerce, banks seldom participate in industrial financing without the involvement of one of the government's specialised credit agencies i.e. Saudi Industrial Development Fund (SIDF) and Public Investment Fund (PIF).⁴¹ In financing working capital requirements, industry resorts to commercial banks as banks provide speedier services and easier application procedures.⁴² As with the building and construction industry, banks' lending to manufacturers is on a

short-term basis.

Commercial banks' loan involvement in other sectors i.e. transport, agriculture, mining, etc. is relatively low. This tends to undermine these productive sectors of the economy.

In these cases, certain regulations using selective measures might help to influence credit allocation in accordance with the country's investment strategy. It is worth noting that personal loans are not considered a major portion of banks' credit allocation.

Table 3.1.3.1.1

Commercial bank credit by economic activities⁴³
(mid of period) (million Riyals)

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
A	17,604	19,061	19,072	20,018	20,018	19,608
B	11,096	12,924	13,217	14,062	11,231	11,138
C	4,503	5,667	6,099	5,427	5,452	4,749
D	495	931	1,073	1,045	990	967
E	216	163	437	663	310	322
F	1,272	1,067	1,011	1,413	1,260	690
G	3,111	3,563	4,170	4,040	3,786	4,338
H	1,088	1,386	1,779	2,216	2,450	4,401
I	1,442	1,936	2,703	3,261	3,388	2,994
J	9,250	10,965	12,079	9,090	9,604	14,363
T	50,077	57,618	61,640	61,235	58,503	63,570

Note: data includes loans to government departments and agencies, thus differing from claims on the private sector.

KEY:

- A = Commerce
- B = Building and construction
- C = Manufacturing and processing
- D = Agriculture and fishing
- E = Mining and quarrying
- F = Electricity, water and other utilities
- G = Transport and communication
- H = Finance
- I = Service
- J = Miscellaneous
- T = Total

3.1.3.2 Regulations and Securities

To gain a better understanding of the banks' commercial lending activities, a review of the basic regulations and securities is presented in the following:

3.1.3.2.1 Bank Regulations

Regulations set by SAMA play a major role in the credit activities of the Saudi commercial banks. Some of the major regulations are discussed below.

Banks are restricted to granting credit guarantees or securities and to bearing any other financial liability in favour of any person or organisation in the amount which exceeds 25% of the bank's total reserves and paid-up capital. (The agency, however, may raise the ratio to 50%). Letters of credit are also counted towards the 25-50% limit.⁴⁴ The objective of this regulation is to prevent any one firm from controlling the bank because of having a majority of the banks' assets as loans to one single firm.

Of particular importance to bankers is that SAMA has the authority to ban certain kinds of loans which banks may grant and to determine the nature and amount of securities to be held by banks in connection with credits and loans.

In addition to these overall restrictions, banks are not allowed to make loans, provide credit or undertake any financial liability to or on behalf of directors or

auditors, or any other enterprise in which a director or auditor of the bank is a partner, manager, guarantor or holder of an equity interest except for joint stock companies. Also, a bank may not, without security, undertake any financial liabilities or grant any credit facilities in favour of an officer with the bank in an amount exceeding four months salary.⁴⁵

Under the Banking Control Law, banks are forbidden to engage in certain activities e.g. real estate. If a bank obtains real estate as settlement of a debt, it must divest itself of this property within three years.⁴⁶

It should be noted that there is no legislation prohibiting or allowing commercial banks from charging or paying interest. The absence of such a regulation and the omission of any legal injunctions against taking or giving interest may mean that a significant compromise exists. The outcome of this would be the inability of SAMA to control the level of interest charged and paid by banks. Difficulty in evaluating a bank transaction arises for the customer in the absence of published regulations.

Moreover, there is no regulation formulated on settling disputes that may arise from loan transactions though the general practice is through Sharia court, where any interest transaction activity however disguised, is considered unlawful.

3.1.3.2.2 Bank Securities

Saudi banks recognise the right of the borrower to assign his right to the lender as a security. Methods of obtaining security for commercial bank loans are:⁴⁷

Real Property

A mortgage of real estate can only be valid by means of registration before a notary public. A Supreme Judicial decision stated that loans granted by commercial banks are assumed to be with interest and against Sharia. Therefore registration of a mortgage of real estate by notaries and Sharia authorities in favour of commercial banks was prohibited in 1982. However, in 1987 the power of encumbering property to the banks was restored to the notaries public.⁴⁸

To effect registration of documents of real estate mortgage during the period (1982-1987) several alternatives have been used:⁴⁹

- The borrower's property can be pledged by depositing the original document in the bank accompanied by a note witnessed by two people, that sale or mortgage to a third party shall not be done nor an application made for a duplicate document.
- A sales agreement is executed with the mortgagor and then the real estate is leased back to the mortgagor.
- Mortgage the property in favour of an employee

of the bank since a mortgage in favour of a Saudi citizen cannot be rejected by a notary public.

- Mortgage to a bank abroad which in turn would issue a guarantee to the Saudi bank. With the risk involved in duplicating the deed and in the absence of any endorsement and registration by notaries, the foreign bank has minimal security.

Risk exposure and lawfulness of the above suggestions are not to be neglected.

Mortgage over Receivables

Since chattel mortgage is not possible under Saudi law and practice except for ships, a sale and lease back may be used, where the debtor acts as trustee on behalf of the lender. In the event of default, the lender is entitled under the terms of agreement to recover the loan from the sale proceeds. Another alternative may be a "bill of sale". This is where the borrower places in escrow for the bank a bill of sale conveying title to the collateral together with a letter stating that the bill is to be returned to the borrower after loan repayment.

Securities

Securities that can be posted in obtaining bank

loans take the form of:⁵⁰

- Name bearing bonds and bonds payable to order may be pledged.
- Shares in joint stock companies may be mortgaged by deposit of the share certificates with the bank and simultaneous registration of the mortgage in the company's register.
- Pledge of document of title i.e. bill of lading, warrants, delivery orders, warehouse keepers' certificates, etc.

For all of the above, the pledge agreement must show the amount secured, charges incurred and an authorisation to sell and to execute all documents that may be required to transfer title.

- Promissory notes of bills are commonly used since these notes are protected by the commercial paper regulations.
- Negotiable instruments i.e. bill of exchange, cheque and other securities, like accounts receivable and bank accounts, may be assigned by endorsement.

Guarantees

Bank guarantees and personal guarantees need not be notarised. However, since guarantees by third parties are not completely reliable and are difficult to

arrange, guarantors must hold bank accounts with the creditors' bank, in which case a debit against such account is made if the borrower defaults.

It could be said that personal guarantees are the most commonly used lending security in Saudi Arabia. In personal lending, securing a loan is hindered by the difficulty of obtaining personal guarantors whose bank accounts would be enough to cover the loan. If there are, then the tendency would be for the guarantors to grant the loan personally. This is supported by the earlier research statement made that personal loans are not a major portion of commercial banks' credit allocation.

3.1.3.3 Bad Debts, Disputes and Loan Collection

Until recently, Saudi banks have been considered internationally the most profitable banks in the world.⁵¹ While enjoying interest-free deposits, interest is charged on the loans. Today however, gone are the halcyon days; banks now show declining profitability and some have lost part of their reserves if not part of their capital⁵². The steep decline of profitability is mainly due to the heavy loan-loss provisioning. The aggregate loan loss provisioning during the 3-year critical period (1985-1987) accounted for SR4.4bn which is about 30% of the Saudi Arabian banks' aggregate capital and reserves.⁵³ In 1984 Saudi banks reported an aggregate Return on Assets (ROA)

of 1.32% which decreased sharply in 1985 to 0.48%. The decline in ROA reached its lowest at 0.33% in 1986 while in 1987 ROA was at 0.44%. It appears, however, that in 1988 Saudi banks started to recover.⁵⁴

The root of the banks' problems was primarily due to⁵⁵:

The erosion of oil prices and the huge drop in Saudi oil production

Building and construction projects which accounted for a major portion of the government spending were greatly affected. Consequently, when the flow of contracts stopped, contractors were unable to meet their loan obligations since their liquidity depended on advance payments from government contracts.

Inexperienced management of companies

During the oil boom many people with no management and financial expertise at all ventured into business. An indication of this is the rapid expansion of business establishments e.g. in 1986 Saudi businesses grew fourteen fold as compared to the 1984 figure⁵⁶. In view of the inexperienced management, several of these establishments were unable to cope with the crisis brought by the oil production slash. Hence, many

companies fell into bad debt.

Real Estate prices went down with the decline of the construction business

During the construction boom most companies invested part of their cash in Saudi real estate assets speculating that prices of real estate would soar up. However, at the end of the construction boom, real estate prices went further down even below the acquisition cost. At this point, companies refused to sell their real estate investments at market prices to pay back their bank debts.

Bankers also contributed to the problems since in their rush to expand business after Saudi-ization, huge loans were made to the private sector based on personal relations without proper loan evaluation and securities. The problem was further aggravated by the fact that loans granted to private companies were mostly on a short-term basis, "to the extent that a long-term loan is of 2-year duration".⁵⁷ With the oil crisis several companies were unable to cope with the market conditions while simultaneously paying their short-term loan obligations.

As a result of these problems, banks were plagued by non-performing loans and as companies were pressed to pay their bank debts, they turned to Sharia Court. Based on Sharia Law, no interest should be given or

taken on financial transactions. On the contrary, banks are very reluctant to bring their obstinate borrowers to Sharia court since they know that they would end up paying back the interest they may have received⁵⁸. Even seizure of collateral for bad debts would be difficult if interest however disguised, had been charged on these loans.⁵⁹ Moreover, in 1982, notary publics stopped legalising any mortgage related to an interest bearing loan.⁶⁰

It could be said that the hesitancy of borrowers to pay back loans and interest goes beyond their financial problems and stems from an innate attitude rather than from a religious conviction. While Islamic religion forbids involvement in interest earning transactions, the debtor's attitude is to stop payment of bank loans on the basis that banks have made good money in the past.⁶¹

Due to the lack of legal recourse over bad debts, banks prefer to settle their differences by coming up with a mutually acceptable compromise between bankers and debtors.

As a result of this debt crisis, banks resorted to:

- extreme conservatism in deciding to whom they should lend.⁶²
- circulating a black-list of the worst debtors which formed a basis for the banks to deny loans.⁶³
- Islamicising some parts of bank lending e.g.

loans to contractors for equipment could be managed on a lease-back basis.⁶⁴

- developing unique syndicated loan documents such that Sharia Court would indorse loan disputes in commercial courts.⁶⁵

Without neglecting the observance of Sharia laws, SAMA is obliged to retain public confidence in banks. Several of the actions taken by SAMA to help out the heavily indebted banks were⁶⁶:

- restoring to the notary publics the power to register mortgaged property to banks which had been stopped since 1982.
- forming a new banking disputes arbitration committee with persuasive powers to handle sensitive debt problems.
- removing the tax levied on off-shore loan interest.
- forbidding other government ministries to hold bank guarantees on one project because of problems on a different project.
- funding commercial banks by interest-free deposits.⁶⁷

3.2 Specialised Banks

In view of the Commercial Banks' concentration on short-term credit mostly allocated to commercial sectors, several quasi-governmental institutions were

established in conjunction with SAMA to fill the gap in long-term financing. These agencies however do not serve only as lenders but also as development agencies. As such, loans are prioritised to development projects and are often reduced to the economic sectors with excess capacity.

The importance of these specialised banks is evidenced by their outstanding loans of about SR166.5 billion in 1988 and which reached 67% of the amount of commercial banks loans in 1980.⁶⁸

The following is a brief discussion of the specialised developmental banks and their lending activities as shown in Table 3.2.1

3.2.1 Agricultural Development Bank (ADB)

The Agricultural Development Bank was established in 1965 with initial capitalisation of SR 10M. The bank's objectives are to provide loans and subsidies for small and large scale public and private agricultural projects as in mechanisation, livestock, well drilling, etc. Other sectors benefitting from these loans are fishermen, bee keepers and cooperatives. It is interesting to note that loans were extended against personal and real estate guarantees.⁶⁹ The amount of loans granted reached its peak amount of SR3.3 Billion in 1984.

3.2.2 Saudi Credit Bank (SCB)

The Saudi Credit Bank or Bank for People of Small Means was created with the aim of granting interest-free loans for specified social and economic purposes to those with low income levels who are unable to borrow through normal commercial banks, i.e. those whose income is less than SR 12,000 annually.⁷⁰ The SCB was established in 1971 with an authorised capital of SR 5M.⁷¹ Credit disbursements reached their peak in 1981 in the amount of SR373 Million as shown in Table 3.2.1. Expansion of financial resources was by accepting interest-free government guaranteed deposits from the public.

3.2.3 Public Investment Fund (PIF)

Established in 1971, this fund is also known as the General Investment Fund. In addition to its original function of providing interest-free loans to public sectors and joint-ventures, participation is also in industrial, agricultural and commercial enterprises.⁷² As shown in Table 3.2.1, the Public Investment Fund has funded SR 9.5 Billion, with the largest number during the fiscal year 1982-1983.

3.2.4 Saudi Industrial Development Fund (SIDF)

The Saudi Industrial Development Fund was created in 1974 to support industrial development through medium and long-term interest-free loans up to 50% of the total

industrial project requirement.⁷³ With an initial capital of SR 500M, lending increased to its peak in 1981 amounting to SR6.7 Billion as shown in Table 3.2.1

3.2.5 Real Estate Development Fund (REDF)

This Fund was established in 1974 to extend long term soft loans for private housing and investment loans for private companies, to be used in the construction of residential complexes, offices and commercial centers. With a starting capital of SR 250M credit disbursements increased until it reached a peak of SR 8.9 Billion by 1984 as shown in Table 3.2.1. Loans granted for private home construction are up to 70% of construction costs and up to 50% of construction costs to private companies for business projects. The scheme of loan repayment in addition to soft financing of housing loans, grants an exemption of 20% of each installment amount repaid on its maturity date plus a discount of 10% against full pre-payment of the entire loan.⁷⁴

With the main purpose of assisting Saudi contractors in the purchase of construction equipment, machinery and building material by providing interest-free loans, the Credit Fund for Contractors was established in 1974. It started with a capital of SR 50M but recently the Fund's role has been taken over by other institutions.

Another Agency, The Ministry of Finance and National

Economy is also extending huge loans for large projects like the establishment of hotels, hospitals and large agricultural projects.⁷⁵

Table 3.2.1

THE SPECIALISED CREDIT INSTITUTIONS (76)

	<u>Credit Disbursements</u> <u>(million riyals)</u>								
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
1. Saudi Agricultural Bank Established in 1965	946	1,701	2,433	3,341	3,347	2,538	1,451	1,077	694
2. Saudi Credit Bank Established in 1971	40	373	331	243	234	252	277	284	273
3. Public Investment Fund Established in 1971	2,949	6,032	8,772	9,452	5,847	3,662	1,429	130	382
4. Saudi Indust.Dev. Fund Established in 1974	6,490	6,661	5,347	5,116	5,225	2,415	927	453	542
5. Real Estate Dev. Fund Established in 1974	8,589	7,598	7,142	8,318	8,910	8,598	6,795	4,281	3,972
<u>TOTAL</u>	<u>19,014</u>	<u>22,365</u>	<u>24,025</u>	<u>26,470</u>	<u>23,563</u>	<u>17,465</u>	<u>10,879</u>	<u>6,225</u>	<u>5,863</u>

3.3 Money Changers

In the absence of sufficient data about the activities of money changers, their role in the financial structure of the Kingdom is difficult to establish. However, their existence cannot be underestimated as they present considerable competition to commercial banks. It is estimated that 25% of funds in the Kingdom have been managed by money changers.⁷⁷

Their activities are far more than just a money exchanging operation. They play a major role in assisting neighbouring traders in the market places (souk) and they are very popular as foreign exchange dealers handling international currencies. Their activities also include cashing travellers' cheques and providing short-term financing.⁷⁸

The money changers are considered to be profitable because of being in business for longer hours, the lower salaries paid to employees, low overheads due to not maintaining prestigious offices but most importantly they do not come under SAMA.⁷⁹

Before 1981, their activities have been regulated in practice by being registered only to a commercial court to handle bookkeeping and to exchange gold and riyals at the current market price.⁸⁰ In 1981, however, money changers were required to register with SAMA only as currency dealers and to cease acting as lenders and deposit takers.⁸¹ These regulations however, did not affect their status in the financial industry. Becoming

diversified into other businesses, funds were generated from family reserves giving the advantage of providing tying loans to continue trade financing and real estate lending.⁸²

The 1981 regulations also encouraged the conversion of money changers into Islamic Banks.⁸³ In accordance with this regulation, one of the largest money changers, Al-Rajhi Banking for investment and Commerce (ARBIC), recently converted into a full Islamic Bank.⁸⁴ The success of ARBIC may encourage the rest of the money changers to follow its path.

3.4 Islamic Banks

3.4.1 An overview of the Islamic Banking System

With reference to the earlier stated Koranic writings - "Allah permitteth trading and forbiddeth usury", Islamic law recognises profit as a correct remuneration while interest is not recognised as a correct and justifiable payment. Accordingly, the Islamic resurgence which has been noticeable in the last decade has made possible the creation of a special Islamic Financial Institution (Islamic Banking) which fulfills the two conditions of Islamic Sharia. First, the return on either capital or entrepreneurship must not be predetermined. Second, the participants share not only in profits but also in losses in accordance with their contribution to the venture.⁸⁵

Hence, an Islamic bank operates on an equity based

system in which depositors are treated as shareholders.⁸⁶ In this case, depositors as shareholders are entitled to profit as well as being liable for losses. Consistent with the aforementioned main concept of Islamic banking, the following special modes of investments and financing are based on the profit and loss sharing systems (PLS).⁸⁷

Mudarabah (Trust Financing)

In Mudarabah, the bank provides the necessary financial capital and the borrower provides the human resources. During the lifetime of the project the lender is the sole owner of the project and the borrower is the manager. Profits are to be shared between the bank (lender) and the borrower but losses are shouldered only by the lender (bank). The borrower as such loses only the time and effort invested in the project.

Musharakah (Participation Financing)

Musharakah is a form of business arrangement in which a number of partners pool their financial capital to undertake a commercial/industrial enterprise. All partners share profits and losses in accordance to their respective capital contribution.

Murabaha (Cost-plus trade Financing)

In this scheme, an Islamic bank would purchase the product and resell it to the ultimate buyer with a

profit margin mutually agreed upon in advance by the borrower and the bank. Repayment of such financing can be deferred and made either in installments or in a lump sum.

Ijara (Rental Financing)

The Islamic bank, or its leasing company, purchases the product and leases it to the borrower for a specific sum and for a specific period of time.

Ijara wa Iqtina (Lease-Purchase)

In this financing scheme, the borrower negotiates for a lease-purchase of the product where the payments include partial final purchase and transfer of ownership of the product.

The above five schemes of financing in Islamic banking are the most commonly used. Although there are several other arrangements which are also based on the concept of profit and loss sharing.

3.4.2 Islamic Banks in Saudi Arabia

Although Islamic banking has been recently established in Saudi Arabia, it could, in the future present a great challenge to the Saudi commercial banks.

Islamic banking in Saudi Arabia is classified into these categories:

- The Islamic Development Bank.

- Representatives of foreign Islamic Banks.
- The domestic Islamic Banks.

3.4.2.1 The Islamic Development Bank (IDB)

The Islamic Development Bank with its headquarter in Jeddah, is capitalised by some Islamic nations. The objective of this organisation is to support economic development and social progress of member countries and Muslim communities in accordance with Islamic religious principles.⁸⁸ Since the IDB operates between member nations, the competition it poses to Saudi commercial banks is limited only to investment activities.

3.4.2.2 Representatives of Foreign Islamic Banks

Although representatives of foreign Islamic Banks operate in Saudi Arabia, there is very little available information on their activities. Based on religious dogma, their presence cannot be underestimated as they attract Muslim fundamentalist who do not accept dealing with interest-related activities.⁸⁹

3.4.2.3 Domestic Islamic banks - Al-Rajhi for Banking and Investment Corporation (ARBIC)

The largest of the money changers, (Al-Rajhi Company for exchange) was converted into a full-service Islamic bank (ARBIC) during the Summer of 1988. It has a clearly defined identity as an Islamic bank.⁹⁰ In spite of the fact that it started its

operation less than a year ago, it has powerful advantages over its rivals. Its paid up capital is larger than the four largest banks in the Kingdom combined and it has the largest number of branches, and most importantly, its balance sheet is free of any bad or doubtful debts.⁹¹ The conversion of ARBIC from a money changer to a major bank may lead to significant structural changes in the banking system of Saudi Arabia. Evidence is SAMA's recent regulation limiting the money changers activity to dealing only with currency or converting their business into Islamic Banks.

Several controversies have been raised by religious scholars and bankers themselves on the present Islamic banking system. Criticisms as to the lawfulness of the Islamic banking activities or whether they operate as pure PLS banks have also been raised.⁹² However, a constructive view by Roger Cooper⁹³ on Islamic banks, claims that though they are far from competing with western banking, they are complementary by being able to fill the financing gap for trade and business especially in the Third World countries.

In the meantime, the Islamic banking system which has non-interest transactions has drawn a lot of attention. It has been a subject of a series of academic research and debates as to its eventual status within the banking industry.⁹⁴ Since it is still in

the early stages, there is not enough evidence to prove that Islamic Banking lives up to its claim that its activities adhere to Islamic Sharia laws.⁹⁵ Yet, these banks are struggling to prove their existence among the rapidly expanding financial institutions. In Saudi Arabia, ARBIC is struggling to prove itself as the first full-service Islamic bank.

Conclusion

The financial system of the Kingdom is dominated by the commercial banks. Other financial institutions i.e. specialised governmental banks act as supplementary while a number of money changers which do exist are posing considerable competition. The recent establishment of Islamic banks which conforms to the dictates of Islamic laws (Sharia Laws), conceivably could be a great challenge to the existing commercial banks. After the oil crisis and the bad debt problems, commercial banks consider venturing into international banking as a back up to their domestic banking business.

Several characteristics describe the Saudi Arabian commercial banking system. These include:

- balancing the influence of the Western interest-based banking practices with the country's Sharia Law which prohibits bank interest.
- current accounts are more popular with the customers

than savings accounts.

- domestic investments are relatively low and huge funds are allocated for short term loans to businesses and industries.
- the information on interest rates is not publicised.
- the disguising of loan interest by labelling it as service fee or commission.
- the uncertainty of settling loan disputes leaves the banks in a precarious position.
- a high risk is involved in bank loans in spite of the collateral required.

Extracted from the analysis of the financial system of the Kingdom, it could be said that the marketing environment, i.e. legal, regulatory, technological, social and economic environment, for commercial banks is not conducive to dramatic growth as the rest of the economy might be. Unlike other dynamic environmental changes affecting an organisation, conflict between the banking system and the country's legal and societal constraints are inherent and keep the banks from realising their potential. Legislation according to Sharia Laws, defines bank interest whether on loans or deposits, as illegal. The prohibition of bank interest is explicit in the Holy Koran and therefore is an irrefutable factor. Furthermore, regulatory forces fluctuate rapidly creating uncertainty and a threat to the banks. However, an aggressive stance towards this

regulatory force is reached by influencing SAMA's policy to consider the environment in which commercial banks operate. The recent restoration to notaries public of the authority to document real mortgaged properties to banks and the creation of a banking disputes committee to handle bad debts are some recent approaches shaping the governmental regulations.

In response to societal attitudinal constraints, banks are adopting an active approach to Islamicisation of some bank activities to cope with this inherent factor. In other words, finding themselves unable to change customers' attitudes to banking, because of the centrality of their religious beliefs, banks have been obliged to make changes - albeit somewhat cosmetic - in the banking services they offer. This is further evaluated in the fieldwork which includes surveying the different views of bankers and customers.

Similar to the other sectors of the economy, Saudi Arabia's commercial banks conform with economic and technological factors as the need arises.

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CHAPTER 4

ASPECTS OF SAUDI ATTITUDES TO BANKS

Chapter 4

Aspects of Saudi attitudes to banks

The aim of this chapter is to assess the attitudes of Saudi citizens towards dealing with banks.

The nature of this research is exploratory. Exploratory research aims to determine the general attitudes and to identify problems commercial banks may have in the customer relations marketing programmes. The exploratory research is preliminary to the main objective and helps identify the specific area to be dealt with in the consumer survey. The research tool used is the ethnographic interview. The qualitative data which resulted from the interviews constitute a description of the interviews along with an explanation on how interviews work in a Saudi context.

The use of qualitative analysis invariably precedes theory making. In this study the result need not be generalised considering the number of informants involved. However, conclusions were drawn from the findings as discussed. This chapter is presented as follows:

- 4.1 Qualitative research methodology.
- 4.2 Interview analysis.
- 4.3 Findings and Conclusions.

4.1 Qualitative Research Methodology

Ethnography is the description of a culture. The ethnographer hopes to learn from the people of a culture by observing and listening to others. The ethnographer learns about a culture by making inferences from how people exhibit their knowledge and behaviour.

The three sources of cultural inference for the ethnographer are¹:

- what people say
- how people act
- the artifacts people use

The basic approach for the researcher is to be objective. This means setting aside cultural preconceptions and beliefs in order to fairly assess the attitudes of the informants.

Since the researcher is primarily concerned with the preservation of the chronological flow and local causality, the data source were informants rather than subjects or respondents . Informants are ordinary people with ordinary knowledge who represent what is essential for the researcher to discover. Informants differ from subjects since they define and use concepts to classify their experience while subjects are used by the researcher to prove or refute a preconceived hypothesis².

Another distinction between respondents and

informants is that the researcher does not employ the actual language of the respondents while ethnographic research relies heavily on the language of the informant. More accurate information can be presented by using the informants who speak freely and explain any misunderstandings which may arise.³

The following is a discussion of the sampling procedures, types of interview, types of questions, and the analytical approaches used.

4.1.1 Sampling

"The chief aim of sampling is to make an inference about a parameter that is unknown from a sample statistic that can be measured".⁴

Making inferences from the data is the object of sampling and must rely on a well selected group chosen to be representative of the population. Probability sampling is the optimal choice since the results from the study can be generalised to the whole population. There are however, circumstances where probability sampling is not an option. Where there is a limit on time and cost non-probability sampling can be used although it does affect the validity of the findings. In less developed countries, however, even non-probability quota sampling is not applicable because of the lack of secondary data.⁵ In the case of Saudi Arabia there is no available reliable list of the population. There is no sampling frame; the proportions of age, sex, income,

education etc. do not exist. Therefore the researcher was forced to use non-probability purposive sampling. Here the sampling units are selected subjectively by the researcher who attempted to obtain a sample which represents levels of education in the population, and an assumed range of income levels. Another basis for selection was the period of time the members of the sample group had spent abroad. Some of the informants had been exposed to Western banking for a considerable length of time and were well aware of the differences between Saudi and Western banks.

The number in the sample group was fourteen. The break down was two illiterate, one educated to primary level, three intermediate, i.e. three years of education following primary school, four secondary i.e. six years in addition to primary schooling and four educated to university level. All were men due to the cultural barriers between men and women, it is usual for men to conduct all financial affairs although under Islam men's and women's finances are always separate.

Some prospective interviewees refused to cooperate. Fear of speaking against Islam and being recorded, accounted for some of the refusals. Others were simply not used to talking about private finances since Saudi society is somewhat closed. Others declined because they did not value or understand the importance of research.

The researcher was unable to use probability

sampling, as pointed out. A small sample group was used as this is a preliminary piece of research.

4.1.2 Interviews

Qualitative analysis appears in words rather than numbers. This data is collected by interviews. The style of interview used is known as a focused interview. This is where the researcher approaches the interviewee with specific objectives in mind and knows what questions are to be used to attain these objectives. The researcher knows about the focus of the interview so was able to direct the interviewee to concentrate on the area directly related to the purpose of the study.⁶

Reliability was achieved by conducting the interviews in the same way and by the same interviewer i.e. the researcher. Due to the socio-cultural aspect of division of the sexes the interviewer carried out all interviews in the presence of a male relative.

The cooperation of the interviewees was gained by informing them that they were in a position to give information needed for this research. It was explained to the interviewees that they were selected according to specific sampling procedures, in this way they gained confidence and were cooperative.

4.1.3 Question Types

The possibility of having biases in qualitative

research is great.⁷ Therefore the questions asked were constructed to focus on the words and actions of the informants within specific contexts.

Three types of ethnographic questions were used, phrased in both personal and cultural contexts⁸.

The descriptive questions enable the informant to speak freely allowing the researcher to become aware of the informant's language style. For example,

"Can you describe the procedure which you needed for taking out a bank loan?"

If the informants had never taken out a bank loan personally, the same question was rephrased in a cultural context.

"Can you describe the procedure for taking out a loan from a Saudi bank?"

Another example,

"Can you describe the procedure for buying something on an instalment basis?"

The structural question gives the researcher an opportunity to discover information about cultural domains, i.e. the basic units of the informants' cultural knowledge. Structural questions are repeated so the informant can identify the variety of activities in a specific context. Again they were expanded in a cultural context. For example,

"What do you use as a source for loans?"

"Have you any other sources?"

"Can you think of any other ways Saudis use to

obtain a loan?"

The contrast questions were asked to find out what the informant means by the various terms used. The researcher is then able to discover the dimensions of meaning which the informants use to differentiate the objects and events of their culture. An example of a contrast question is, "What is the difference between paying a commission and paying interest?"

The informants were asked:

- to list, in order, their sources of loans.
- to give their views of the characteristics of banks users, i.e. educated, city dwellers, etc.
- to describe and evaluate loan procedures.
- to explain the reasons for not taking advantage of bank loans.
- to describe the different ways of avoiding a bank loan.
- to give their view on actual Islamic Banks.

A researcher involved in qualitative analysis must be concerned with replicability⁹. In this instance the researcher was aware of the terms and repetition of terms used by the informants and the replicability of specific actions. Some of the informants used native terms which were enclosed in parenthesis in the description and then placed into analytic categories.

It is important to note the monolingual aspects of

this piece of research. The interviews and questions were put by a native speaker, i.e. the researcher and so are closer to a description of this aspect of Saudi culture, in Saudi terms. An example of how important the language factor is appears when informants used the word commission. The researcher knew he was referring to a form of interest.

4.1.4 The Analytic Approach

This qualitative analysis consists of three stages: data reduction, data display, and conclusion drawing and verification¹⁰. These three stages are inter-related and the researcher is constantly required to refer back to the previous stage.

Data reduction is the process of identifying, abstracting and transforming the data. Reduction takes place at various stages in this study during: the initial recording, transcription into Arabic and translation into English. It was at the third stage that the researcher eliminated extraneous material.

Data display is the spatial format of displaying information to the reader. Qualitative research has typically used narrative text as the means of display. Using the narrative text was the best format considering the content of this study since verbal description is the end product of cultural studies¹¹.

Conclusions are drawn from the initial stages of data collection as the researcher gains impressions

about the informants. These conclusions require verification in order to be confirmed as valid and plausible. The strategies used for drawing conclusions and verifying the data displayed are as follows¹²;

- Counting was carried out in order to discover the level of replicability, i.e. the number of times and the specific ways things usually happened.
- The researcher sought plausibility in the data, i.e. the information that is credible. This strategy for finding meaning is always subject to verification by the other strategies e.g. a tentative conclusion was drawn from data collected by the interviews that highly religious Saudis would not use commercial banks and are wary of present Islamic banks. This conclusion was borne out as plausible in the analysis of the data and drew the attention of the researcher to what real basis was involved.
- Clustering is used in qualitative analysis to help the researcher group phenomena and conceptualise those having similar patterns or characteristics.
- Splitting variables is used to differentiate data and to avoid blurring. It was used at all stages to separate variables not relating well to each other.

- Subsuming particulars into the general categorisation involves integrating specific actions into the general categories which make up the conceptual framework.
- Factoring aims to find variable or factors which have commonality, i.e. which overlap and help in the identification of relations between variables.
- The discovery of intervening variables results from contrasting elements within two variables which previously had been combined.

4.2 Interview Analysis

The following aspects were discussed with the informants:

4.2.1 Sources of Loans

Informants were asked to list in order their sources of loans. The aim is to discover if banks were considered a primary source of loan. The responses are classified as follows:

4.2.1.1 Borrowing from Relatives and Friends

Twelve of the fourteen informants stated that they borrow from relatives when they are in need of financial help. Relatives are favoured for borrowing small amounts by one informant as banks require guarantors and documentation.

This same informant would not borrow from friends because he said, "my friend would say I came only to beg for money".

A second informant stated that he would borrow only from his brothers. However, in the case of his brothers being unable to meet his requirements he would then go to a bank using a friend as a guarantor for the loan. This informant also stated his reluctance to borrow from a friend as this would damage his reputation but he is willing to use a friend as a guarantor.

The reason for going to relatives for twelve of the informants is probably the religious factor. Under Islamic law it is prohibited to borrow money from an institution which profits from giving a loan. Relatives and friends are sympathetic to the borrower's situation and therefore likely to be prepared to wait for repayment. There is no need to put up collateral for a loan from a relative and also there is no interest paid on the loan. This result is verified in the consumer survey.

4.2.1.2 Borrowing from Banks

Only two informants rank banks as their first source of money for loans. One informant said he preferred to use banks since they are the obvious place to borrow money. The second informant refused to acknowledge that borrowing from banks is contrary to Islamic law. He inquired whether if you gained profit from another

source or financial dealing "this would be against Islamic law". He argued that banks profit from using their funds in other projects but once they lend money they lose any gain that they may have had from that amount. It is for this reason that they charge interest on loans. This informant believed that the small amount of interest he pays merely covers the bank's loss and he was happy to pay for this service.

Another informant would use banks only as a last resort. If there is no other way to get the amount he required and an urgent need existed such as a hospital bill then he would go to a bank.

One informant stated that he would never use a bank as the source for a loan, but would rely on members of his community. This view was generalised and referred to all members of his recently urbanised community (Bedouin). This informant identified bank users as city dwellers and since he regarded himself and his community as being separated from the city, he expected never to use banks.

One informant would not approach a bank for a loan because of fear. If he, for example, put up property for collateral he feared that the bank would take it if he defaulted on loan payments. Another informant would sell personal possessions, even at a loss, in preference to using bank loan facilities.

4.2.1.3 Using Instalment Purchases as a Source for Funds

Six informants stated that as an alternative to borrowing either from banks or relatives they would buy for example a car on an instalment basis but then immediately sell the item at a lower price and use the cash according to their needs. One informant stated that this is the best means of raising funds, as it does not contradict Islamic law nor does it place a friend or relative in an awkward position.

4.2.1.4 Borrowing from Money-Lenders and Money-Changers

No informants admitted to personally using money lenders or money changers. However, when asked the question in a cultural context, "Did they think Saudi people borrow from money lenders or money changers?" only six informants answered that some people resort to money lenders. When it comes to interest, it was stated that although money lenders charge a fee this does not constitute interest, it merely covers the cost in time that the money is on loan. In real terms the cost to the borrower is very high, outstripping bank interest rates. This can be attributed to the informality of the arrangement and the fact that money lenders do not have a fixed rate of interest.

The image of the money changers is in direct contrast to western style banking according to one informant. This informant gave several reasons why some

Saudis preferred to use money changers:

- Money changers call themselves companies rather than banks. The word bank is provocative and generally causes some to be wary because of their religious belief.
- Money changers pretend to perform their financial services in an Islamic way. In reality they charge high rates of interest and realise high profits from non-Islamic transactions.
- Money changers are people based locally, who are well-known in their operational area.
- The personnel working for money-changers are also local and therefore accessible. Because of this customers readily and easily bargain for more profitable deals. It is uncomfortable for local citizens to go to a regular bank because the bank staff is usually foreign and they use banking jargon which is more formal.
- The premises of a money changer are similar to any other small local shop with merchandise on display. (The various currencies being sold are stored on shelves visible to the customer). Banks on the other hand are imposing and impersonal and do not offer the comfort of the small money changers.

4.2.1.5 Other Sources of Loans

In some instances informants mentioned borrowing small amounts from their employers against their future salaries.

A further source of loans described by an informant takes the form of a group fund. Employees of the same establishment pool a fixed amount every month and take turns drawing on the pooled funds. Both these procedures are undertaken generally by members of lower socio-economic groups.

4.2.2 The Characteristics of Borrowers from Banks

The informants were asked about the general characteristics of borrowers from banks. Five informants replied that those who use bank loans were usually educated to a high level, while two informants stated that borrowers from banks belong to higher income groups. One informant believed that only city dwellers used banks for borrowing money. Businessmen were also pinpointed as borrowers by two informants, specifically businessmen who had commercial concerns outside Saudi Arabia. Two informants stated that borrowers had no common characteristics. All these assertions were made with no consideration of the religious factor.

A comparison between the reply to the question of loan sources and the educational level of the informants revealed some correlations. Those who had been educated to a higher (university) level and those who had

attained a secondary education were more likely to use banks. Illiterate or un-educated people would resort to money-changers or money lenders. Across the social spectrum religious people never used any loan facility where a profit was made by the lender.

4.2.3 Specific Reasons for Not Using Bank Loans

Informants were asked to give specific reasons for not using bank loans. Three main reasons were given.

4.2.3.1 Religious Prohibition

In the previous chapter, reasons from the Quran and other religious writings were given as to why usury contradicts Islamic law. And, bank interest is identified by Muslim clergymen as usury, and therefore prohibited by the same Islamic law.

This prohibition on interest concerns both paying and receiving interest. As mentioned earlier, Saudi banks previously enjoyed the benefits of not paying interest on deposits while collecting interest on loans. Lately however, banks in Saudi Arabia have started to give interest on deposits.

Two informants stated that they would personally pay interest. One of them stated that he would happily pay interest. The second informant was more reluctant, feeling there was some psychological barrier, but would pay the interest if necessary.

Two other informants would pay interest on a loan

but when considering the religious prohibitions regarded the banks as a guilty party since they were exploiting the borrower's need. The remainder of the sample group stated that they would not pay interest. This statement is qualified by the fact that some are even reluctant to admit paying interest on bank loans or even borrowing from a bank.

In order to clarify the general attitude regarding interest, the informants were asked if they would take interest on money deposited in a bank. All informants, except one, replied that they would not. The informant who stated that he would take interest would not give his opinion on the Islamic attitude toward interest i.e. whether it is allowed or prohibited. He stated; "If you invest directly in a commercial project you will profit. Banks use your deposit in commercial projects and interest is the profit from these ventures. If you don't take interest you may as well keep your money in the house".

Another informant who stated he would pay interest said there was a difference between paying and taking, and this stopped him from taking interest.

The informants were asked if they personally were offered interest on their deposits what would they do with it. Of the thirteen informants who stated they would not take interest five said they would give it to the bank and so the bank would take the burden of guilt for contravening Islamic Law. The remaining eight would

accept the offer of interest but would prefer to give it to charity rather than leave the money for the use and profit of the bank. These informants were hesitant about giving interest to charity as they regarded it as "dirty money". However, it was stated that it was better to give the money to charity than leave it to the bank.

The general consensus was that interest contravened Islamic Law and the informants would pay interest but were not as willing to accept interest.

4.2.3.2 Procedures for borrowing from a Bank

The second reason for not using bank loans involved the bank's prescribed procedure for applying for a loan. The procedure is as follows:

1. The loan applicant must present formal identification to the bank.
2. He must have a guarantor who either holds an account at the bank or owns his own business.
3. The loan applicant has the option of putting up collateral instead of presenting a guarantor. The bank demands collateral worth more than the amount of the loan. The bank estimates the value of the collateral rather than an outside appraiser.
4. The loan applicant must state the purpose of the loan.
5. The loan applicant must be prepared to sign a bill

of exchange agreeing to the payments arranged and the times for repayment.

6. A certain period of time is needed for loans because only head offices can approve loans.

Ten of the informants stated that bank loans involve lengthy procedures and time is needed for approval. The procedure is complicated by repeated visits to the bank and filling out forms. One informant stated that, "Banks are everywhere and you can avoid waiting by applying directly to the head office".

Two informants said that how long the loan procedure takes depends on the personal relationships the applicant or the guarantor has with the bank. The last informant stated that finding a guarantor is the main problem with the bank loans although he knew that professional guarantors exist and demand 2.5% of the loan. This informant said that putting up collateral is preferable to using a guarantor.

One of the informants, while admitting that the procedure was lengthy showed reluctance in stating the reason for applying for a loan and ultimately refused to give his reason.

The general view was that the lengthy procedure would deter borrowers who needed instant loans.

4.2.3.3 High Interest Rates

Most of the informants used the word commission in

place of the word interest. This could be explained by the fact that interest is considered usury, so the word commission is used instead of interest to escape the interest prohibition in Islam.

Commissions are made permissible by two schools of Islamic jurisprudence: Hanafi and Shafi'i, while Maliki and Hambali make no such concessions¹⁴.

Two informants stated that bank interest is reasonable, i.e. it was about 5% to 6%, while some others think it is between 10% - 20% which they considered high. The discrepancy between the responses of informants could be due to the fact that interest is not publicised because of the religious factor.

Although there were differences in the interest rate, only four informants who are uneducated stated that they did not know how bank interest is calculated. Ten informants stated that they did know how bank interest is calculated. One informant stated that "for example if I need SR 80,000, I ask for SR 100, 000". Another informant said that he would receive SR 90,000 if he applied for SR 100,000 as a loan with a lump sum interest rate of 10%.

There are three points to be noted here:

Firstly, the amount of interest is taken by the bank in advance, in other words, it is deducted from the actual sum borrowed. In this case the interest rate would be higher than it appears to be, e.g. the second informant ends up with taking SR 90,000 and

paying it back as SR 100,000 after one year. The actual interest rate is 11.11% not 10% as the borrower thinks.

Secondly, the borrower is actually in a worse position when his debt has to be paid on an instalment basis. The borrower takes SR 90,000 and, in return, he signs for example, 10 bills of exchange each = SR 10,000 monthly. In this case, the monthly interest rate is = 1.90% and the actual yearly interest rate will go up to 25.35%. It could be much higher if a borrower repays some of the installments before they are due.

Thirdly, there is usually no mention of interest in the loan contract, nor in the bills of exchange. In this case, the borrower can not turn to the Islamic court which would exempt the borrower from paying the interest. On the other hand, banks are protected against defaulted loans.

One informant speaking on behalf of the banks defended the fact that interest or interest rates are not shown on loan contract. As he stated it, the bank takes the position that "here is the deal, take it or leave it". In other words, the loan agreement requires repaying a higher amount of money, which is the interest, and it is up to the borrower whether he chooses to participate or not.

The general consensus was that informants understand that the difference between a loan and its repayment is

actually interest paid to the bank. They also showed a knowledge of how banks calculate interest, although they were unaware of the actual yearly interest rate.

4.2.4 Means of Avoiding Paying Interest

Informants were asked how they finance their needs when they do not turn to banks, and when they fail to get loans from friends or relatives.

Of the twelve informants who did not use banks, six informants stated that they would cancel the project they needed the money for, and the other six stated that they would use instalment basis purchases and finance themselves. When the question was asked in a cultural context, informant responses can be classified into three groups. The researcher believes that the various ways suggested by the informants are all different ways to avoid getting involved in a bank loan. The reason for that is to evade the Islamic prohibition of bank interest. The alternative methods suggested by the informants are as follows:

4.2.4.1 Instalment Basis Purchases

Generally speaking, and avoiding differences among jurisprudence Islamic schools, buying on an instalment basis is permissible in Islam unless the sale is financed by a third party¹⁴. In this case the sale price is considered a loan from the third party to the buyer, and the difference between the cash price of an

item and its sale price is considered interest paid to the third party.

Buying on an installment basis is not a common facility in Saudi Arabia. The few retailers who offer this facility are middle-of-the-range car dealers, furniture retailers, and retailers of electrical goods.

Ten of the informants replied that Saudis could buy on an instalment basis because it is permissible in Islam. The procedure is straight-forward, either the buyer can use a guarantor or have the instalments deducted directly from his salary.

An example of an instalment basis purchase was discussed at length with one informant. The informant had bought a car for SR 45,130. The down payment was SR 20,000 and the rest was to be paid in instalments. The monthly payment amounted to SR 1,675 over 15 months. The cash price for the same car was SR 40,000. When the informant was told that he had in fact paid interest of 3% monthly rate or 42.57% of yearly rate on his purchase and he would have got a better deal at the bank, he was still convinced that there was no interest involved, and he was happy with his purchase.

In Saudi Arabia some instalment basis purchases involve an outside finance agency such as a bank, a financial company or money-lenders¹⁵. The involvement of a financial intermediary in such a transaction contradicts Islamic Law. One informant stated that all car dealers in Saudi Arabia who sell on an instalment

bases finance the sale through a bank, but the car dealers never tell the customer of the bank's involvement.

When this was put to the informants, six of them agreed that bank interest and interest paid on instalment purchases are the same.

The general attitudes towards buying on an instalment basis can be summed up as follows:

- Customers are unaware of any financial intermediary involved in the sale, so in their opinion, instalment purchases do not contravene the Islamic Law.
- Also religious factors affect customers' decisions to pay commission on instalments which is invariably higher than interest paid on a bank loan.
- The informant expressed the fact that there is a tendency not to shop around looking for a reasonable instalment price.
- The total amount to be paid was not important in the decision to buy, the down payment and the instalments are more important to the decision.

4.2.4.2 Al Aenah

Al Aenah is another means of evading Islamic prohibitions on interest.

The procedure involves a retailer and was discussed and described by only three informants. Although they did not mention al-aenah explicitly, they describe its procedure as follows:

The Borrower "A" approaches the lender "B" by purchasing a certain item from "B" at a pre-arranged price, to be paid either in instalments or on a specified date. This price is usually more than the amount "A" wishes to borrow. The sale contract is formalised by "A" having the item in his possession for a very short time, perhaps just touching the item. Then "A" with "B's" agreement resells the item to "B" at a lower price than what was originally paid by "A". "B" pays the price in full, after negotiation, and so "A" secures the loan. Those who borrow in this way seem to be operating under Islamic Law and conforming to Islamic norms since a full sales contract is completed.

The contract is recognised and enforceable in Islamic courts. The lender can demand increased payments from the borrower where there is a written contract.

This procedure is practiced by older Saudis and those who are not knowledgeable of Islamic laws. It is also used by the lower socio-economic level. Those who practice this form of lending use the Souk (Old Market) as a base and often have goods to be sold for this specific purpose, in addition to ordinary retailing. There are also lenders whose shops only operate for this

purpose.

This practice is prohibited by Islam since interest is an element in the transaction. The sale is merely a convenience and in real terms non-existent¹⁶.

Three informants talked about this means of borrowing. The remainder of the sample group were unaware of this practice. However, the general assertion was that it is a contravention of Islamic law.

4.2.4.3 Al Tawarouk

The informants who spoke about this means of borrowing described the procedures as follows: as in Al Aenah, the borrower "A" approaches the lender "B" and purchases a specific item to be paid for in instalments or on a certain date. The price paid is usually higher than the cash price.

Then the borrower "B" sells the item to "C" who pays less than the cash price. In this way "B" secures his loan but pays interest to "A" while also losing money to "C".

Six of the informants stated that this practice is widespread particularly with durable goods such as cars.

Some Islamic scholars are of the opinion that this way of borrowing is prohibited by Islam since it involves an element of interest. Others state that it is prohibited if the seller/lender knows that the buyer/borrower is going to sell the item immediately for cash. There is a third viewpoint which holds that the

seller has no rights over the item which is sold so the buyer/borrower has the right to resell at a lower price¹⁷.

The informants generally believe that this practice is not anti-Islamic. The prohibition of usury is explicit in the Koran. However, the procedures described above are apparently not prohibited, and so are used to evade these prohibitions.

Conforming to Islamic norms is the principle behind the use of the above means of securing a loan, and it is for this reason the borrowers do not use banks. One informant stated that although he realised that these means of borrowing use a form of interest in terms of the amount of loan and its repayment he believes that "banks are more merciful".

4.2.5 Saudis' Views towards Islamic banks

Fundamental philosophical differences distinguish the Islamic banker from the Western bankers mode of operation. An Islamic bank is "a mutual fund that takes deposits from many kinds of customers, invests them Islamically, and distributes the profits among the customer after taking a management fee"¹⁸. Also according to Islamic law losses must be shared among depositors, and so the Muslim depositor risks participation in the Profit-Loss Sharing system (PLS), (see Chapter 3).

Informants were asked to give their general view on Islamic banking. Two uneducated informants were unaware of the existence of Islamic banks, their mode of operation and their distinction from commercial banks.

Another informant although unaware of an Islamic bank's existence was sympathetic to its way of operating. He stated that if they shared both profit and loss it is permissible under Islamic law. In addition to this he stated that it would not be permissible if the bank shared only profit.

An informant who also was unaware of the Islamic bank in Saudi Arabia inquired about the Profit-Loss Sharing System. This informant declared his readiness to deal with such a bank since the bankers would be guided by God (Allah). However, this informant was somewhat confused as to the purpose of such a bank. He indicated that the accumulated funds should not be used in the business but to help poorer countries.

Another informant used an Islamic bank while being unaware of the manner in which such a bank operates, but has a preference for this type of bank rather than an overtly commercial bank. He deposited SR 70,000 and was given a return of SR 5,000 after two years. The yearly return is approximately 3.5%. The informant was more than happy with this return since if he had deposited in a commercial bank he would not have accepted interest. In addition, commercial banks also lend money with interest charges, an anti-Islamic method of banking in

which this informant was not happy to take part.

Another informant using the Islamic banks stated that he was not satisfied with their procedures. It takes 2 days from notification to withdrawal of small amounts and up to a week for larger amounts. This is due to the geographical location of the bank which is outside Saudi Arabia (Bahrain). This lengthy procedure was confirmed by another informant who had waited 21/2 hours for one withdrawal. His dissatisfaction made him decide to use another Islamic bank.

A religious informant was doubtful of the Islamic banks operating methods. He followed up his doubts by making a personal inquiry at one Islamic bank. He was informed that Islamic laws were applied for the greater part and as Islamic banking grows in popularity and size, Islamic laws would be applied totally.

One informant who can be regarded as very religious did use the Islamic Bank. Although he is pro-Islamic banking, he withdrew his deposit once a loss started to show on his balance. He attributed this loss to mis-management.

The remaining five informants distrust the Islamic banking system. One particular informant summarised the viewpoint of this group. He stated that Islamic banks generate profits but give only 5%-6% to the customer. He does not know where the difference between the profit and the return to the customers goes. He said that it is rumoured that Islamic banks invest in commercial

banks. Also, he suggested that a feasibility study of Islamic bank projects be carried out more accurately to prevent bad investments. He added that Islamic banks operating in Saudi Arabia, are for the most part based outside Saudi Arabia, therefore they are not answerable to Saudis or regulated by them. It is for this reason that this informant group distrusts Islamic banks. He concluded if (Sharia) Islamic laws were applied properly there would be an escape for the Muslim from riba (interest).

It appears that there is a number of potential investors in Islamic banks who are already pre-disposed to the advantages of Islamic banking generally for religious reasons.

4.3 Findings and Conclusion

This chapter was concerned with consumers and their attitude towards banking services. The information presented was the responses given to a number of open-end questions. Some questions were put in a personal context, however, more information was actually elicited by putting questions in a cultural context.

The main conclusions drawn are the following:

- Bank interest is clearly understood by consumers as not permissible under Islamic law and so it is to be avoided.
- Banks are avoided by the potential borrower and

are used for depositing, buying travellers' cheques or paying bills.

- The borrower is mainly given loans by relatives or uses other means such as instalment based purchases to avoid using commercial banks. This is despite the fact that the hidden interest paid could be higher than what banks charge.
- The attitude towards banks is marked by distrust. By not giving interest, banks are regarded as dishonest, and this factor constitutes a psychological barrier to the potential bank user.
- Low income groups are reluctant to go to banks because of their lack of collateral.
- The Muslim consumers' behaviour must always be confirmed by Islamic law. This explains why Muslims in general are unwilling to discuss their dealings with banks.
- A lengthy process is used by banks when giving loans as a means of protection against those who might be high risks.
- Interest is invariably deducted at the initial stages of a loan. This is a means by which the bank protects itself as interest may not be collected by the bank at a later date if a Sharia is involved.
- The Saudi consumer is psychologically prepared

to use an Islamic Bank and pre-disposed to do so.

- The Muslim consumer is happy to know that his money is being used for Halal (Islamically permissible) investments and not commercial interests like the deposits in Western banks.
- There is genuine resentment in dealing with interest among Saudis. Attitudes may be summed up by stating that people think mixing their money with the banks makes them sinful according to Islam.

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CHAPTER 5

RESEARCH METHODOLOGY

Research Methodology

Introduction

This chapter is concerned with providing an overview of the research design and methodology used in the formulation of both the bank marketing manager's questionnaire and the consumer survey. The methodology of this research includes the following:

5.1 - Research Problems

5.2 - Research Objectives

5.3 - Formulation of Hypotheses

5.4 - Research Design and Methods of Data Collection

5.5 - Designing the Questionnaires

5.6 - Translating the Questionnaires

5.7 - Choosing the Sampling Techniques

5.8 - Data Analysis Procedure

5.9 - Validity and Reliability of the Research

5.1 Research Problems

The research problem arises from the fact that conflict exists in the banking system of Saudi Arabia. On the one hand, banks operate along western banking lines i.e. interest-based banking. On the other, Sharia law as the predominant Islamic rule strongly prohibits the patronage of interest. As such, use of bank services is affected by the attitude and practice of bankers toward marketing and by the Islamic religious factors.

The research concentrates on two groups; bank marketing managers and consumers. It was demonstrated in the previous chapter that due to socio-economic, political and technological changes in Saudi Arabia bankers are adopting a more favourable attitude towards marketing services to their consumers. The concern of this research is to assess the attitude and practice of marketing by banks operating in Saudi Arabia and likewise the attitude of consumers toward these banks.

5.2 Research Objectives

In order to achieve the aforementioned research aims, the objectives set were:

- To assess the role of bankers in Saudi Arabia in marketing bank services to the public.
- To assess the attitude of consumer toward banks.
- To establish a correlation between the educational level, income level and age of the

consumers and their attitude toward dealing with a bank.

- To determine the effect of Saudi bank marketing practices on Saudi consumer attitudes towards banks
- To assess the impact of religious values on the consumers' attitudes towards banks.
- To assess the consumer awareness of the concept of modern banking compared to Islamic banking.
- To propose a purely Islamic banking system based on the anticipated results of the research.

5.3 FORMULATION OF RESEARCH HYPOTHESES

In the formulation of the research hypotheses, the researcher was guided by two main approaches:¹

A deductive method was used with regard to the bankers attitudes and practices of marketing. Deductive inference begins with a hypothesis and progresses from general to particular. Since much has been written about bankers' attitudes and practices of marketing outside Saudi Arabia a general hypothesis relating to Saudi Bank Marketing practices was made. A general hypothesis is defined as a "statement generalised to apply to the largest number of widest possible explanation schemes"² In this study the hypothesis that "Banks in Saudi Arabia do not practice bank marketing".

In the consumer survey, in addition to the deductive method, the inductive method where the hypotheses and conclusion are drawn after the data analysis was also used. Being the reverse of deductive inference the inductive approach passes from the particular to the general. Based on the descriptive and exploratory studies done in the previous chapters, a general hypothesis about the attitudes Saudis have in dealing with banks was made. The general hypothesis that "the attitude of Saudi consumers towards banks is negative", was the basis of the consumer survey which shows the use of deductive inference. The general hypothesis for the consumer was stated as four subhypotheses demonstrative of the causal relationship between variables.

A link hypothesis correlating the two hypotheses about banks and consumers was also made. This hypothesis relates the effect of Saudi bank marketing practices to consumer attitudes toward banking.

The following are the research hypotheses:

- Banks in Saudi Arabia do not practice bank marketing.
- The attitude of consumer toward banks is negative.
- The attitude towards banks depends on the educational level
- The income level affects consumer attitudes towards banks
- Age is a factor affecting Saudis'

attitudes of consumers towards banks

- Religion affects the attitudes of consumers towards banks
- Bank marketing as practised by Saudi banks does not affect consumer attitudes toward banking.

5.4 RESEARCH DESIGN AND METHODS OF DATA COLLECTION

Research design can be defined as "a plan, blueprint, or guide for data collection and interpretation - sets of rules that enable the investigator to conceptualise and observe the problem under study."³

Hartman and Hedblom⁴ classified research design into three groups: exploratory, descriptive and analytical. They argue that other techniques, experimental, survey, longitudinal etc., - often called research designs - are methods of data collections.

This research is mainly an analytical study in the sense that actual relationships may exist between dependent and independent variables as stated in the research hypotheses.

Analytical research is based on theories, concepts and measurements. Since there is no established research of bank marketing practices in Saudi Arabia, published research may be applied to Saudi bank attitude, concept and practice of marketing. This is due to the fact that the key personnel of banks are

foreign despite the Saudisation.⁵ However, this application is limited. Similarly, there is no established theory of the Saudi consumers' attitude and there is a danger in applying general consumer theory to Saudis. The danger arises from cultural factors. To give the researcher an insight into the relevant variable to be considered in the survey, an exploratory study was carried out. In addition, a prior descriptive study of Saudi banks, population and culture was conducted to provide a more in-depth look at some aspects of the marketing environment.

The data for this research was collected through self-administered questionnaires distributed to both banks and consumers.

Time limitations dictated that the scope of the study was confined only to marketing managers because of their first-hand knowledge of bank marketing practices. Since the researcher is of the opinion that all bank personnel must be marketing oriented, further studies should investigate other personnel levels.

The hypothesis about marketing practices is accepted or rejected on the grounds of consistency of questionnaire responses in comparison with available literature on this subject. The marketing responses and the consumers' view of banks are cross-tabulated with the bank groups defined as follows: original Saudi banks, Arab banks and Foreign banks. In the researcher's opinion, this grouping has remained

unchanged throughout Saudisation since the injection of capital was not coupled with an injection of Saudi banking talent, although this is an objective of Saudisation.

Working on the assumption that Saudiised banks are still maintaining relationships with their previous foreign partners (who provide expertise and professionals) and original Saudi banks still employ expatriates, the researcher believes that the differences between the three groups are minimal. Through cross-tabulating questions the researcher is investigating the extent of marketing practices utilised in the local banking industry.

The hypotheses concerning the consumer are tested by cross-tabulating the replies with the educational, age and income levels of respondents. It should be noted that the religious factor is investigated by considering the frequency of replies that are favourable to Islam.

5.5 DESIGN OF THE QUESTIONNAIRES

5.5.1 Design of the Marketing Managers' Questionnaire

The questionnaire consists of 39 questions which can be classified into groups:

- The first group of questions from Q1-Q15 investigates the marketing management of banks existing in Saudi Arabia. These questions were designed to extract information on staffing, organisational structure, marketing goals,

strategy and planning.

- The second group of questions from Q16-Q31 and Q38 refers to bank decision-making in relation to marketing segmentation, introducing new services, consumer research, personnel training location of bank and promotional practices.
- The third group of questions includes Q32-Q34 which are designed to determine how much knowledge the banks have regarding their customers.
- The fourth group of questions includes Q35-Q37 which are aimed to elicit responses on the attitudes and approaches to marketing.
- The fifth group is question 39. This question asks the bankers to assess Saudi people's attitudes to banks.
- The sixth group of questions was directed to elicit information on the bankers opinion about Islamic banking. As Islamic banking might be perceived as a threat to interest - based banking in Islamic countries, no specific question was asked in the questionnaire. This was done through personal interviews with some marketing managers.

In addition, the marketing managers' questionnaire also asks for data on the educational qualifications, previous work experience and job title of the person responsible for the marketing activities.

Combinations of closed and open-ended response categories were used in this questionnaire, Closed questions were mostly used to obtain relatively complete answers from the respondents. There were several open-ended questions usually at the end of a sequence of closed questions to determine whether anything of importance to the respondent had been omitted.

Free response questions were used only in cases where the possible answer categories are not known as in questions 17 and 21. Questions 38 and 39b were in open-ended form to allow respondents to express their replies in detail. Questions 32, 34 and 39a, with assigned numerical values indicating judgement, were formulated following the rating type of questions. These questions attempt to give an objective assessment of the marketing managers' responses. The rating scale runs from 1-5. In question 32 the lower the value ticked, the more satisfied the customer is. In question 34 the lower the value ticked, the more important the item is to the customer.

As has been previously pointed out in the second chapter the bankers' attitude towards themselves plays a vital role in the execution of bank marketing; the problem of uni-dimensionality in measuring banks' attitude was resolved by using the Likert scale.

The Likert scales of attitude measurement was used in questions 35 and 36. Uni-dimensionality, making sure that all the items would measure the same thing, is the

primary concern of the Likert Scales.⁶ In this method, an attitude continuum for each item running from "strongly agree" to "agree", "uncertain", "disagree" and "strongly disagree" were given weights of 1, 2, 3, 4 and 5 for scoring purposes. In both questions, statements 1, 3, 5, 7 and 9 are the positive attitudes and scoring are as they stand; 1 to 5. The scoring for statements 2, 4, 6, 8 and 10 which express negative attitudes are reversed as follows: 5- strongly agree, 4- agree, 3- uncertain, 2- disagree and 1- strongly disagree. In these questions, a low scale score would mean a favourable attitude.

The sequence of questions begins with factual questions followed by attitudinal questions. Details on educational qualifications, work experiences and job titles were asked at the end.

5.5.2 Design of the Consumer Survey Questionnaire

The questionnaire encompasses 27 questions which can be classified into five groups:

- The first group consists of questions 1 to 6 and questions 8, 14, 16, 18 and 19 refers to the actual consumers' patronage of bank services, use of cheques, consumers' preference regarding monetary transactions.
- The second group of questions is concerned with Saudis' attitudes towards banks in general, towards bank interest in particular and

consumer opinions on loan sanctions and applications. This group of questions is from question 9 to 13 and questions 15 and 17.

- The third group of questions, 20 to 23 is directed at only those persons who deal with banks. These questions are to extract information about the customers' satisfaction, bases for choice of banks and the general opinion of Saudi banks.
- The fourth classification is related to the consumers' awareness and opinions of Islamic banks. These are questions 24 to 26.
- The fifth group of questions 7 and 27 is designed to determine consumer investment attitudes and attitudes towards handling money, factors which could affect their dealings with banks.

Furthermore, the questionnaire also requires respondents to give information about their educational, age and income levels. In view of the researcher's intention of assessing the influence of bank management, the name of the bank which the respondent deals with the most was also asked. The differences are viewed in terms of the previously stated bank groups.

In view of the different educational levels of the respondents, questions for the consumer survey are mainly of the closed type. This type of question generally is easier and quicker to answer and

quantification of replies is straightforward. However, closed questions like 7 and 12 have one open option at the end to allow self-expression by the respondents. Question 8 is a ranking type of question. This is designed with the objective of finding out about the respondents rather than about the sources of loans. It requires the respondents to identify and rank only their actual sources of loans. Question 20 and 23 are of the rating type. Question 20 is given numerical values running from 1 to 5. The lower the score, the more satisfied the respondent is. Question 23 assigns values from 1 to 3 and the lower the score is, the greater the differences between banks in terms of the items checked which may be the result the marketing effort done by banks.

Since the consumer survey is primarily concerned with the assessment of the Saudi people's attitudes towards banks, question 13 is formulated according to Likert Scales. Numerical values of the scale running from 1 to 5 means respectively "Strongly Agree" "Agree" "Can't decide" "Disagree" and "Strongly Disagree".

Favourable consumer attitudes towards banks as in statements 1, 3, 5, 7 and 9 are assigned to score as they stand: 1-5. The scoring for negative attitudes as in statements 2, 4, 6, 8 and 10 are reversed as follows: 1- "Strongly Disagree" 2- "Disagree" 3- "Can't Decide" 4- "Agree" and 5- "Strongly Agree". A low scale score would mean positive attitudes of Saudis towards banks.

Factual questions about consumers dealing with banks were mainly placed at the beginning. However, other factual questions pertaining to interest and Islamic banks were placed after extracting the Saudis' general attitudes towards banks in order to avoid introducing ideas that might affect the respondents' attitudes. Detailed questions on age, income and educational level were placed at the end after rapport has been established.

The wording of the questions in the consumer survey was carefully chosen avoiding such words as "usury", "loan sharks", etc. that might bring about automatic feelings of disapproval. To avoid influencing the respondents' answers statements representing commonly held views e.g. concerning religious factors were placed in the mid-part of the question as in Q12.

5.6 Translation of the Questionnaires

The questionnaires were designed in English - the source language - and then translated into Arabic - the target language.

5.6.1 Translation of the bank Marketing managers' Questionnaire

A committee was employed in the translation of the marketing managers' questionnaire from English to Arabic. The committee technique means that more than one person translates to the target language version.⁷

Translating the questionnaire was first completed by

the researcher. Three Arab-speaking colleagues from King Abdul Aziz University - Jeddah who obtained their doctorates in Business and Marketing from Western universities did separate translations of the questionnaire. The four versions of the translated questionnaire were compared and the differences found were discussed. In a committee meeting the differences in translation were dealt with quite easily since the university colleagues are all bilingual and experts on the subject. The revised and final questionnaire was not pretested given the limited number of the sample group. However, four out of the ten banks preferred to answer the English version because of expatriates holding the marketing manager positions.

5.6.2 Translation of the consumers' questionnaire

A multiple method of back-translation combined with pretest techniques was used.⁸

- Back-translation: According to this method a group of three bilinguals are employed to translate from the source to the target language while another group of three bilinguals translated blindly from the target into the source language. The two versions of the questionnaire in the source language were then compared. Errors found were cleared up by revising the original English version and the target version with the assistance of the

bilinguals.

- Pretest: According to this approach, the questionnaires in Arabic were field-tested by random-probe questioning.

The researcher had a clearer vision of the questionnaires after pretesting the Arabic version to ten Saudi participants. For example, question 8 was revised since four participants ranked all the items as their sources of loans. By using a probing question, the researcher discovered that the ten participants do not actually use the five sources of loans, so the question wording was revised and pretested. Aside from question-wording, the pretest helped to modify some questions as in question 6. A third choice "Neither of Them" was added since some items were not ticked by most of the respondents.

In the absence of established criteria for gauging translation quality, equivalence of meaning has been regarded as the most important aspect of translation.⁹ Question 27 was not translated literally into the target language. Instead, the researcher adopted Saudi proverbs having equivalent meanings. For examples, the English proverb "Saving for a rainy day" could not be translated word for word as Saudis consider the very rare rainy periods usually lasting only for a few hours as the very best days. The equivalent proverb in the target language is "A white `quirsh` penny is for a black day". Another example is

the translation of the source language proverb "Cut your coat according to your cloth". The Saudi language proverb which means the same is "Stretch your legs to the length of your quilt." Adopting the target language proverbs enhances the consumer survey responses as they are more easily understood.

5.7 SAMPLING

Sampling is the process of collecting research data from a smaller size population in order to predict or make inferences about situations in an entire targeted population. The city of Jeddah was chosen since it is considered to be the commercial centre of the Kingdom of Saudi Arabia and formerly the location of the head offices of all banks.

5.7.1 Sampling of the Marketing Manager's Questionnaire

A sampling frame is available for the bank marketing managers' survey unlike the consumer survey.

There are eleven commercial banks working in the kingdom. In view of this number, all banks were included in the survey. Ten of the banks were willing to participate in the study. Although the city of Jeddah is considered to be the commercial centre of the kingdom, all banks' head offices are required to transfer to Riyadh. At the time of the fieldwork, six head offices were still located in Jeddah, the others

still maintain regional offices in Jeddah. The questionnaire was completed by the marketing managers of all the banks with head offices in Jeddah except for one which does not have a centralised marketing department. Two banks out of four with head offices in Riyadh responded to the survey through their regional offices in Jeddah. The remaining two banks forwarded the questionnaire to their head offices in Riyadh since their regional offices in Jeddah mainly deal with implementing strategies and general operations. Decisions specifically on marketing issues are made in Riyadh so it was necessary to send the questionnaire to the head office in Riyadh.

5.7.2 Sampling of the consumer survey

Probability sampling in the consumer survey was not done for the following reasons:¹⁰

- There is no officially recognised census of population or any other sampling frame
- Accurate maps of population centres are not available
- Privacy in the Saudi society is a very serious matter since Saudis consider their homes off-limits to strangers
- The integration of the sexes is not encouraged in Saudi society, so it would be inappropriate for the researcher to make personal contact with the respondents.

In view of the aforementioned reasons, quota sampling was the appropriate sampling design used.

Quota sampling is a nonprobability sampling which includes a minimum number from specified groups of the population. These groups are represented in the sample in the same proportion as they are in the entire population. In the absence of statistical data in Saudi Arabia on the defined groups, disproportionate quota sampling was used.

Demographic data like education, age and income level were used as the bases for subdividing the target population. The educational aspect of the survey covers the three levels of government accredited education certificates in Saudi Arabia: intermediate, secondary, and university. In addition those who had a low education level e.g. only elementary, illiterate and those who could only read and write with no formal education was taken as a defined education group. Their views were collected by the researcher through a construct interview. Equivalent representation of the three low level subgroups was obtained.

Demographic bases on age were chosen arbitrarily because there is not an established data base for the Saudi society. The first groupings considered were those people who were less than 30 years old. The grouping starts from the population over 18 years old since the questionnaires were distributed to those who are employed, as will be explained later. The second

group included those aged 30-50 years old. Taking into consideration the fact that people in developing countries have a shorter longevity than in developed countries, people 50 years or more were chosen to represent the third and oldest bracket of the survey.

In the absence of socio-economic data in Saudi Arabia, the third demographic consideration - that of the monthly income level - was subdivided into four parts. The monthly income stated refers to the salary, allowances and any income derived from business. The researcher did not consider the household income since according to Islamic law the wife in Saudi Arabia may use her own salary as she wishes. The man generally has no access to his wife's salary. Any savings of the wife are her own and the husband is not to consider such savings as additional income which could affect his dealings with banks. For example, in the pretest a respondent stated that without considering his wife's income he would fall within the second income level. But, with his wife's income, he would rise to the highest level yet still his savings would be nil as he has no access to this extra household income.

To ensure that the population is accurately represented in the sample, a minimum sample size of 30 cases must be obtained. Furthermore, since all questions are not likely to be answered by all respondents, the sample size must be viewed as a minimum of thirty replies per question.¹¹

During the process of collection of the responses, the researcher ensured that a minimum of thirty responses from each of the demographic groups was collected. Moreover, responses on related questions and questions not applicable to all respondents were targeted to reach the thirty minimum sample size.

The table below shows the demographic groups as represented in the sample.

Table 5.7.2.1

Distribution of the consumer sample

	Count	%
<u>Educational Levels</u>		
Primary or less	42	11.3
Intermediate	57	15.6
Secondary	103	27.9
University	166	45.2
<u>Monthly Income Levels</u>		
Less than SR3,000	60	16.3
3,000 - 6,000	111	30.2
6,001 - 10,000	128	34.9
over 10,000	69	18.6
<u>Age Levels</u>		
Less than 30	144	39.2
30 -50	186	50.5
over 50	38	10.3
<u>Bank Groups</u>		
Saudi origin	178	48.4
Arab origin	39	10.6
Foreign origin	102	27.6
Non-users	49	13.4

To ensure that the sample selection is a replica of the population, the distribution of questionnaires reached a variety of businesses and government offices located in different districts of the city. Excluded

from the survey, however are banks and SAMA employees in order to avoid biased opinions.

Due to insufficient information of the proportion of personnel working in both government and private offices, proportionate representation was difficult to obtain. The government personnel had greater representation in the sample due to the fact that the private sector usually employs more expatriates than Saudis. Strict control of the fieldwork was difficult to maintain since direct explanation of the purpose of the study was not possible as the distribution of questionnaires was always channelled through the managers. The level of co-operation extended only to the manager advising the researcher to come back a week later for the reply. A number of call-backs had to be made in order to collect the completed questionnaires. Unfortunately, there were two instances of managers keeping the questionnaires and not disseminating them to their employees.

The table below shows the distribution of the consumer questionnaires:

Table 5.7.2.2.

Distribution of the consumer questionnaire

	Count	%
Distributed questionnaires	650	100
Completed questionnaires	282	43.4
Usable questionnaires	368	56.6

The population of the sample comprises men over eighteen years of age who do or do not have bank accounts, living in the city of Jeddah at the time of the fieldwork.

Data Analysis Procedure

With respect to the marketing managers questionnaire, no statistical test is needed since all data could be considered significant in view of the high percentage (91%) of participation of the population. Data are all represented and analysed by count. The use of percentage could be misleading due to sample size of eleven banks.

With respect to the consumer survey, several statistical tests are used. Moreover, samples were weighted to avoid bias towards the highly represented samples of university, middle-income, aged less than 50 and users of Saudi origin banks. All questions are cross-tabulated with respect to the respondents educational, income and age levels. Other questions related to consumer satisfaction are also cross tabulated with respect to users of the defined bank groups i.e. Saudi origin, Arab origin and foreign origin.

The Chi-square test is employed to determine whether more than two population proportions may be considered equal.

The Anova test is used to test the differences of

the consumers' attitudes towards banks (Q13) and their level of satisfaction with bank services (Q20) with respect to the above defined groups. The analysis of variance techniques provides ways to test whether more than two population means may be considered to be equal. Furthermore, in questions Q13 and Q20 the student-Newman-Keuls multiple range test is employed to pinpoint the different groups and to test the homogeneity of other groups.

5.9 RELIABILITY AND VALIDITY

Reliability is defined as the consistency of the measurement. The definition of validity has two parts: firstly, if the measuring instrument actually measures the concept in question and not some other concept and secondly, if the concept is being measured accurately.¹² The relationship between the two is asymmetrical, as validity means reliability but not vice versa.¹³

As pointed out by Churchill¹⁴ the concern of marketing lies in unobservable factors like the socio-economic class of consumers, their personality, their attitudes which are all constructs. This study pertains to the attitudes and behaviour of consumers and bankers, and the type of validation used in this research is construct validity. Construct validity includes relating a measuring instrument to an overall theoretical framework in order to determine whether the

instrument is tied to the concepts and the theoretical assumptions that are employed¹⁵

In this study the measuring instrument used took the form of questionnaires which reflect the research hypotheses. These questionnaires were distributed to both the marketing managers in the banks and to the customers. Bateson¹⁶ is sceptical of the use of survey methods to validate data. He stated that the validity of surveys is difficult to obtain. Surveys serve to validate aggregate values and often ignore individual cases which may present invalidity. Surveys are employed as a descriptive tool and break new ground. To some extent therefore, they precede the theory. However, improved validity of data depends on data construction of the survey¹⁷ The validity of this research depends mainly on the questionnaire design. Accordingly, bias due to question wording and questionnaire techniques, could raise problems with validity and reliability.

One way of checking factual questions, as suggested by Oppenheim¹⁸ is cross-checking with a second independent source of information. It must be stated that a second independent source is not available in Saudi Arabia. Indeed this is commonly the case with information on social phenomena.

Bateson¹⁹ referred to a second way of checking data i.e., the use of repeated surveys. Repeated surveys have limitations They work only on an aggregate

level, also, they validate data which itself is based on a survey. As with repeated surveys, using a second independent source checks only reliability.

In this research, the questions posed for the consumers and bank marketing managers were designed to cross-check each other. For example, questions 32 and 33 of the marketing managers' questionnaire are respectively cross-checking questions 20-21 of the consumer survey. Within the questionnaire, factual and attitudinal questions can also be logically checked.

Assessing the validity of attitude questions is quite difficult due to a lack of criteria. Using already established criterion groups set up to reflect known characteristics and inner attitudes is no more useful than using questionnaires²⁰ In spite of this, to ensure validity the researcher is to quality check the consumer survey by comparing it with the focus interviews. This is to ensure an in-depth exploration of the consumer attitudes which were discussed in the previous chapter.

As for the bank marketing managers' questionnaire, interviews were not fully comprehensive (except for one participant) primarily due to the marketing managers' time constraints. The bankers' views are to be discussed in the analysis of the marketing managers' questionnaire analysis.

It has always been the contention that theoretical research is concerned with applicability to the

greater population and different social settings, i.e., with what could be called external validity. McGrath and Brinberg²¹ stressed that external validity is more complicated than generalisation. Moreover, due to the problem of induction in social-science research, Lynch²² pointed out that external validity is of minimal relevance to theoretical consumer research.

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Chapter 6

Analysis of the Marketing Managers' Survey

Chapter 6

Analysis of the Marketing Managers' Survey

Introduction

This chapter analyses the responses of commercial banks' marketing managers operating in Saudi Arabia to a questionnaire administered in the summer of 1988 in the city of Jeddah.

The questionnaire encompasses thirty-nine questions supported with a separate interview with an originally foreign bank who offered to comment on and elaborate the reply.

The analysis also includes the view of marketing managers towards Islamic banks. Questions on Islamic banking were not included, since it is regarded as a threat to interest based banking in Islamic countries and this may have undermined the questionnaires' success. This is because banks are modelled along the lines of western interest-based banking which is prohibited in Islam.

The answers given represent almost all of the Saudi banks; 10 out of 11 banks responded to the questionnaire. As such results are significant and statistical tests are not necessary. As has been mentioned in the earlier chapter, the development of commercial banks in the Kingdom of Saudi Arabia has been influenced by foreign banking practices. As such, banks were

categorised into three groups with reference to their place of origin. The first group represents Saudi banks, the second represents Arab origin banks and the third represents banks of foreign, mostly western, origin.

The analysis is discussed in the following sequence:

6.1 Marketing Management

Questions 1-15 investigate the marketing management of banks in Saudi Arabia. These questions are designed to extract information on staffing, organisational structure, marketing goals, strategy and planning.

6.2 Marketing Strategies

Questions 16-31 and 38 include targeting the market, introducing new services, consumer research, training, location and promotions.

6.3 Awareness of Customers' Needs, Desires and Satisfaction

This group includes question 32-34 which are designed to determine the bankers' knowledge of the customer.

6.4 Concept and Attitudes Towards Marketing

Questions 35-37 are aimed at eliciting responses on

attitudes and approaches to marketing.

6.5 Awareness of Consumers' Attitudes Towards Banks

Questions 39 asks the banker to assess Saudis' attitudes towards banks.

6.6 Bankers' View of Islamic Banks

No specific question is asked in the questionnaire. Views and opinions were gathered through personal interviews with some marketing managers.

6.1 Marketing Management

This group of questions includes Q1 - Q15. The aim is to explore bank marketing management issues including approaches to organisation and objectives, strategy, planning, implementation and control.

6.1.1 Organisation of Marketing Activities

Q 1 and Q 5 dealt with the existence and structure of the marketing department. These questions aimed to discover the framework of the banks marketing practice.

With regard to the existence of a formal marketing department (Q 1), the majority stated that a formal marketing department exists. One of the foreign origin banks, however, has no formal marketing department. The existence of a marketing department does not necessarily indicate a high

degree of market orientation. In fact, the bank which does not have a formal marketing department regards marketing as a concern of all employees. The overall involvement of bank personnel in marketing may indicate a high degree of marketing orientation. This is dependent, of course, on the performance level of the employees.

Table 6.1.1.1

Q 5
Organisation of Marketing Activities:

	Saudi Origin (N=3)	Arab Origin (N=2)	Foreign Origin (N=5)	Total (N=10)
Central marketing dept.	1	1	1	3
Central marketing dept. with decentralised offices in each branch.	2	1	1	4
Central marketing dept. with decentralised offices in each region.	-	-	1	1
No formal marketing dept. all staff are responsible.	-	-	1	1
Decentralised marketing offices in each branch or region.	-	-	1	1

As shown in table (6.1.1.1), the organisation of marketing departments is varied. There is a preference for centralised marketing departments with decentralised offices in each branch, although one bank's policy is to have a decentralised office in each region. The

regional policy may indicate little recognition of the importance of marketing. Alternatively, it may indicate a strong regard for regional circumstances and an attempt to answer regional demands with an appropriate marketing strategy. In an interview with a regional marketing manager, the discussion showed that marketing goals are set by the regional marketing departments. It was stated that M.I.S. (Marketing Information Services) monitor every single account and match account trends with regional marketing goals, while other decisions, such as marketing research, are left to the head office. Centralised marketing departments are also used while decentralised marketing departments with a marketing capacity in each branch or region are less common.

Q 4 asks about the presence of a marketing executive in the bank's Board of Directors. The purpose of this question is to determine to what extent marketing considerations influence the bank's strategies. The responses showed that the importance of marketing is not widely reflected within the organisation at the directorate level. Only one response from a Saudi origin bank stated that a marketing manager sits on the board of directors. The indication is that this bank's overall strategy is influenced to some extent by marketing considerations and may show a lack of marketing orientation. A reason for not having a

marketing manager may be the fact that the directors are elected by share holders. Invariably the biggest share holders in the bank are represented on the board of directors.

Q 2 and Q 3 were designed to elicit information on numbers of employees in the marketing department and their educational qualifications. The responses gave information on either the overall number of bank employees working or the number of employees in decentralised marketing departments. It appears that this information in some banks is confidential. Out of the nine respondents, four stated that they employed one or more staff with educational qualifications in marketing. One foreign bank mentioned the importance of having Arabic speaking contact personnel.

Elicited from the classification question, the information shows that only two marketing managers have qualifications in marketing, three others have qualifications in related academic fields i.e., business administration, accounting, etc... Of the remainder, four are university graduates in other disciplines, for example psychology, and English history, and two managers declined to answer this question. This shows the lack of qualified personnel in bank marketing.

Q 6 dealt with the coordination of marketing activities with other departments. The purpose of the question is to discover the level of integration of the bank's departments. It is desirable for the marketing department to be coordinated with other departments as customer satisfaction needs to be the objective of the entire bank and should not be a compartmentalised activity.

Table 6.1.1.2

Q 6
Coordination of Marketing Activities with other Departments:

	Saudi Origin (N=3)	Arab Origin (N=2)	Foreign Origin (N=5)	Total (N=10)
Autonomous	1	1	1	3
Interdepartmental Meetings	2	1	3	6
Committees	1	-	-	1
Other	3	-	2	5

From table (6.1.1.2), there is a preference for coordination through interdepartmental meetings. Within the groupings, the majority of Saudi banks and foreign banks prefer this method, while half of the Arab banks chose this option. Only one marketing department works autonomously in each bank group. The Saudi and foreign banks further qualified their responses with respect to working autonomously; one Saudi bank used its marketing

department purely as a marketing research unit and works directly with the top management and one foreign bank allocates a marketing consultant to each departmental area. It is clear from the table that a high level of inter-departmental coordination exists in Saudi and foreign banks which is recognition of the important role of marketing.

6.1.2 Setting Marketing Goals

Marketing goals must be set quantitatively if they are to serve the banks' purpose. Banks were asked (in Q 7) if they set their marketing goals quantitatively, qualitatively or both. The aim of this question is to determine how precisely banks set marketing goals. Precise setting of goals gives an indication of the banks awareness of marketing goals, market segments and budget limit etc. The majority of banks indicated that they set goals both quantitatively and qualitatively. Only one Arab bank stated that its marketing goals are set quantitatively. This is doubtful considering that Saudi Arabia is still a developing country, and it is unrealistic to set all marketing objectives quantitatively due to the type of research involved.

Q 8 and Q 9 elicit information on committing marketing goals to paper, and personnel's awareness of marketing goals.

Table 6.1.1.3

Q 8
Committing Marketing Goals to Paper:

	Saudi Origin (N=3)	Arab Origin (N=2)	Foreign Origin (N=5)	Total (N=10)
Yes	2	2	2	6
No	-	-	-	-
Partly	1	-	3	4

Table 6.1.1.4

Q 9
Bank's Personnel Awareness of Marketing Goals:

	Saudi Origin (N=3)	Arab Origin (N=2)	Foreign Origin (N=5)	Total (N=10)
Yes	-	1	1	2
No	-	-	-	-
Some	3	1	4	8

From table (6.1.1.3), the majority of banks committed marketing goals to paper. One foreign bank indicated, when interviewed, strict control over this matter for the benefit of auditing. All Arab banks committed their marketing goals to paper, while two Saudi and two foreign banks do so. The majority of foreign banks partly committed their goals to paper.

In order to be market oriented, all bank personnel, not only top decision makers, should be aware of the marketing goals. From table (6.1.1.4), the majority of respondents indicated that not all bank personnel are aware of the marketing goals. This questions the complete effectiveness of committing the goals to paper and how accessible the written record of the goals is. As for Saudi and Arab banks although the majority have marketing goals fully committed to paper, these are not apparently accessible to all personnel.

It appears that banks, although committing their marketing goals less to paper, are less aware of the need for personnel awareness of marketing goals as this documentation is not available to all personnel.

6.1.3 Marketing Strategy and Marketing Plan

The purpose of these questions is to determine the extent of development of marketing strategies and marketing plans. Setting goals and committing them to paper is not enough. Strategy and planning are needed to achieve objectives.

Q 10 and Q 11 were devoted to eliciting information on the existence and extent of marketing strategies and its manner of implementation as shown below:

Table 6.1.3.1

Q 10

Extent of Formal Marketing Strategies:

	Saudi Origin (N=3)	Arab Origin (N=2)	Foreign Origin (N=5)	Total (N=10)
No formal strategy	-	-	-	-
Formal short-term strategies	1	1	-	2
Formal short and long- term strategies	2	1	5	8

From table (6.1.3.1), all foreign banks have formal short and long-term marketing strategies. A minority of all Saudi and Arab banks have a short-term strategy which neglects the importance of planning for the coming years.

Table 6.1.3.2

Q 11

Manner of Implementation of Marketing Strategy:

	Saudi Origin (N=3)	Arab Origin (N=2)	Foreign Origin (N=5)	Total (N=10)
Marketing department only	1	1	1	3
All personnel	1	1	2	4
Contact personnel	1	-	2	3

From table (6.1.3.2), the manner of implementation varies. It is shown that there is no preference for manner of implementation although there is a slightly

higher level for all personnel being involved in the implementation of marketing strategies. This implies that marketing orientation for all personnel is important.

Q 12-15 elicited information on the existence of marketing plans, time periods and components of marketing plans. In response to Q 12, all banks have marketing plans. Q 13 asked about the time-scale for the marketing plan.

Table 6.1.3.3

Q 13
Time - Period of the Bank Marketing Plan:

	Saudi Origin (N=3)	Arab Origin (N=2)	Foreign Origin (N=5)	Total (N=10)
Monthly or quarterly	-	-	-	-
Annual plan	1	-	2	3
Detailed annual plan	1	1	1	3
Long-range plan updated in a detailed plan.	1	1	2	4

There is no pattern of responses. By comparing the time-period of the bank marketing plan with the extent of formal marketing strategy some inconsistencies may be noted. The majority of banks indicated a formal short and long-term strategy but with no complementary long-range plans.

Q 14 asks about the components of the marketing plan e.g. target market, budget, marketing mix elements, etc.

Table 6.1.3.4

Q 14
Components of the Marketing Plan:

	Saudi Origin (N=3)	Arab Origin (N=2)	Foreign Origin (N=5)	Total (N=10)
Target market	2	2	3	7
Total marketing budget	1	2	1	4
Budget allocation	2	-	2	4
Marketing mix elements	2	-	2	4
Others	2	1	-	3

From table (6.1.3.4), the majority of banks recognise the importance of targeting their market. The other considerations are the budget allocation, total marketing budget and the marketing mix elements. Additional components were incorporated by three banks, one bank mentioning the general economic climate, government spending and government goals and planning. These are particularly important considerations due to the Saudi government's spending in relation to business. This is consistent with the opinion of Colin Wilks who stated that planning of bank marketing needs an understanding of external influences and not just their own banks' needs.¹ The second bank stated that its public relation budget is connected with its

marketing budget. The third bank included the manner in which the marketing plan was to be implemented and controlled.

Q 15 showed the relationship between marketing plans and business plans. The majority of banks use a fully integrated marketing and business plan approach. One foreign bank stated that they use a partially integrated plan while another foreign bank uses two independent plans.

From the analysis of the questions related to the bank marketing management, certain inconsistencies may be noted:

- While marketing goals are committed to paper by the majority of banks, there is a questionable level of the personnel's awareness of these goals. This means that marketing records are not fully accessible.
- The majority of the banks adopt long-term marketing strategies but without long-term plans.

However, the implementation of marketing strategies by the marketing department only is consistent with the marketing department's autonomous marketing activities.

6.2 Banks' Marketing Strategy

This group of questions, from Q 16 through Q 31 dealt with the decisions and activities associated with developing an effective marketing strategy, including a target market and a marketing mix. The aim of these questions is to examine the implementation of marketing by the banks under investigation.

6.2.1 Target Market

Market segmentation is essential for any successful marketing strategy. It involves targetting markets and applying a market programme to win over these markets.

Q 16 asks whether the banks divide their market. The purpose of this question is to find out whether banks tailor their services according to customers' needs. The majority of the banks gave positive replies. One foreign bank and all Arab banks gave negative replies. The attitude of not dividing their market is supported by the Arab banks' response to Q 36 in which they asserted that they sell to whoever will buy. The reason for this apparent contradiction to basic marketing strategy is perhaps due to lack of awareness of the benefits of market sequestration for bank services. However, all Saudi origin banks use market segmentation and are in the forefront of this marketing aspect. (Table 6.2.1.1 Appendix A.)

Q 17 aims to discover the basis for dividing their market. As stated before, seven out of ten banks divide the market. The basis for division varies. However, one Saudi bank and one foreign bank did not identify their marketing groupings but offered information on the bases for their division. The Saudi bank stated that market segments are divided according to customer requirements. However, these requirements were not made clear. The foreign bank divided the market segments according to the retail market which was subdivided into high net worth customers and all other levels of customers and investment banking. Another Saudi bank stated that they divided customers into groups according to the benefits the customer receives from their accounts, i.e. benefit segmentation. For example, customers with investment accounts are divided into real estate, investment in foreign currency, deposit accounts with interest, etc. The division of market segments by other banks depends on the account type i.e. the deposit, current account divisions and division on the following lines:

- Loans: - personal loan accounts.
- trading accounts.
- furniture and car loans.

- Investment: - foreign currency funds.
- insurance, health and
 possessions.

- short-term dollar fund.

Demographic market segmentation is used by one bank. The division is according to socioeconomic class: middle class, upper middle class and high net worth individuals. This grouping has no other demographic base, and no specified basis for division. However, according to Abby Day and Gordon Wills,² there are three prime distinct areas of market/customer focus which must be explored: low net worth individual, high net worth individual and the corporate treasurer and interbank market. The remaining two banks segmented the market according to users of personal services and investment services on one hand and current accounts and company accounts on the other. The former bank regards servicing businesses as their principal market while the latter cater to mass marketing since they have a large share of government and company business, as in handling of salaries. The second bank has a very restricted market division. The personal account market appears to be catered for by only one service, i.e. current account.

Q 18 asks about the use of different marketing strategies for different markets. The greater number of banks used different marketing strategies for different market segments to a large degree. The remainder use differentiated strategies but not to the same extent.

(Appendix A Table 6.2.1.2.)

Since Arab banks have no details to offer as they do not divide the market, it appears that Saudi banks and foreign banks are the forerunners in market segmentation and in constructing appropriate strategies for each market.

6.2.2 Banks' Involvement in Consumer Research

Q 19 was directed to the banks' level of involvement in consumer research. The majority involved themselves in consumer research. From the original groups, two banks from each group are involved in consumer research. Reasons for not conducting consumer research by the other four banks was given in response to Q 19 D. Of the four banks which did not conduct consumer research half gave as a reason the difficulty in undertaking this type of research. The implication is that the Saudi concern for privacy is the barrier to accurate research. One bank also found such research irrelevant as it dealt with companies as its main market. Two banks stated that they do not conduct research because of a lack of specialised personnel. The other reason given was that specialised international journals and magazines i.e. secondary data give a more accurate view of Saudi consumer trends.

Of the banks which do conduct research, one Arab bank and one foreign bank researched the consumer at least once and sometimes more every six months while one

bank from each group researched annually. One Saudi bank chose to research only once every 2-5 years. (Appendix A Table 6.2.2.1.)

Q 19 B asks about the agencies or bank staff conducting consumer research for banks.

Table 6.2.2.1

Q 19 B
Agency or Staff who Conduct Consumer Research:

	Saudi Origin (N=3)	Arab Origin (N=2)	Foreign Origin (N=5)	Total (N=10)
Own staff	1	1	-	2
Consumer research staff	1	1	1	3
A specialised outside agency	1	-	1	2
Other	-	-	-	-

Half of the respondents admit to having their own consumer research staff as shown in table 6.2.2.1. Foreign banks' reliance on specialists, either employed in the bank or from outside agencies, implies a greater awareness of the importance of consumer research. This implication is supported by the fact that foreign banks act on market research to a greater extent in deciding to introduce new services (Q 22).

Q 19 C asks about the objectives of conducting consumer research.

Table 6.2.2.2

Q 19 C
Objectives of Conducting Consumer Research:

	Saudi Origin (N=3)	Arab Origin (N=2)	Foreign Origin (N=5)	Total (N=10)
Evaluation of consumer attitudes.	2	1	1	4
Assessment of needs, preferences & buying habits.	2	1	2	5
Measurement of changes in levels of awareness of services.	2	1	2	5
Evaluation of the quality of product & services.	2	2	2	6
Others	1	1	-	2

The principle objective of conducting consumer research for all bank groups is the evaluation of service and product quality. The assessment of needs, preferences and buying habits and the measurement of changes in levels of awareness of services are equally important. The evaluation of consumer attitudes is important to all Saudi banks. Two other research objectives were mentioned; One Arab bank was interested in discovering why consumers changed accounts with a view to improving their services, and a Saudi bank conducts consumer research to discover how to increase consumer use of loan facilities.

Although only two out of five foreign banks are included in consumer research the quality of their

research seems to be better. Research is conducted by specialists every six months to one year. In an interview, one foreign bank detailed three ways in which they undertake consumer research; the market in general is sampled, the banks' consumers are sampled for satisfaction and lastly comparative research is done with competing banks.

6.2.3 Introduction of New Services

Q 20 - Q 23 elicited information on the strategies in introducing new services.

The entire sample group gave a positive reply to the question on introducing new services which reflects the high level of competition.

Table 6.2.3.1

Q 20

<u>Types of New Services</u>	<u>Number of Banks Offering the Service</u>
New Bank Service	
Self-access banking, i.e. ATMs	5
Currency funds	3
Salary payments	3
Bill payments	2
Credit cards	2
Trade funds	2
Real estate	2
Cheque cashing	1
Government bonds	1
Night safe	1

Launching of new banking services leans towards the use and introduction of advance technology. During an interview two banks stated that they offer services based on Islamic principles (Murabaha). In reply to market demand one such service was a trade fund and the other was an investment leasing transaction. The aim is to attract those customers who are willing to participate in real Islamic investment, although the foreign bank concerned admitted that investment funds are not separated from the general funds of the bank and that there are no separate staff units to handle each separate account. This mixing of invested Islamic funds with funds earning interest renders the Islamic investment "invalid". This is not an Islamic investment.

Q 22 aims to discover the factors that influence the banks decisions to introduce new services.

Table 6.2.3.2

Q 22

Major Factors Influencing Decision-Making of Banks when Introducing New Services:

	Saudi Origin (N=3)	Arab Origin (N=2)	Foreign Origin (N=5)	Total (N=10)
Following competitors	2	2	3	7
Acting on market research	1	-	2	3
Market demand	3	2	2	7
Recommendation from top management	2	2	1	5
Recommendation from marketing staff	2	2	2	6
Other	-	-	1	1

Table 6.2.3.2 shows that market demand and following the plan of competitors are the two major factors influencing decision-making when banks introduce new services. This is indicative of the stiff banking competition in Saudi Arabia. It also shows the reactive tendencies in Saudi banking. Banks tend not to initiate and introduce new services, rather they are dependent on market demand and following the lead competitors. However, a minority of banks, acting on market research, do try to introduce new services.

Acting on the recommendation of top management and marketing staff is important for Saudi and Arab banks. The foreign banks appear to be influenced by other factors, for example, the strategy of their parent bank. A contradiction appeared in the Arab banks replies. Although they stated that they had implemented consumer research in their reply to Q 19, they do not act on market research when making decisions concerning new services.

Foreign banks act on market research more often than others which implies that this group is more likely to introduce new services. In turn these services are introduced by other banks who are influenced more by market demand and the plan of competitors in their decision-making.

Q 23 dealt with banks becoming aware of how and when their customers discover new services (Appendix A Table

6.2.3.1). Personal selling activities accounted for the largest source of discovery of new services. Using leaflets is important for both Saudi and Western banks. Apparently, word of mouth (i.e. information from friends) is a further factor in this discovery of new services. Direct mailings to the customers is a method which banks consider to be important to introduce new services, particularly among Saudi banks. Saudi and foreign banks follow a similar pattern in this respect.

The variety of methods used shows that the banks seemed to be largely aware of the nature of their customers.

6.2.4 Promotional Activities

Banks require certain promotional mixes to enhance market acceptability. Promotion of new services has been dealt with in Q 23 - Q 28.

Table 6.2.4.1

Q 24
Promotion of New Services:

	Saudi Origin (N=3)	Arab Origin (N=2)	Foreign Origin (N=5)	Total (N=10)
Before introduction	2	1	3	6
During the launch	3	1	2	6
After introduction	-	2	1	3
Does not promote new service	-	-	-	-

From table (6.2.4.1), the majority promoted before and during the introduction, while there was a fall off following the introduction of new services. It seems that there is a lack of awareness of the need to give new services a high profile after their introduction.

Q 25 asks about the method used by banks to promote services. The purpose of the question is to determine if the methods of promotion vary according to the size of the account. It is clear from table 6.2.4.1, and table 6.2.4.2 Appendix A that the methods of promotion of new services for small accounts and for large accounts are through advertising and personal selling respectively.

Surprisingly, Arab banks use the same basis of promotion for both large and small accounts. This implies little awareness of promotional budget allocation. Other methods used are promotional mail placed in post office boxes and glossy magazines issued to prospective large account holders. These methods of promotion were to some extent reflected in Q 23 (Appendix A Table 6.2.3.1). The variety of methods used shows that banks are aware of their customers' needs for different promotional methods for different accounts.

Q 26 was designed to determine the objectives for doing promotions.

Table 6.2.4.2

Q 26

Promotional Objectives:

	Saudi Origin (N=3)	Arab Origin (N=2)	Foreign Origin (N=5)	Total (N=10)
To increase awareness of services.	3	2	4	9
To encourage trial of new services.	3	2	2	7
To encourage non-users to try current services.	3	1	3	7
To communicate distinctive benefits of services.	3	2	3	8
To educate customers about new services.	3	2	3	8
Others	1	1	-	2

From table 6.2.4.2, it can be said that all objectives are important to a greater or lesser extent. Another objective indicated by a Saudi bank is to keep the bank in the forefront of the customer's mind, so that it will be regarded as an important financial institution. Another objective for an Arab bank is to ensure that customers are aware of their services in the market place.

In Saudi and Arab banks there is a greater uniformity of objectives. They appear to cover all of the options proposed by the questionnaire. In contrast, the diversity among foreign banks implies that they are

more explicit in conveying their promotional messages.

Q 27 asks about the allocation of marketing resources for personal and business accounts in banks.

The majority of banks were unable to give percentages of allocation of marketing resources (i.e. budget) to personal accounts and business accounts. One reason given by a foreign bank was because of the diversity of allocating the funds. The overall budget includes expenses, i.e. salary payments for staff working in both personal and business accounts; thus making it difficult to determine the percentages. Another reason mentioned was that some people in Saudi Arabia mix their company's accounts with their personal accounts.

Of the few replies, a Saudi bank which caters mainly to the business market replied that 80% of its budget is allocated to business accounts. Further, the balance of its services is seven to one in favour of business, although interestingly enough the marginal profit at this bank is greater in personal accounts than in business accounts. However, the facilities and services needed to provide for the personal customer is beyond its capacity.

An Arab bank now discovering the market opportunity offered by personal accounts has allocated 70% of its budget to this sector. This had been the result as reported of the increased competition in the business market. Two foreign banks offered percentages of 90%

and 20% respectively to personal accounts.

Overall, budget allocation to personal accounts differs according to the target market, personal and/or business accounts and is proportionate to the objectives of exploring or maintaining a greater share of a specific market.

Q 28 asks about the basis of the bank's marketing resource allocation between business and personal accounts.

The replies established the bases for budget allocation as the % of the market, product potential, profitability and the recent overall profit. It appears that these bases are suited to the banks' respective aims and objectives.

6.2.5 Locating New Branches

Q 29 inquires about locational factors.

Table 6.2.5.1

Q 29
Factors Influencing Decisions to Establish a Branch Location:

	Saudi Origin (N=3)	Arab Origin (N=2)	Foreign Origin (N=5)	Total (N=10)
Location of Competitors	2	1	1	4
Proximity to consumer facilities.	3	2	2	7
Anticipated changes in population.	3	2	1	6
Rental cost	1	2	1	4
Other	1	1	3	5

From table 6.2.5.1, the main factor concerning the location of branches is their proximity to consumer facilities. Anticipated changes in the population are rated as the second factor. The location of competitors and the cost of renting premises are the least important factors. Other factors mentioned were as follows:

- easy access and parking facilities were mentioned by two banks.
- proximity to own and competitors' branches.
- wherever bank customers are located leading to the opening of overseas branches.
- projected profitability
- high socioeconomic class of the local population was considered by one bank.

Saudi and Arab banks appear to follow the same pattern in deciding on branch locations. A significant point to note is the variety of deciding factors for foreign banks. It is interesting to note the consideration of rental costs. Only one foreign bank considered this important, whereas all Arab banks regarded it as an important deciding factor. Similarly, anticipated changes in population were not considered important by foreign banks, while Saudi and Arab banks considered them a priority. It is the researcher's opinion that in the absence of city planning as a result of the recent development of Saudi Arabia a subjective

prediction about changes in population could lead to an inappropriate decision on locating new branches.

6.2.6 Staff Training

The final set of questions in this group refers to staff training. The marketing department role is crucial in developing market oriented personnel. The majority of all participating banks have organised marketing training programmes. One Arab bank and one foreign bank do not do so. The reason given by the latter in Q 30 C is because of the expense involved.

Table 6.2.6.1

Q 30 A
Participants in Marketing Training Programmes:

	Saudi Origin (N=3)	Arab Origin (N=1)	Foreign Origin (N=4)	Total (N=8)
Senior executives	2	1	4	7
Branch managers	2	1	3	6
Tellers	2	1	2	5
Head office staff	1	1	2	4
All personnel	1	-	1	2

From table 6.2.6.1, the participants in these programmes vary. However, the majority of senior executives in all groups are involved. The Arab bank figures must be qualified by the fact that only half of the banks answered this question, since the remainder do

not have a marketing training programme. The repondents did not indicate the length and frequency of training programmes.

Since participation of all personnel is very low, it appears that training is concentrated at the upper levels of bank personnel.

Table 6.2.6.2

Q 30 B
Organisation of Training Programmes:

	Saudi Origin (N=3)	Arab Origin (N=1)	Foreign Origin (N=4)	Total (N=8)
Internal	3	1	3	7
Chamber of Commerce	1	1	-	2
Institute of Banking (SAMA)	2	1	1	4
National Universities	-	1	-	1
Overseas Universities	1	1	-	2
Overseas Banks	3	1	3	7

From table 6.2.6.2, there are two principal training agencies, namely within the banks and utilising overseas banks. "In-house" training relying on "home-grown" talents has the advantage of ensuring credibility since the trainer is aware of the problems of the course participants.³ However, due to to the lack of skilled trainers, banks resort to external assistance in carrying on their training programmes. The dependency of the Saudi and Arab banks on nationally-based training agencies shows that there is emerging an increased Saudi

involvement in bank training.

All banks believe that marketing and training complement each other as was stated in Q 31.

From the data it is apparent there are several inconsistencies in marketing strategy which to some extent match the information given by the banks with regard to marketing management. From the aspect of marketing strategy it is clear that the foreign banks are the most consistent. Their consumer research shows this consistency. While the Saudi and Arab banks use consumer research it is not clear whether they act upon it. However, the use of specialised agencies for conducting consumer research as done by foreign banks indicates that the research is done seriously and it is acted upon.

6.3 Awareness of Customers' Needs and Desires

Q 32 - Q 34 aim to discover how well the banks know their customers' needs and desires. (Q 32 and Q 33 correspond to Q 21 and Q 22 in the consumer survey.) These questions include determinant attributes used by customers in evaluating their choice of banks, their overall satisfaction with bank services and factors affecting the availability of bank service. Satisfaction with such attributes referring to aspects like location, courtesy of staff, charges, etc. have been found to play a critical role in determining choice between alternatives.⁴

6.3.1 Level of Customer Satisfaction

Q 32 dealt with the banks awareness of customers satisfaction of their services. From table (6.3.1.1 Appendix A), the majority of the banks felt their customers were satisfied or very satisfied with the following: banking hours, range of services, courtesy of personnel, regularity of financial statements, charges and commissions. Most banks felt that their customers were satisfied or very satisfied with their understanding of customer needs. However, fewer banks believed that their customers were happy with the number of branches. Three banks were uncertain of this matter and believed their customers were not satisfied with branch numbers. Three banks thought that there was customer dissatisfaction with regard to the attractiveness of offices, regular financial statements, charges and commissions.

The level of satisfaction for each service was measured by using mean scoring. The scale ranges from 1 = very satisfied to 5 = very dissatisfied. Therefore, a low mean score indicates a high level of satisfaction. The overall level of satisfaction mean score is 2.00 which is comparable to the mean score in the customer survey discussed in a later chapter. The mean scores for individual services are shown in Table 6.3.1.1 Appendix A.

There is a significant range of opinions expressed. The highest mean score elicited was 2.33 for

understanding needs while the lowest 1.70 was for bank hours and range of services.

The discrepancy of scores between personnel courtesy and understanding of customer needs is interesting. It implies that the banks have not fully dealt with the matter of customer orientation. It could be said that personnel courtesy is superficial and, to some extent, it is not an indication of a real understanding of customer needs.

Dissatisfaction with the number of branches could be related to the question of bank size. Small banks obviously have fewer branches than larger banks. Banks are aware of the competition presented by money changers. One bank stated at an interview that flexibility in the working hours and the low charges of money changers are the main advantages they have over the banks. And it hopes that new regulations would be introduced to restrict the working hours of money changers and to set minimum charges.

Within the designated groups the overall level of satisfaction with services was: Saudi banks 2.04, Arab banks 1.75 and foreign banks 1.725. It appears that foreign banks believe that they are satisfying their customers' needs to a higher degree than the other groups. However, there is only 0.025 of a difference between Arab and foreign banks. Saudi banks are not so confident of their customers' satisfaction, scoring 2.045.

The personal view of the respondent does interfere with the assessment of satisfaction, to a greater or lesser extent e.g.. attractiveness of office. One bank's offices were, according to the researcher, extremely satisfactory. The respondent, however, believed them to be simply satisfactory, whereas another bank's offices which were not on the same scale were cited as very satisfactory by the respondent.

It is notable that the highest mean score was for understanding customers' needs: this is consistent with the results of the questions in the introduction of new services. The tendency to follow the competitors' lead shows a lack of understanding of customers' needs which demands improved customer research.

6.3.2 Basis of Customer Choice of Banks

Q 33 asked the respondent to indicate the factors which determine the customers' choice of bank. The aim of this question is to determine the extent to which respondents' intention to use a certain bank can be explained by the overall effect of marketing and by social factors. These factors are related to key aspects of marketing and are important considering the highly competitive nature of banking in Saudi Arabia. Some of these factors i.e. speedy services, wide range of services, bank location and friendly staff have been tested and proven in past research as the most common

attributes bank customers perceive as relevant in their choice of bank.⁵

The results were tabulated and shown in Table 6.3.2.1 Appendix A. The most important factors are speed and wide range of services. Bank location is also of great importance and next to it is staff friendliness. Surprisingly, widespread ATMs were not rated as a major factor. This could be due to the fact that not all customers use this facility as it is relatively new. Another reason is that not all banks have introduced this service as yet. Equally surprising was the low ranking of premises and atmosphere. This may be an indication of the higher quality of premises; a feature which is constantly promoted in all banks' publicity and information distribution. Giving this factor a low rank is therefore somewhat contradictory.

With respect to the designated bank groups, Saudi banks rank all factors on two levels. The more important factors according to Saudi banks are bank location, wide range of services, staff friendliness and speedy services. The other factors are rated as less important. Arab banks regarded all factors as of equal importance except personal recommendation which was only half as important as the others. Foreign banks rated speedy and wide ranging services as the most important factors. Bank location was slightly less important. The least important factor was having friends working in the bank. Interestingly, Arab banks thought this factor

is important. Obviously not all customers have friends employed in banks.

The results given here are comparable to those given in the consumers questionnaire.

6.3.3 Factors Affecting the Availability of Bank Services

Q 34 dealt with the factors affecting the availability of bank services to its customers. The respondents were asked to rate the factors according to the level of importance (see Appendix A table 6.3.3.1).

Improving "product" quality, simplification of procedures and courtesy of staff were all rated as important or very important by all banks, while the majority of banks believe increasing the speed of service is important or very important. Most banks stated that increasing ATMs is important and a few believe it to be of little importance.

The level of importance for the listed factors was measured by means of scores. The lower the mean, the higher the importance of the factor.

The overall mean for the listed factors was 1.76, which implies awareness of the important factors that affect the availability of banking services. For example, extending bank hours was considered less important, as one bank stated, "there is no need to extend banking hours. The present level is as much as is required". This opinion was reflected by half of the

banks who believe an extension of banking hours is of little or no importance.

There is a significant range of mean scores 1.0 - 3.2 in the responses to this question. The lower mean scores show that banks are aware that they should improve product quality, speed of service, personnel courtesy and simplification of procedures. They do, however, see some need to extend banking hours to combat competition from money changers.

By comparing the three groups, Saudi banks consider these factors as highly important as is indicated by the low mean score of 1.50; while the mean score for Arab banks is approximately 1.90. On the other hand, foreign banks appear to find these factors less important, they have a mean score of 2.0 which could indicate they are confident of having achieved a reasonable degree of performance with respect to these factors.

6.4 Concept and Attitudes Towards Marketing

Q 35, Q 36 and Q 37 dealt with banks' philosophy, concept and attitudes towards marketing. The aim is to discover whether this attitude is negative or positive, and whether it can be traced from the introduction through to the implementation of marketing practices.

6.4.1 Benefits and Difficulties Caused by the Introduction of Marketing

Q 35 constituted ten statements related to the

introduction of marketing (Appendix A table 6.4.1.1). The odd numbered statements are positive and list the advantages of introducing marketing in banking. The responses elicited were generally positive. The majority agreed or strongly agreed that marketing identifies new business opportunities, improves the banks' image in the eyes of the public, enables the bank to be competitive, helps obtain new accounts and focuses attention on particular customer groups. One Arab bank strongly disagreed that marketing improves the banks' image in the public's eyes. One foreign bank did not believe that marketing helped to obtain new accounts. Furthermore, some banks, principally foreign banks, strongly disagreed that marketing helped the bank to focus on specific customer groups.

The remaining statements expressed the difficulties caused by the introduction of marketing. It appeared that the banks did experience similar difficulties. The greatest difficulty seemed to be resistance on the part of older managers. Some banks found it difficult to find qualified staff. The resistance of older managers on the introduction of marketing is consistent with that of the English Clearing Banks, the latter no longer perceived finding qualified staff as a difficulty.⁶

The changes in organisational structure were also problematic, although half denied that these were difficult. The majority disagreed or strongly disagreed that the introduction of marketing was difficult or

confusing due to the lack of textbooks. However, a few agreed or strongly agreed that this was the case. Interestingly, one foreign bank regarded the lack of textbooks as a real difficulty. The majority of banks denied that the introduction of marketing divided the banks into factions. These factions are those concerned with dealing with customers and those responsible for internal affairs.

The range of mean scores is significant: 1.4 - 2.8. Statements related to improving the bank's competitiveness i.e. enabling the bank to be competitive, helping to obtain new accounts, identifying new opportunities, gained the lowest mean scores indicating the benefits gained from introducing marketing. The effect of introducing marketing was not decisive, the mean scoring being 1.9. This implies that all personnel were treated similarly in terms of training for market orientation. The highest mean scores were for the following statements: changes in the organizational structure, 2.7, and resistance of older managers, 2.8. The former scores may be an indication of the fact that in many banks there were no real changes in the structure of the organisation, merely an allocation of new roles to existing departments i.e. the public relations department are often allocated the role of a marketing department. As for the latter statement there appeared to be some difficulty in assessing the level of older managers' resistance since half of the

banks were uncertain on this point. The overall mean score was 2.08 which is comparatively low, indicating the advantages or merits of introducing marketing outweighing the disadvantages.

For Saudi banks, the mean score was 2.37. Arab banks' mean score was 2.4, and 2.1 was the mean score for the foreign banks. It can be assumed from these scores that foreign banks readily saw the advantages of introducing marketing, whereas for Saudi and Arab banks the level of difficulty was almost the same.

The results here revealed that some Arab banks do not believe marketing to be of great concern. This implies their view that the bank's image may be determined by its financial dealings alone.

One difficulty indicated was the lack of textbooks, leading to confusion. This could be due to the inadequacies in research into applied bank marketing, particularly in the Saudi context.

6.4.2 Attitudes Towards Marketing

Q 36 is designed to uncover the banks' attitudes to marketing once it had been introduced (Appendix A table 6.4.2.1).

The majority of banks show a positive attitude to marketing. This is reflected in the responses given to the following statements: 70% agree or strongly agree on the following three factors; marketing contribute to the banks' success, a satisfied employee ensures a

satisfied customer and marketing managers participate in top level decisions. The majority of banks indicated that all bank personnel who are in direct contact with the customer are well trained and agree or strongly agree that all bank personnel are presentable and approachable. Few banks disagree with the statement that marketing has contributed to their success. These respondents were both Saudi and Arab banks. One Arab bank strongly disagrees with the training of all personnel who are in direct contact with the customer.

A negative attitude was shown towards some aspects of marketing i.e. product differentiation, targeting markets and market segmentation. This is evidenced by their agreement towards the following statements: banks do not offer different services, banks' concern is to sell to whoever will buy and marketing has little effect on daily operations.

With respect to the statement concerning ATMs, some respondents stated that they were unsure whether market research was carried out or would be necessary before the introduction of this new service. The same number, however, stated market research is essential. Interestingly, 10% of this group of banks had already introduced ATMs and were unsure about any market research. A few agreed or strongly agreed that market research was unnecessary considering the proven success of ATMs.

There were two reasons for introducing the statement

concerning ATMs and market research. One was specific to the introduction of ATMs i.e. did the banks surveyed believe that ATMs successful track record guaranteed success in Saudi Arabia? The other reason was to discover their attitude to market research e.g. is the introduction of a new service simply a reflex action following moves by their competition?

The mean scores ranged from 1.5 to 3.4. The lowest mean score was given for personnel appearance and approachability. The biggest score was given for the concern to sell the product to whoever will buy it. The implication here is that there is no real market segmentation and the borders between segments are not clearly defined. It also implies a failure to approach target markets. The mean score for the bank offering different services was 3.3. This could be due to the competitive nature of banking.

Within the groups the overall mean scores are 2.37 for Saudi banks, 2.7 for Arab banks and 2.26 for foreign banks. Again, foreign banks show the most favourable attitude towards bank marketing.

6.4.3 Concept of Marketing

Q 37 attempted to establish the concept of marketing, and the philosophy which guided the marketing efforts of the banks.

The concepts of marketing which underscore the four statements used were the product concept which assumes

that marketing is concerned with offering good products or services which are reasonably priced and the selling concept which means that the bank is mainly involved with promotional and selling efforts. The marketing concept can be divided into two aspects: supplying customer requirements and satisfying customer needs.

Table 6.4.3.1

Q 37

Concept of Marketing:

	Saudi Origin (N=3)	Arab Origin (N=2)	Foreign Origin (N=5)	Total (N=10)
Marketing is concerned with offering good products/services that are reasonably priced.	-	-	-	-
Marketing is mainly concerned with promotion and selling product/services the bank chooses to offer.	1	-	-	1
Marketing is the management process which identifies, anticipates and supplies customer requirements effectively and profitably.	1	1	4	6
Marketing is a human activity directed at satisfying needs and wants through an exchange process.	1	1	1	3

From table 6.4.3.1, notably the product concept was not believed by any bank to be closely associated with its approach to marketing. One Saudi bank identified the selling concept as its approach. The rest of the

banks have a marketing concept. This shows that these banks are more in line with current concepts of marketing. The respondents are from all groups.

6.4.4 Suggestions for Improving the Marketing Department

Q 38 asked the banks to assess the success of their marketing departments by suggesting any improvements. Only six banks offered suggestions.

Of the suggestions made some groupings emerged. Research was the most frequent improvement to be made. This research would take two forms: market research and product research. Allied to this was the suggestion by one respondent for establishing an information system which would cover all aspects of marketing and bank activity. Three suggestions were made regarding staff. One bank wanted increased numbers of staff. A second wanted qualified staff while two banks required on the job and continuous training for its present staff. Two banks stated that a higher budget would improve the marketing department. More power for the marketing department along with an explicit strategy was suggested by one bank, while a second wanted an integrated management approach which would improve cooperation with all other bank departments and branches. It appears that marketing departments feel undervalued.

6.5 Bank Awareness of Consumer Attitudes Towards Banks

As the main body of this research is concerned with Saudi people's attitude to banks, it was necessary to discover how the banks assessed these attitudes. This was dealt with in Q 39.

The distribution was even: half believed that the attitude was positive, and one bank stated that the attitude was mixed. Within the groups, a greater number of foreign and Saudi banks believe that the attitude is positive. As for foreign banks the positive response may be due to the fact that the respondents are non-Saudi (non-Muslim). This assumption is based on the fact that they answered the English version of the questionnaire. Interestingly, two Saudi banks answered positively. Negative answers were given by one bank from each group. Of the responses, two believed that the negative attitudes affect the marketing effort to a large extent, whereas the third believes that it does so to a lesser extent. This information was elicited from Q 39 A. The respondent who believed that a mixed attitude existed stated that it undermined the marketing effort to a large extent.

When asked to specify the way in which the negative attitude affected the market only three responses were given (Q 39B).

The first respondent stated that the negative

attitude of Saudis towards banks caused a greater number of customers to turn to Islamic bank offices operating in Saudi Arabia. However, the respondent said that these Islamic banks are Islamic in name only. They take capital out of Saudi Arabia and speculate and invest abroad. Therefore, the Saudi economy loses and the marketing efforts of Saudi banks are undermined.

The second respondent stated that the marketing effort was undermined because it is restricted to the market groups who already use banks. The negative attitude of the other sections of the market means that "preaching to the converted" is the only viable marketing option in the Saudi context.

The third respondent specified the religious factor as the main obstacle to successful and widespread marketing. The issue of interest hinders economic development and expansion by causing economists to be reluctant to support a western commercial banking style.

One respondent who believes that the attitude to banking in Saudi Arabia is mixed made a point concerning Islamic banking. He stated that Islamic banks and money changers attract those who, for religious reasons, will not use a bank. However, this respondent believes that people should be educated and informed of the manner in which these alternatives operate. In this way customers will make a more informed choice of financial service

6.6 Bankers' View of Islamic Banks

A specific question on the respondent's view of Islamic banking, as an alternative to western commercial banking style, was not included in the questionnaire. This was because Islamic banking is a contentious issue in the banking world of Saudi Arabia and may be seen as an explicit threat by the banks modelled on western lines. The inclusion of such a question might have undermined the success of the entire questionnaire. The researcher therefore chose to raise this question when collecting the questionnaire from each respondent. However, only four respondents expressed their views about Islamic banks.

One foreign bank interviewed holds a sympathetic view of Islamic banking as a concept. The respondent stated that a western banking style is controversial because it is a product of the oil boom in Saudi Arabia. While stating that Islamic banks are not a viable alternative to commercial western banks it is feasible that Islamic principles could be integrated into the western banking system. This integration would take the form of introducing financial services like leasing transactions and trade finance operated according to Islamic laws.

A Saudi respondent was also sympathetic to the concept of Islamic banking and looked forward to a time when all banks in Saudi Arabia would operate according to Islamic laws. This respondent did foresee a

problem. Real Islamic investment entails a certain risk because it operates on shared profit and loss principles. Although Saudis are keen to make real Islamic investments, they are not prepared to risk the shared loss.

The third respondent interviewed stated that the obstacle of interest and its association with usury is difficult to overcome. For this reason Islamic services are only introduced as a pilot scheme. Currently this bank is operating a mutual fund service which does not contravene Islamic law. This respondent suggested setting up Islamic branches but allowed that this would prove extremely difficult in practice.

The fourth respondent held a very unsympathetic view of present Islamic banking in Saudi Arabia. Islamic banks were regarded by him as being deceitful. This opinion was based on the assumption that Islamic banks buy governments bonds which give interest and it is in this way that these "so-called" Islamic banks contravene Islamic law.

The researcher had hoped for a full response to questions regarding Islamic banking. In this way any preconceptions of non-Muslim bankers being opposed to Islamic banking would have been discounted or proven. There was no proven relation between the religion of the bankers questioned and their attitude to Islamic banking. Further research is needed to determine the in-depth perception toward Islamic banks.

Conclusion

In order to assess bankers' orientation to marketing several issues concerning both their attitudes toward and practice of marketing were raised. The components of marketing measurement include marketing philosophy, consumer research, management strategies, and awareness of customer needs and satisfaction. These components have always been used as the construct measure in evaluating the extent of marketing orientation.⁷

The overwhelming impression is that marketing has been accepted willingly and with interest by banks and that consumer needs and their satisfaction seem to be their main concern. However, banks perceive the negative attitude of consumers and they believe that this societal barrier hampers the implementation of marketing. Being aware that Islamic banking threatens their existence, banks Islamicised some of their services to bridge the emotional gap between themselves and their personal customer market.

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Chapter 7

Analysis of the Saudi Consumer Survey

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Analysis of the Saudi Consumer Survey

Introduction

This chapter deals with the analysis of the consumers' responses to the questionnaire administered in the summer of 1988 in the city of Jeddah, Saudi Arabia.

In order to determine the attitudes of bank users and the general public towards the issues, all data was cross-tabulated with the educational, income and age levels of the respondents. In addition, Q 13 and Q 20 were cross-tabulated against the bank groups defined in the proceeding chapter i.e. those of Saudi origin, Arab origin and foreign origin, to determine the Saudi respondents' attitudes towards these different bank groups.

For comparative purposes numerical results were expressed in percentages. The statistical measures employed are Chi-square test, the analysis of variance and the Student-Newman-Keuls test (SNK). Except for Q 13 and Q 20 where the analysis of variance and SNK are used to examine the significance of differences between means, the Chi-square test is used in all questions to assess the significance of association between two attributes. For most marketing research .05 level of significance is accepted. This means that 95% of the value of a sample statistic can be expected to lie

within the range concerned and 5% of the value outside it.¹

The questionnaires were distributed to 368 respondents. In view of the difficulty of obtaining representative samples at all defined levels, samples were weighted to avoid a bias towards a majority of the respondents who are university graduates, are in the middle income range, are less than 50 years old and are users of Saudi origin banks.

The questionnaire consists of 27 questions grouped as follows:

7.1 Patronage of bank services:

This group consists of questions 1-6 and questions 8, 14, 16, 18 and 19 which refer to the actual consumers' patronage of bank services, such as the use of cheques and preferred sources of loans.

7.2 Attitudes towards banks:

This group of questions from 9-13 and questions 15 and 17 deals with the general attitudes of Saudis towards banks, in particular, attitudes towards bank interest and loan sanctions.

7.3 General satisfaction and opinions about Saudi banks:

Questions 20-23 are designed to elicit

information about customers' satisfaction, the basis for choosing a particular bank and the perception of differences between banks.

7.4 Awareness of and opinions of Islamic banks:

The fourth group of questions from 24-26 is related to consumer awareness of and opinions of Islamic banks.

7.5 Attitudes towards handling money:

Questions 7 and 27 are designed to determine the savings, investment and borrowing attitudes of consumers.

7.1 Patronage of Bank Services

The first group of questions dealt with Saudi patronage of bank services and to what extent the range of services which are offered are used.

7.1.1. Use of Bank Services

In Q 1 respondents were asked to indicate which services they have made use of when they used a bank. (Table 7.1.1.1.)

At the general level the service used by most people is the current account, 74%. The implication is that Saudi consumers regard banks simply as a safe place to store money rather than as companies which offer a variety of services. Notably, deposit accounts are not

used to the same extent. About a quarter of the sample group has used a bank to buy travellers cheques. Although, this percentage is low it appears to be the second most popular service offered by banks. A number use the bank to cash cheques and exchange currency. These two services are in direct competition with those offered by money changers, as shown in Q 6. Newly introduced services have low patronage. For example, trust funds are used by only a few respondents. Also, loans have low patronage. This could imply that consumers are highly aware of the interest factor involved in these services, as evidenced by most Saudis' reluctance to use banks, due to religious factors as shown in Q 12.

It appears that minimal use is made of the range of bank services. Consumers restrict themselves to using services where interest is not a major factor, and in this way they abide by Islamic law.

Table 7.1.1.1

Q 1 Use of Bank Services

	<u>Yes</u> %	<u>No</u> %
Current acct.	73.5	26.5
Deposit acct.	19.1	80.9
Trust fund	2.0	98.0
Loans	5.0	95.0
Travellers-cheques	27.9	72.1
Cheque-cashing	25.5	74.5
Credit cards	14.1	85.9
Currency exchange	19.1	80.9
Buy/Sell stocks	12.7	87.3
Others	2.4	97.6
Never use bank services	13.4	86.6

The result of this group of questions dealt with educational, income and age levels respectively. To a large extent these characteristics determine the respondents use of banks.

In Q 1 (Table 7.1.1.1 Appendix B) the educational level is of great significance. By the use of the Chi-square test of significance, it appears that the use of current accounts, deposit accounts, travellers cheques, credit cards, currency exchange and selling and buying stocks are all significant.

Generally, it could be stated that the higher the educational level, the greater the use of all bank services. Interestingly on deposit accounts, the trend is reversed. The lower the educational level the higher the use of a deposit account.

It seems that with higher education levels, there is a better opportunity to understand the banks offerings which results in a greater need to use the full range of bank offerings.

The income characteristic is significant for all services except for deposit accounts and trust fund services. From Table 7.1.1.2 Appendix B the respondents on the fourth income level (more than SR 10,000) made greater use of almost all bank services mentioned except for the deposit accounts. This may be an indication that their disposable income allows them to invest e.g. to buy and sell stock, etc. and thus they may have a lower need for deposit accounts.

Turning to the age factor, all bank offerings show a high level of significance except for trust funds and use of loans (Table 7.1.1.3).

Within the prescribed age groups a greater use is made of the range of services by respondents from the middle age group (30-50).

Exceptions are the use of deposit accounts and trust funds which are used more frequently by those respondents aged less than 30. The greater use of trust funds and deposit accounts by the under 30's may indicate a willingness on their part to establish a firm personal economic basis through savings. Using these services shows that the objective of this group is not easy access to their money.

Generally, it can be said that the higher the educational level, the higher the income and those aged between 30 and 50 make the most use of bank services, except for deposit accounts. The lowest educational level, the lowest income groups and those aged under 30 are the greatest patrons of the deposit accounts. It appears that, for these groups, this is the most convenient way to invest.

Further investigation of the defined groups gives more detailed information. As shown in Table 7.1.1.4 Appendix B those at the highest socio-economic level make more use of bank services except for the deposit accounts.

For those earning more than SR 10,000 (Table 7.1.1.5

Appendix B) it shows that those educated to secondary level and university level make more use of bank services. Furthermore, the highest income earners (Table 7.1.1.6 Appendix B) aged between 30-50 seem to make more use of bank services related to travel, i.e. travellers' cheques, credit cards and currency exchange. They are also the highest users of the current accounts. With respect to services like deposit accounts, trust funds and loans it seems that those high income earners aged less than 30 patronise more of these services.

In the middle age group (30-50), the higher the income the higher the use of all bank services as shown in Table 7.1.1.7 Appendix B. On the other hand, this age group with the highest educational level shows more patronage of all bank services except those based on interest. (Table 7.1.1.8 Appendix B.)

It seems that education is the major factor affecting the use of bank services. It could be stated that the higher the education the higher the use of non-interest based bank services. While on the other hand, the higher the income the higher the use of all bank services except for deposit accounts. It appears that awareness due to education restricts them from utilising interest-based services.

The researcher felt it important to include the statement "never use bank services" in order to elicit information about the Saudis' attitude affecting the

decision to use or not to use a bank.

Those who had never used bank services account for, 13% of the sample group. The higher the education and income levels the more likely they are to use the banks. The people with the lowest education and income levels and those over 50 see no need to use banks. (Tables 7.1.1.1 to 7.1.1.3 Appendix B.)

These results are consistent with the findings of a survey in the United Kingdom into the use of bank accounts. The survey shows that U.K. bank account holding is most widespread among those in the middle age group (25-44 years old) and among the higher social groups. The oldest age groups and the youngest age groups are less likely to hold a current account and those in these groups who do have bank accounts tend not to use the full range of services which banks provide.² A second finding in the U.K. inconsistent with this study shows that those in higher socio-economic classes are most likely to engage in direct borrowing (bank loans) than those in the lower social strata.³

7.1.2 Usage of Cheques:

One of the reasons affecting the patronage of bank services is that salaries are received by cheque. Accordingly, Saudis may use a bank only to cash their salary cheque. Considering this fact, Q 2 was asked to find out how salaries are paid. The majority, 64% of

the sample group, stated that they are paid by cheques. It is significant that the higher the education and income level, the more likelihood of being paid by cheque. (Tables 7.1.2.1 & 7.1.2.2 Appendix B.)

Q 3 asked about the respondents' method of dealing with salaries or any other considerable (amount of) money in a bank. The majority, 61%, stated that they deposit their salary or any extra amount of money. Some keep their money with them at all times or at home. The results of this question correlate with the results of Q 1. It seems that the higher educational and income levels and those aged between 30-50 years are the greatest users of bank services. (Tables 7.1.2.3 to 7.1.2.5 Appendix B.)

Q 4 asked to what extent the sample groups use cheques. One-third of the sample group never use cheques. Over half stated that they sometimes use cheques while a few use cheques only for large transactions. There is a 99% level of significance in the educational, income and age groups for use of cheques. Again, it appears that the higher the educational and income levels the more frequent the use of cheques. The middle age group makes most use of cheques. (Tables 7.1.2.6 to 7.1.2.8 Appendix B.)

Q 5 asked about the sample group's acceptance of cheques. A small number of the sample groups always accepts cheques, while half sometimes accepts cheques. The remainder of the cheque users, 29%, accept only

certified cheques. (Tables 7.1.2.9 to 7.1.2.11 Appendix B.)

The result of cross-tabulation Q 5 shows that the highest educational and income groups and the middle age groups are more likely to accept cheques. The result correlates with the result of the previous questions.

7.1.3 Customers' Preference for Dealing with Banks or Money Changers

Q 6 asked about customer preferences for dealing with banks or money changers for listed services. The purpose of Q 6 was to determine the extent of competition between banks and money changers.

Table 7.1.3.1

Q 6

Customers' Preference for Dealing with Banks or Money Changers:

Services	Banks %	Money Changers %	Neither %
Depositing money	83.4	4.3	12.2
Travellers' cheques	46.0	32.3	21.7
Cashing cheques	85.0	9.0	6.0
Loans	38.8	2.7	58.5
Money exchange	24.6	62.5	12.9
Transferring money	60.0	32.0	8.0

From Table 7.1.3.1, the majority uses banks to cash cheques. This could be substantiated by the fact that government and company salaries are mostly paid by

cheque. These cheques are usually cashed by the issuing bank free of charge. Money changers, however, charge for cashing cheques. Similarly, banks are used by the majority for depositing money. This could be due to the fact that money changers have been prohibited by SAMA since 1984 from accepting deposits, as stated earlier. Thus, the competition for these two services is not high.

Other services are more competitive, namely money transfer and travellers cheques. At present, banks have the edge in these services, money changers holding only about a third of the sample group. The respondents made more use of the money exchange services at money changers. In this particular kind of service, banks hold about a quarter of the market, while money changers have upwards of 62%. With regards to loans, although banks cater to a greater percentage of the market than money changers, the percentage of those who do not use either banks or money changers for loan services is over half of the sample group.

It seems that the sample group prefers to deal with banks and money changers for services as long as interest is not involved. For interest based services i.e. loans, it appears that customers have different sources for loans as shown in Q 8.

7.1.4 Sources of Loans and Awareness of Interest

Q 8 is aimed at eliciting more information on the

respondents' actual sources of loans. About 12% of the sample group never use loans at all. For those who do use loans (Table 7.1.4.1) friends and relatives are indicated by the majority of the respondents as the primary source. The secondary source is employers, who give loans which are deductible from future salaries. The third preferred source of loans is the banks, 13%. Money-changers are fourth. An even smaller number considered money-lenders as a possible source, a fifth alternative.

Since friends and relatives ranked high as the primary source for loans, whereas banks ranked third this reveals most probably that the Saudi consumers are aware of the interest involved in bank loans.

Table 7.1.4.1

Q 8
Ranking of Actual Sources of Loans:

Rank	Banks %	Future Salary %	Friends & Relatives %	Money Changers %	Money Lenders %
Never Considered Source	65.6	42.3	22.5	82.7	85.0
Primary Source	8.9	19.6	58.3	1.0	0.7
Secondary Source	8.7	34.8	16.2	0.6	1.2
Third Source	12.7	2.2	2.2	4.5	1.0
Fourth Source	3.0	1.2	1.0	8.7	2.8
Fifth Source	1.2	0.0	0.0	2.6	9.4

Awareness of interest could be the main factor affecting loan sources. Accordingly, questions 14, 16,

18 and 19 were aimed at determining the customers' knowledge of whether banks give and/or charge interest and how banks calculate interest.

Q 14 introduced the specific aspect of interest and asked whether the respondents were aware that interest is given on deposits. The majority are aware of this fact while the remainder are either uncertain or simply do not know. The higher the educational and income levels, the greater the likelihood of knowing that banks give interest on deposits. The chi-square test of significance shows a 95% level of significance only between the educational groups and their knowledge of banks giving interest on deposits. (Table 7.1.4.1 Appendix B.)

Q 16 asked the respondents if they knew that interest is charged by banks. The majority stated that they are aware of this charge. Of the remainder a smaller number stated that banks do not charge interest. The higher the education and income level, the more aware people are about banks charging interest (tables 7.1.4.2 and 7.1.4.3 Appendix B). Respondents aged between 30-50 years shows higher awareness of banks charging interest (table 7.1.4.4 Appendix B). Cross-tabulation of loan users in Q 1 by Q 16, show that 96% of loan users are aware that banks charge interest as shown in the table below.

Table 7.1.4.2

Q 16

Loan Users' Knowledge of Banks Charging interest:

Loan Use	Knowledge of banks charging interest			Do not Know %
	Yes %	No %		
Loan Users	96.0	4.0		0.0
Non-users	79.6	5.2		15.3
Total %	80.4	5.1		14.5 100.0

The results of Q 16 compared to the results of Q 14 show that respondents' awareness of banks charging interest is higher than their awareness of banks giving interest. This could be due to the fact that Saudi banks have not given interest until recently. The number of respondents replying "do not know" to Q 14 shows this.

It is also affirmed by the interview with the banks' marketing managers, as one bank stated that it does not add interest to deposit accounts unless the customers ask for it.

Q 18 and Q 19 asked the respondents to express their own opinions and the opinions of other Saudi borrowers on the subject of their knowledge of how banks calculate interest. The response to Q 18 showed that 39% know how banks calculate interest, while the remainder do not know.

The higher the educational and income levels, the

greater the awareness of how banks calculate interest. (Tables 7.1.4.5 and 7.1.4.6 Appendix B). For those on the university level it shows that the high income earners and the middle aged group are more aware of how banks calculate interest. (Tables 7.1.4.7 and 7.1.4.8 Appendix B.) This result is consistent with the findings of a study conducted among weekly cash-paid workers in the U.K. which shows the low-income level uncertainty of bank charges.⁴ Only 76% of loan users know how banks calculate interest as shown in the table below.

Table 7.1.4.3

Q 18

Loan Users' Knowledge of how Banks Calculate Interest:

Loan Use	Knowledge of banks interest calculation		
	Yes %	No %	
Loan users	76.1	23.9	
Non-users	37.4	62.6	
Total %	39.3	60.7	100.0

In the response to Q 19 an even lower percentage (36%) indicated the limited knowledge of Saudi borrowers on how to calculate bank interest. (Tables 7.1.4.9 and 7.1.4.10 Appendix B). Based on the result of responses to Q 18 and Q 19, it is obvious that this very important aspect of interest is not widely known. Although the

respondents know that interest is charged, they are less aware of the basis of calculating this charge.

7.2 Attitudes Towards Banks

The second group of questions is concerned with Saudi attitudes towards banks. The questions asked about the various facets of banking and the answers given indicate the attitude of the respondents towards banks. The most direct question concerning attitude is Q 11, whereas the other questions of this group elicit information on attitudes indirectly. Accordingly, the analysis of this group does not follow the sequence of the questionnaire. The analysis starts with Q 11 and Q 12 to determine the extent of Saudi reluctance to banks, and the analysis of specific aspects of loans and interest follows as in Q 9, Q 10, Q 15 and Q 17. Q 13 is analysed at the end in order to give a summarised and general attitude of Saudi respondents towards banks.

7.2.1 Saudis' Reluctance to use Banks

The purposes of these questions (Q 11 and Q 12) are to discover whether Saudis are reluctant to use banks and to determine the causes of their reluctance.

Q 11 asked the respondents directly whether, in their opinions, Saudis are reluctant to use banks. Half replied positively i.e. Saudis are reluctant to use banks. About a quarter replied negatively and the remainder could not decide.

According to the educational levels a majority of those in the intermediate and secondary levels stated that Saudis are reluctant to use banks. Less than half of the respondents educated at the university level replied positively. And, only one third of the primary level stated that Saudis are reluctant to use banks. (Table 7.2.1.1 Appendix B.)

Interestingly, in table 7.2.1.2 Appendix B, the youngest age group shows greater reluctance of Saudis to use banks more than those aged over 50 years, while the middle age group who are educated to university level shows the greatest reluctance to use banks. (Table 7.2.1.3 Appendix B).

There is no significance between the Saudi's reluctance to use banks and the respondents income levels. This is so, obviously, because the level of income does not change people's attitudes towards banks although the level of income affects the use of bank services as in Q 1.

Cross-tabulation of the non-users of bank services in Q 1 by Q 11 is shown in table 7.2.1.1. The aim is to determine if the reluctance to use bank services is the main reason for not patronising a bank.

Only 14% of the non-users state that Saudis are not reluctant to use banks. Half of the non-users are uncertain whether Saudis are reluctant to use banks.

Also, majority of those who use deposit accounts believe that Saudis are reluctant. While less than a

quarter of deposit account users believe that Saudi are not reluctant as shown in Table 7.2.1.2

Table 7.2.1.1

Q 11
Cross-tabulation of the Users and Non-Users of bank services' Opinions about Saudis' Reluctance to use Banks:

Opinion about Saudis' reluctance to use banks				
Use of Bank Services	Yes %	No %	Do not Know %	
Non-Users	34.1	14.1	51.8	
Users	53.4	30.7	15.9	
Total%	50.8	28.4	20.8	100.0

Q 11

Table 7.2.1.2

Cross-tabulation of the deposit account users and non-users' opinions about Saudis' reluctance to use banks;

Opinion about Saudis' reluctance to use banks				
Use of deposit account	Yes %	No %	Do not Know %	
Users	65.3	22.1	12.6	
Non-users	47.3	30.0	22.7	
Total %	50.8	28.4	20.8	100.0

Q 12 aimed to determine the causes of Saudis reluctance to use banks.

Table 7.2.1.3

Q 12

Causes of the Saudi People's Reluctance to Deal with Banks:

Factors	%
Customers' feelings that banks are avaricious	17.8
Protracted procedures	14.9
Religious factors	97.1
Impersonal aspect of banks	6.6
Unawareness of the services available	13.9
Long queues	9.4
Other	3.0

From table 7.2.1.3, almost all of the respondents who believed that Saudis are reluctant indicated the religious factor as the reason for that reluctance. The customers' feeling that banks are avaricious, the protracted procedures and the unawareness of the services available accounted for approximately 15% of the responses. Other reasons given revealed a negative attitude reflecting religious beliefs. However, one respondent stated that Saudis are not aware of how useful banks are nor do they understand the need for banks. Another respondent stated that the Saudis' public perception of banks does not encourage bank use.

It appears that a big difference exists between the religious factor and all the other reasons mentioned for reluctance. It could be stated that all the other reasons which could be controlled by marketing i.e. price, courtesy of personnel and availability of

services are of considerably less importance when compared with the religious factor.

The use of chi-square test does not show a significant relationship between the level of education, income and age groups and the above factors as an explanation of Saudis' reluctance to use banks. The implication is that all groups give consideration to the religious factor, while other aspects of bank marketing have had less consideration as causes for people's reluctance to use banks.

For those who think that banks give and charge interest (Q 14 and Q 16), a majority rated religious factors as the main cause for reluctance in dealing with banks as in tables 7.2.1.4 and 7.2.1.5.

Table 7.2.1.4

Q 14

Cross-tabulation of those who know that banks give interest by their consideration of religious factors as a cause for reluctance:

Religious factor as cause for Reluctance	Knowledge of banks giving interest			Do not Know %
	Yes %	No %		
Pick religious factor	74.1	14.3		11.6
Do not pick religious factor	48.1	0.0		51.9
Total %	73.4	13.8		12.8 100.0

Table 7.2.1.5

Q 16

Cross-tabulation of those who know that banks charge interest by their consideration of religious factors as a cause for reluctance:

Religious factor as a cause for reluctance	Knowledge of banks charging interest			Total %
	Yes %	No %	Do not Know %	
Pick religious factor	85.4	3.5	11.1	
Do not pick religious factor	100.0	0.0	0.0	
Total %	85.9	3.4	10.8	100.0

For those who know that banks charge interest (Q 16), a majority states that banks are avaricious, as shown in table 7.2.1.6.

Table 7.2.1.6

Q 16

Cross-tabulation of those who know that banks charge interest by their consideration that banks are avaricious as a cause for reluctance:

Cause for Reluctance	Knowledge of banks charging interest			Total %
	Yes %	No %	Do not Know %	
Believe that banks are avaricious	93.1	0.0	6.9	
Do not believe that banks are avaricious	84.3	4.1	11.6	
Total %	85.9	3.4	10.8	100.0

In summary, it could be stated that Saudis are reluctant to deal with banks. This reluctance is mainly due to religious factors. And, for those who know that banks charge interest, they also feel that banks are avaricious.

7.2.2 Attitudes Towards Loans:

The aim of these questions (Q 9 and Q 10) is to determine the attitudes of Saudis towards the bases of sanctioning loans.

Q 9 asked what factors are involved in the sanctioning of a loan. The most important individual factor is whether the borrower fulfills the banks requirements (21%). 19% indicated that a personal relationship is important. 35% showed that a combination of these two factors is important. However, a quarter of the respondents do not know what factors are involved in the sanctioning of a loan. This result may indicate the lack of knowledge of Saudi consumers with respect to loans.

The higher educational level, higher income level and those at the middle-age group (tables 7.2.2.1 to 7.2.2.3 Appendix B) indicated that the major factor in loan sanctioning is the combination of personal relationship and fulfilling banks' requirements. Since this group of respondents had been earlier identified as the greatest users of bank services and of loans as in Q 1, it could be said that their views towards loan

sanctioning is considerable.

Although the combined factors of personal relationships and fulfilling loan requirements gets the highest rating for these groups, generally, based on separate results, the personal relationship is considered as a prominent factor in securing bank loans (a case which should not be engaged). Customers in general feel that bank services are not for everyone, reflecting a negative attitude towards banks.

The above findings are confirmed by the opinions of the loan users as indicated in the table below.

Table 7.2.2.1

Q 9

Cross-tabulation of those who use loans by the factors involved in loan sanctioning:

Loan Use	Factors involved in loan sanctioning				
	Pers. Rela. %	Fulfill Rqmt. %	Combina- tion %	Do not Know %	
Loan users	28.1	9.0	62.9	0.0	
Non-user	18.6	22.0	34.0	25.5	
Total %	19.0	21.4	35.3	24.3	100.0

Q 10 asked the respondents to indicate what they felt was the most important factor in failing to secure a bank loan. (Table 7.2.2.2.)

The most important factor was the banks distrust of customers. This mistrust of customers reflects their negative attitude towards banks. Another factor considered is the difficulty for customers to attain all loan requirements. Interestingly, one third of the

respondents can not decide on the most important factor.

This might be an indication of customers' lack of information about loan sanctioning.

Table 7.2.2.2

Factors Causing the Failure to Secure Bank Loans:

	%
Personal loans are not considered a major market for banks	7.6
Banks' mistrust of customers	29.9
Banks serve only business firms	6.6
Difficulty for customers to attain all loan requirements	26.2
Can not decide	29.6

From tables 7.2.2.4 to 7.2.2.6 Appendix B, the low educational and income level groups consider the difficulty of complying with the requirements as the main factor in failing to secure bank loans. Probably, this is due to difficulty in finding guarantors and raising the proper amount of collateral. The upper educational and income levels, together with those of the middle age group chose differently. They thought that the banks' mistrust of customers was the main factor causing customers to not secure bank loans.

For those who use loans (Q 1), the majority stated that the mistrust of customers by the bank is the major factor in failing to secure bank loans as shown in the table below.

Table 7.2.2.3

Q 10

Cross-tabulation of users and non-users of loans by the factors that cause failure in securing bank loans:

Factors causing failure in securing bank loans					
Loan Use	Not Major	Mis-trust	Serve Bus.	Diff. Rqmt.	Can't Decide
Loan users	4.2	60.4	14.6	8.3	12.5
Non-loan users	7.8	28.2	6.2	27.2	30.6
Total %	7.6	29.9	6.6	26.2	29.7
					<u>100.0</u>

Table 7.2.2.4

Q 10 by Q 9

Cross-tabulation of the factors involved in loan sanctioning by the factors causing failure to secure bank loans:

Factors causing failure in securing bank loans					
Factors of Loan sanction	Not Major %	Mis-trust %	Serve Bus. %	Diff. Rqmt. %	Can't Decide
Personal Relationship	15.7	38.6	12.2	20.7	12.8
Fulfill Requirement	4.7	15.9	5.0	49.1	25.4
Combination	8.5	37.3	6.7	24.2	23.4
Do not Know	4.4	20.5	4.1	15.9	55.1
Total %	8.0	28.9	6.7	26.8	29.7
					<u>100.0</u>

From the above table (7.2.2.4), banks' mistrust of

customers was also considered the major factor in failing to secure a loan by those who feel that personal relationships exist in loan sanctioning. Interestingly, for those who feel that loan sanctioning is based on fulfilling bank requirements find it difficult to meet such requirements.

In summary, it could be said that in view of the banks' mistrust of customers (Q 10), personal relationships (Q 9) play an important factor in the sanctioning of bank loans.

7.2.3 Attitudes Towards Interest

The objective of these questions (Q 15 and Q 17) is to determine the respondents' attitudes towards interest.

Q 15 asked the respondents about the way in which Saudis deal with interest given by banks. This question was included because of the attitudinal factor towards interest that may determine the reluctance to use banks. Taking into consideration that only two-thirds of the respondents know that banks give interest on deposits (Q 14), the results show that refusing to take interest was the way in which about half of the respondents deal with interest. 18% stated that Saudis did collect the interest given by banks. 13% of the respondents indicate that although interest is collected, the depositors do not keep it for their own

use but give it to charity.

It is evident that the majority are aware of the Islamic prohibition regarding the use of interest for their own gain or for charity. Furthermore, it seems that the scheme of giving interest on deposits does not appeal to Saudi customers. The fact that some bank users collect interest for the sake of charities could mean that they are showing an extreme negative attitude towards banks. They prefer to give the interest to charities rather than allowing the bank to benefit from the uncollected interest. Although it is given to charities this practice would not beget grace in Islam.

There is no significant relationship existing between the educational levels and the issue of keeping or refusing interest. However, the low income level people do not prefer to keep the interest but give the interest collected to charity while the high income earners get more advantage from their money by keeping the interest on deposits. (Table 7.2.3.1 Appendix B.)

With respect to age, the eldest group (over 50) prefers to give the collected interest to charity while those under 50 refuse to take interest at all. (Table 7.2.3.2 Appendix B.)

The above findings are confirmed in table 7.2.3.3 Appendix B which shows that low income level respondents and those over 50 prefer to give the collected interest to charity.

Q 17 asked the respondents to evaluate the level of

interest charged by banks. Just less than half of the respondents indicated that it is higher than it should be while 28% indicated it is much higher. Only 19% indicated that they believed that interest charges are reasonable, where 1.4% stated that they are very reasonable.

It seems that the majority of respondents believe interest charges are unreasonably high. With respect to income levels and age levels (tables 7.2.3.4 and 7.2.3.5 Appendix B) about 73% of the highest income level and the middle age group believe that interest is very high and higher than it should be.

Since the highest income earners and those aged between 30-50 are the most frequent users of banks, it could be generalized that their opinion about the range of interest is more knowledgeable.

Similar to those who believe that Saudis are reluctant to deal with banks, those who do not believe that Saudis are reluctant gave equal ratings to the opinion that banks charge higher interest as shown in table 7.2.3.1.

Table 7.2.3.1

Q 17

Cross-tabulation of those who believe that Saudis are reluctant to deal with banks by opinions on level of interest charged by banks:

Reluctance	Level of interest					
	Very High	High	Reasonable	Very Reas.	Do not Know	
Yes	31.4	39.7	23.5	2.2	3.5	
No	27.0	44.9	10.1	0.0	18.0	
Do not Know	20.2	30.3	19.1	1.3	29.1	
Total %	28.1	39.5	18.8	1.4	12.2	100.0

7.2.4 General Attitudes Towards Banks

Q 13 sums up the respondents' general attitudes towards banks. This question consists of 10 statements related to attitudes about banks. The Likert scale was used to measure the results. The scale ranges from 1 - strongly agree - to 5 - strongly disagree. The odd numbered statements reflect the positive aspects of banks. From table 7.2.4.1 Appendix B, the majority (97%) agree or strongly agree that banks are a safe place to keep money. 70% agree or strongly agree that banks carry out financial services reliably. Only a quarter believe that banks treat small account holders in the same way as large account holders. About two-thirds indicated that banks contribute greatly to social projects, while 77% agreed or strongly agreed that banks contribute to the development of the economy.

The remaining statements were concerned with negative attitudes towards banks. About a quarter agree or strongly agree that banks pay little attention to small accounts, give better services to businessmen and that banks usually do not explain to customers the basis for calculating commission. A few agree or strongly agree that banks come out on top of any transaction and maximise their profit at the customer's expense.

The mean score was used to measure the level of positive and negative attitudes towards banks. The lower the mean shown the more the positive the attitudes the respondents have towards the prospective issues.

The overall mean score is 2.9 which means that the Saudis' attitudes to banks is approaching the uncertain score of 3. This indicates the hesitancy that Saudis show in using banks.

The mean score for statement 1 as shown in table 7.2.4.1 Appendix B is quite low, a 1.3, which indicates that respondents believe that banks are a safe place to keep their money.

A mean score of around 2.0 was given to statements concerning banks' reliability in handling financial services, their monetary contribution to social projects and their contribution to economic development. The implication is that banks are seen as important in the development of social projects and for the economy.

In Q 13 statement 10 asked whether the customers expect banks to "come out on top" of any transaction

gained a high mean score (3.9) indicating a negative attitude by the respondents. A higher mean score 4.2 was also given for the statement: "banks maximise profit at the customers' expense". Statements such as banks do not pay attention to small accounts, give better services to businessmen and do not usually explain to customers the basis for calculating commissions gained mean scores of 3.1, 3.4 and 3.3 respectively. This implies that small account holders feel that the treatment they receive is secondary. This is another negative attitude of Saudi consumers towards banks. As shown in Figure 7.2.4.1 negative attitudes towards banks' treatment of small account holders were obvious. Equally negative attitudes were expressed towards the eighth statement: banks maximise profit at the customers' expense.

The overall mean score is almost neutral which could be due to the fact that religious factors were not introduced. The non-introduction of religious factors was intentional since these factors could have affected the whole attitudinal statements of Q 13.

To discover if education, income, and age levels have an effect on the Saudis' attitudes towards banks, the analysis of variance (ANOVA) was used. To test the variation of the means between groups, the hypotheses would be:

$H_0: U_1 = U_2 = U_3 = U_4$ (null hypothesis)

$H_1: \text{not all } U\text{s are equal}$ (alternative hypothesis)

Where: U_1 = mean of primary
 U_2 = mean of intermediate
 U_3 = mean of secondary
 U_4 = mean of university

Table 7.2.4.1

Q 13

Analysis of Variance of the Respondents' Attitudes

towards banks with respect to their educational levels:

Source of Variation	D.F.	Sum of Squares	Mean Squares	F Ratio	F Prob.
Between Groups	3	1065.0164	355.0055	8.4124	0.000
Within Groups	356	15023.2717	42.2002		
Total	359	16088.2880			

From table 7.2.4.1 the ANOVA test shows that the F probability is nil, while a significant F statistic would indicate that the population means are probably unequal. Therefore, the null hypothesis is rejected and significant differences exist between educational levels and Saudis' attitudes towards banks.

To pinpoint the differences between groups and to test homogeneity, multiple comparison range tests were used. Student-Newman-Keuls (SNK) at alpha 0.05 is shown in the table below.

Table 7.2.4.2

Student-Newman-Keuls Multiple Range Test for respondents' attitudes towards banks with respect to their educational levels:

Variable Q13

By Variable Education

Multiple Range Test

Student-Newman-Keuls Procedure

Ranges for the 0.050 Level -

2.81 3.34 3.66

The Ranges above are Table Ranges.

The Value Actually Compared with Mean(J)-Mean(I) is...

0.45935

* Denotes parts of groups significantly different at the 0.050 level.

		G	G	G	G
		R	R	R	R
		P	P	P	P
		3	1	2	4
Mean	Group				
2.57902	Grp. 3				
2.63120	Grp. 1				
2.74767	Grp. 2				
2.96443	Grp. 4	*	*	*	

From the table above, SNK test shows that the university level (Group 4) is significantly different from the other educational levels. Interestingly, the higher the educational level the more negative the attitude towards banks. The attitudes towards banks are detailed in Figure 7.2.4.2. It shows the great variation of the higher educational levels with respect to the attitudinal statements.

Similarly, ANOVA tests for income and age levels (Tables 7.2.4.2 and 7.2.4.3 Appendix B) show that attitudes towards banks differ according to the respondents' income and age levels.

Tables 7.2.4.4 and 7.2.4.5 Appendix B show the Student-Newman-Keuls test. Results show that the attitudes of the low-income level respondents towards banks is significantly different from those earning over SR 6,000 (Groups 3 and 4). Again, the higher the income the more negative the attitude Saudis have towards banks. Figure 7.2.4.3 illustrates this. It is worth noting that with respect to statement 5: banks do not treat small account holders in the same way as those with big accounts, that the lower income levels do not follow the general pattern shown on the other levels.

With respect to age, Student-Newman-Keuls results show that the oldest group of respondents (Group 3) is significantly different from the other two age levels (Group 1 and 2). Surprisingly, the oldest group shows more favourable attitudes toward banks. Figure 7.2.4.4

shows the variation between the oldest group and the others.

In summary, the higher the educational and income levels the more negative the attitudes towards banks. Respondents aged under 50, also show negative attitudes. Since these groups make up the highest users of bank services, it could be stated that they are expecting more than what banks presently offer.

Figure 7.2.4.1 Saudis' attitudes towards banks:

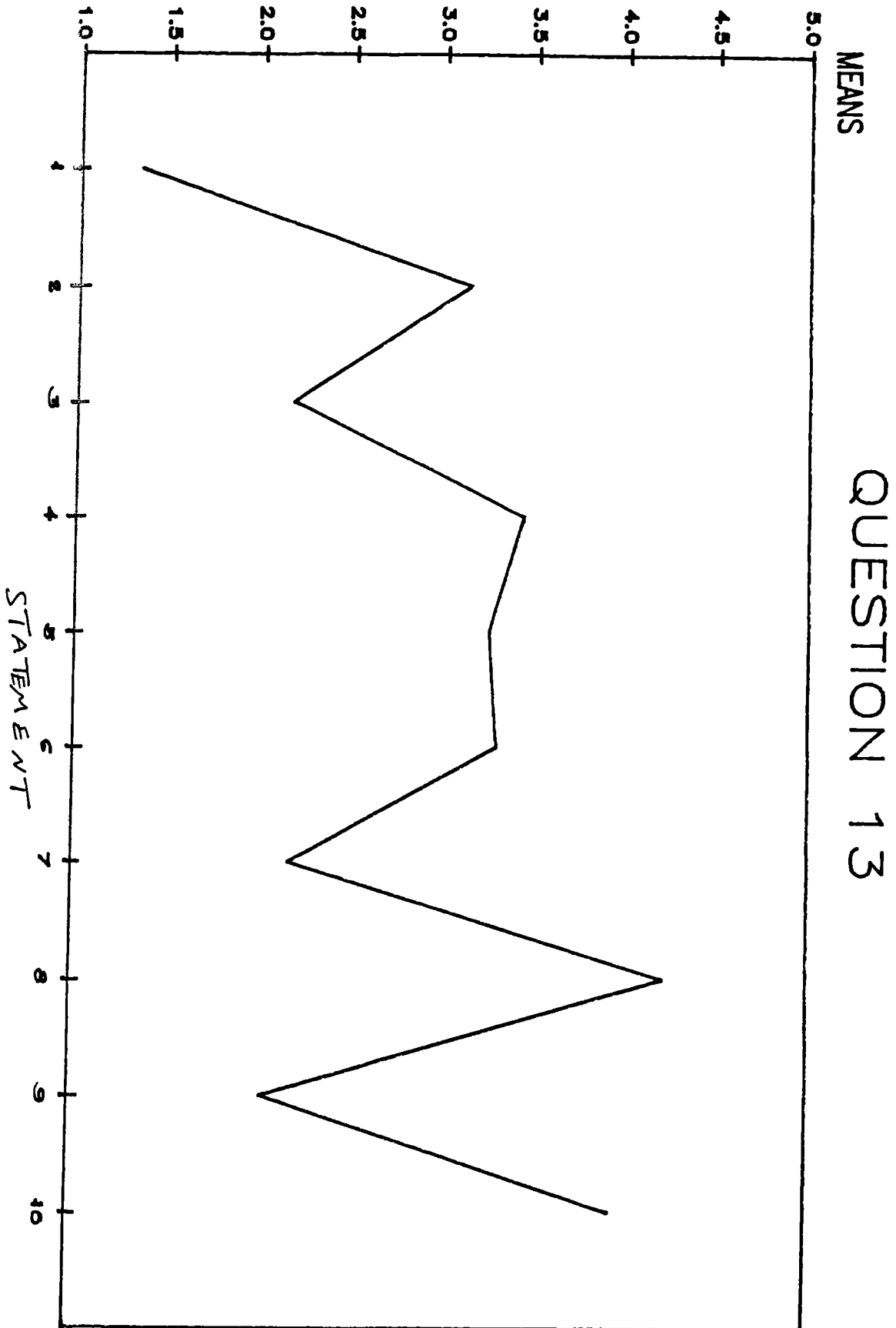


Figure 7.2.4.2 Saudis' attitudes towards banks with respect to the respondents' educational levels:

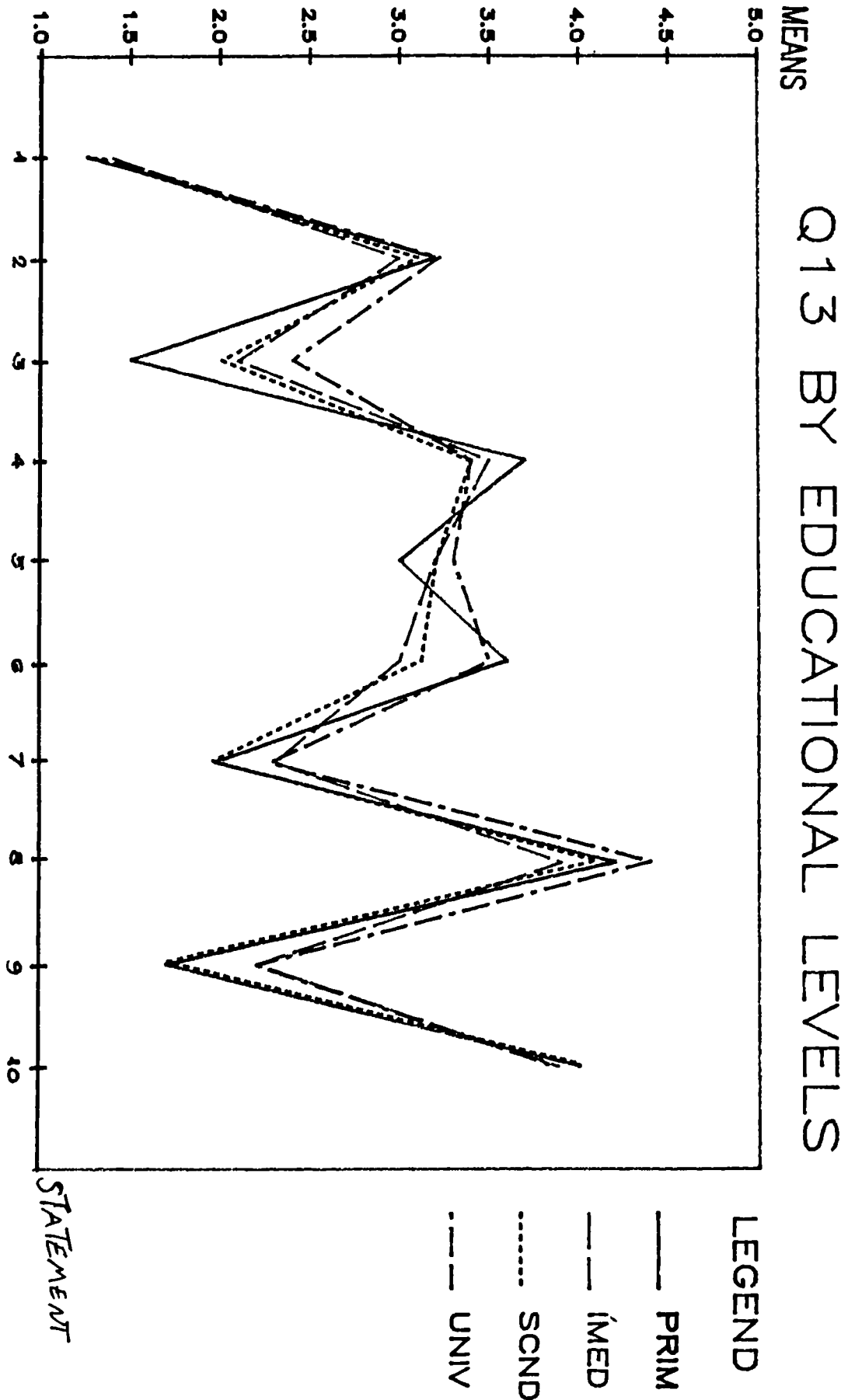


Figure 7.2.4.3 Saudis' attitudes towards banks with respect to the respondents' income levels:

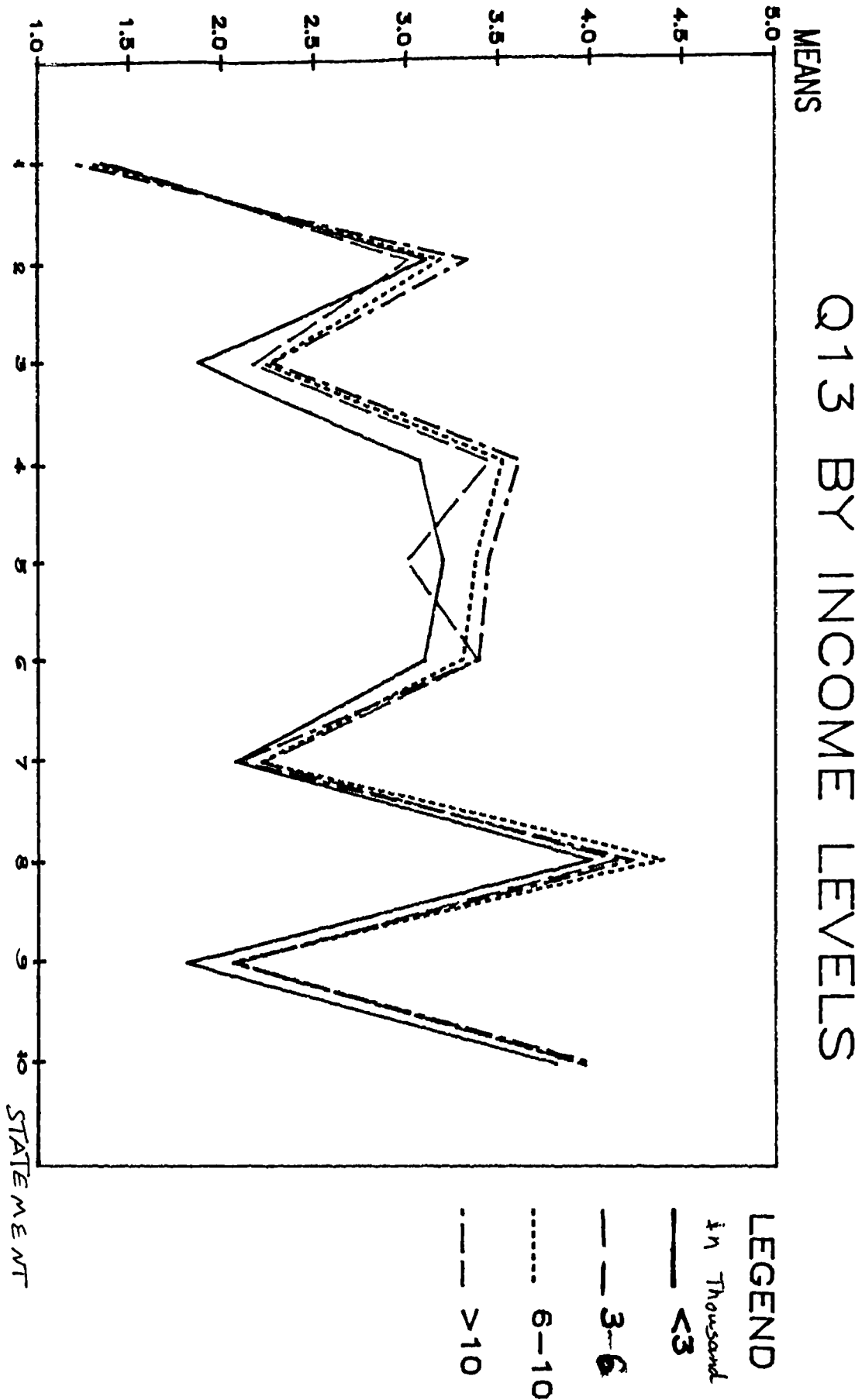
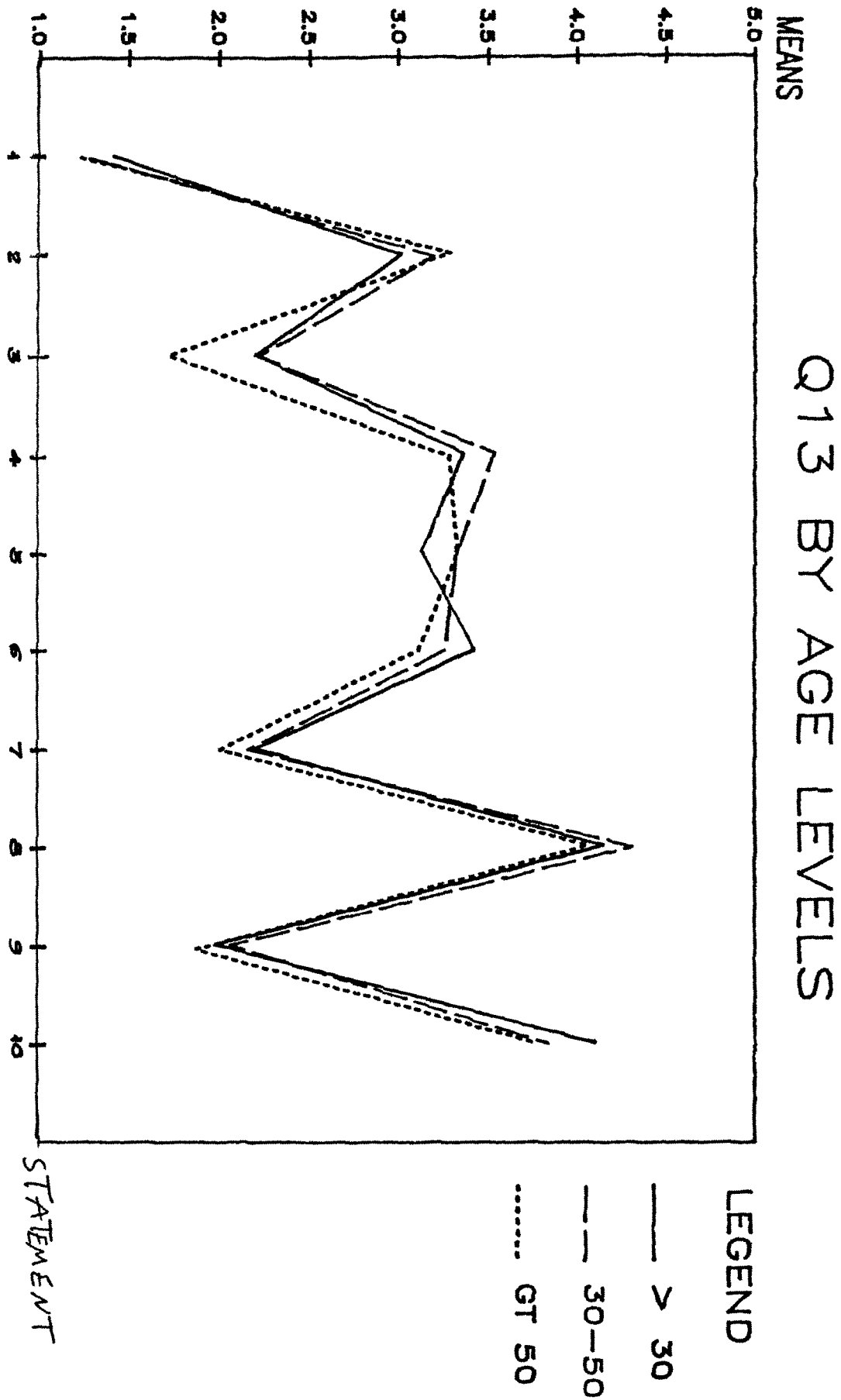


Figure 7.2.4.4 Saudis' attitudes towards banks with respect to the respondents' age levels:



7.3 Consumer Satisfaction and General Opinions of

Saudi Banks

Q 20 - Q 23 elicited information on the following: customer satisfaction, the basis for choosing a bank and the overall view of Saudi banks.

Q 20 and Q 21 correspond directly to Q 32 and Q 33 in the marketing questionnaire for bank managers.

7.3.1 Consumers' Satisfaction

Q 20 aimed to measure the level of satisfaction of consumers with respect to bank services. The scale ranges from 1-very satisfied to 5-very dissatisfied.

Table 7.3.1.1

Q 20

Consumers' Satisfaction with Bank Services:

	Level of Satisfaction					mean %
	1 very sat. %	2 sat. %	3 uncer %	4 dissat %	5 very dissat %	
<u>Bank Hours</u>	35.6	48.9	3.8	9.5	2.2	2.0
<u>Range of Ser- vices</u>	28.5	47.6	14.9	7.3	1.7	2.0
<u>Courtesy of Personnel</u>	25.0	51.9	9.6	9.7	3.8	2.2
<u>Understanding of Customer Needs</u>	12.1	50.6	23.7	12.5	1.1	2.4
<u>Number of Branches</u>	41.6	43.7	10.1	4.3	0.3	1.8
<u>Attractiveness of Bank Offices</u>	41.5	49.4	1.3	7.1	0.8	1.8
<u>Regular Finan- cial Statements</u>	22.1	37.5	10.3	21.7	8.4	2.6
<u>Bank Charges & Commissions</u>	10.5	27.6	34.4	20.9	6.6	2.9
<u>Overall Mean</u>						2.2

Table 7.3.1.1 showing the results in percentages

indicates satisfaction with bank hours, number of branches and attractiveness of offices. Some of the respondents are dissatisfied with the hours, while a few are dissatisfied with the number of branches and the attractiveness of offices.

Satisfaction with the range of services and the courtesy of personnel is high. Dissatisfaction levels are low - 7% and 10% respectively. Comparatively lower satisfaction is shown with the understanding of customers' needs and with the issuing of regular financial statements. About a third of the respondents expressed dissatisfaction with the regularity of statements. There is less satisfaction with bank charges and commission. A number of respondents made their dissatisfaction explicit while the remainder could not decide. Uncertainty and dissatisfaction mark the Saudi users' view of bank charges and commissions.

The satisfaction for each service was measured using mean scoring. A low mean score indicates a high level of satisfaction. The overall mean is 2.20 (which is close to the overall mean score of 2.00 in the marketing managers' questionnaire). This indicates that the banks are indeed aware of their customers' level of satisfaction.

The mean score as compared with the marketing managers' questionnaire shows a higher mean for all statements except for those referring to the number of branches and the attractiveness of offices. Although

Saudis are generally satisfied with bank services, the level of satisfaction varies according to educational and income levels as shown by the analysis of variance test.

Table 7.3.1.2

Analysis of Variance of the Respondents' Level of Satisfaction with Bank Services with respect to their Educational Levels:

Variable Q20

By Variable Education

Source of variation	D.F.	Sum of Squares	Mean Squares	F Ratio	F Prob.
Between Groups	3	12.4458	4.1486	11.3512	0.000
Within Groups	277	101.2378	0.3655		
Total	280	113.6836			

Table 7.3.1.2 shows that significant differences exist between the respondents' level of satisfaction and their educational levels. The Student-Newman-Keuls multiple range test (table 7.3.1.3) shows that the respondents educated to university level (Group 4) are significantly different from the other educational levels. The higher the educational level of the respondents the higher the level of dissatisfaction with regard to bank services.

Table 7.3.1.3

Student-Newman-Keuls Multiple Range Test for Respondents' Level of Satisfaction with Bank Services with respect to their Educational levels:

Variable Q20

By Variable Education

Multiple Range Test

Student-Newman-Keuls Procedure

Ranges for the 0.050 Level.

2.81 3.34 3.66

The Ranges above are Table Ranges.

The Value Actually Compared with 0.4275

* Denotes Pairs of Groups Significantly Different at the 0.050 Level

		G	G	G	G
		R	R	R	R
		P	P	P	P
		1	2	3	4
Mean	Group				
1.8962	Grp. 1				
1.9394	Grp. 2				
2.0285	Grp. 3				
2.3966	Grp. 4	*	*	*	

With respect to the respondents' income and age levels, ANOVA tests (tables 7.3.1.1 and 7.3.1.2 Appendix B) show that significant differences exist between the respondents' level of satisfaction with bank services and their income and age levels. The lowest-income level (Grp. 1) and those aged over 50 years (Grp. 3) are more satisfied with bank services than the other groups as shown by the results of the Student-Newman-Keuls tests. (Tables 7.3.1.3 and 7.3.1.4 Appendix B.)

Consumer satisfaction, with respect to the grouping of banks, mentioned in the previous chapter, shows that the consumers are more satisfied with the services of foreign origin banks. The mean scores of the consumer satisfaction with respect to bank groups are as follows:

Saudi origin = 2.24

Arab origin = 2.26

Foreign origin = 2.09

The analysis of variance tests show that there is no significant difference between the grouping of banks and the consumer's level of satisfaction with bank services. However, a comparison of these results with that of the marketing managers' mean score confirms that foreign origin banks are more aware of their customer's level of satisfaction and are more directed to satisfying their customers' needs.

In contrast to the above findings, a study in the U.K. showed that people in lower socio-economic groups tend to perceive banks as unwelcoming, unfriendly and

unsympathetic places: the comparative grandeur of bank premises is discouraging and bank staff may be regarded with some trepidation. This means that lower socio-economic groups in the U.K. are less satisfied with bank services than comparable groups in Saudi.⁵

7.3.2 Factors Affecting Choice of Bank

Q 21 deals with the factors which determine the customers' choice of bank. From table 7.3.2.1 the most important factor as shown in percentages is location of the bank. The majority of respondents selected this factor. The second most important factor is the speed of bank services. The range of services and the availability of ATMs are of equal importance in the consumers' decision to use a particular bank. Of least importance in the decision is the personal recommendation of friends.

Table 7.3.2.1

Q 21

Factors Affecting Customers' Choice of Banks:

	%
Bank location	74.6
Personal recommendation from friends	6.5
Wide range of services	31.6
Friendly staff	26.4
Friends work there	10.5
Salary transferred by employers	23.6
Wide spread ATMs	32.2
Bank premises & atmosphere	10.5
Speedy services	52.6

It is interesting to note that location is of primary importance to customers; an opinion which is also upheld by the bank managers although they ranked it

behind the range and speed of services.

In contrast, the range of services is of utmost importance to the bank but of less importance to the customer. Speed of services was ranked highly important by both the bank and customers. This indicates the desire for speed on both sides. All other factors are ranked by both sample groups as equally important. Although ATMs are rated behind the above factors by both banks and consumers, Yavas found out that ATMs would be an important consideration for Saudi consumers in choosing a bank and they would switch their account to another bank if that bank offered an automated teller machine in an area where they do most of their shopping.⁶

In addition to the factors listed by the researcher on the customers' choice of banks, Yavas reveals some other relevant factors, i.e. bank experience, reputation and quality of service, offered as prime considerations for Saudis when they choose a bank.⁷

It is interesting to note that while personal recommendation and friends working in banks are considered to be of least importance by Saudi consumers, advice from friends and family members were found to be dominant factors in choosing a bank by the Singapore Chinese who like Saudis belong to a closely-knit social environment.⁸

On the other hand, the findings of this research are consistent with those on U.K. consumers' choice of

banks. It was found out that convenient location is the primary consideration while personal recommendation from friends is the least important factor in the choice of a bank.⁹

With respect to educational and income levels significant relationships exist between the range of services, wide spread ATMs and bank premises and atmosphere on the customer's choice of a bank. The higher the educational level the more importance they put on these three factors while the lower the educational level the more importance is given to the fact that their salary is transferred by the employers to that bank. (Table 7.3.2.1 Appendix B.)

Table 7.3.2.2 Appendix B shows that those at the third income level (SR 6,001-10,000) give more importance to these factors i.e. range of services, wide spread ATMs and bank premises and atmosphere. Surprisingly, the highest income earners consider these factors less important in choosing their banks. The factors considered by the highest income earners may be more high quality personalised service rather than convenience. This is found in the study of personal account services in the U.K.¹⁰

With respect to bank groupings, table 7.3.2.3 Appendix B shows that respondents give highest importance to wide spread ATMs as their primary consideration for choosing foreign origin banks. The second most important factor for choosing foreign origin

banks is the range of services, which confirms the foreign bankers' point of view (Q 33 of the previous chapter) that this factor is the foremost consideration for customers in their choice of banks.

The table also shows that salary transferred by employers is an important factor credited to Saudi origin and Arab origin banks in the respondents' choice of banks.

7.3.3 Consumers' Perception of Differences Between Banks

Q 22 and Q 23 asked whether the respondents perceive differences between Saudi banks and what determines the distinguishing factors among banks. The aim of these questions is to evaluate the effect of the banks' marketing effort.

Q 22 shows a high percentage (72%) of positive replies indicating that they did think that there are differences between Saudi banks.

Q 23 is aimed to elicit information on the factors differentiating one bank from another.

From table 7.3.3.1 the result shows that 95.7% of the respondents agree that locating branches in various places is the primary distinguishing factor.

The second factor is quick counter service which rates highly. Three other factors .i.e. attractiveness of banks' premises, wide range of services and courtesy of employees were given almost equal ratings. The least

important factor is the charges and commission of the bank. Surprisingly, the greatest number of respondents "can not decide" responses were given for this factor. This could be due to the fact that interest, charges and commission are not publicised by the banks.

Table 7.3.3.1

Q 23

Factors Differentiating Between Banks:

	1 Agree %	2 Can't Decide %	3 Dis- agree %
Branches in many locations	95.7	3.2	1.0
Bank charges & commissions	40.1	51.7	8.2
Quick counter services	92.1	5.0	2.3
Wide range of Services	75.8	16.6	7.6
Courtesy of employees	76.1	18.5	5.4
Attractiveness of bank's premises	78.8	16.8	4.4

With respect to educational levels, the higher the education the higher the respondents' perception of

differences between bank services, especially bank charges and commissions. (Table 7.3.3.1 Appendix B.)

Table 7.3.3.2 Appendix B also shows that the highest income level perceive some differences in bank charges and commissions. These differences are shown mostly between Saudi banks and foreign origin banks. (Table 7.3.3.3 Appendix B.)

Those at the third income level (6,001-10,000) consider a wide range of services as a differentiating factor between banks (table 7.3.3.2 Appendix B), which explains the findings in question 21 that this is indeed one of the factors considered in choosing a bank.

7.4 Awareness of and Opinion of Islamic Banks

Q 24 - Q 26 identify the attitudes of consumers towards Islamic banking and determine the awareness level. In support of the religious factor as being the main obstacle in dealing with banks, the aim of these questions is to evaluate opinions on Islamic banks as an alternative to commercial banks.

7.4.1 Awareness of Existence of Islamic Banks

Q 24 asked the respondents directly whether they were aware of the existence of Islamic banks. The majority (87%) replied positively i.e. they are aware of their existence.

To determine the effect of the respondents' awareness of the existence of Islamic banks on patronage

of bank services and attitudes towards banks, several cross-tabulations of Q 24 with other questions were completed.

Table 7.4.1.1 shows that a majority of those who never use bank services are aware of the existence of Islamic banks in Saudi Arabia.

Table 7.4.1.2 shows that those who use deposit accounts are less aware of the existence of Islamic banks. Table 7.4.1.3 shows a surprising result that even those who believe that Saudis are not reluctant to use banks are aware of the existence of Islamic banks, although this may indicate that these respondents perceive Islamic banks as superficially but not fundamentally different from other banks, and as no more appealing to Saudis.

Table 7.4.1.1

Q 24

Cross-tabulation of Those who never use Bank Services by their Awareness of the Existence of Islamic Banks:

Use of Bank Services	Awareness of the existance of Islamic banks		
	Yes %	No %	
Never use banks	93.8	6.2	
Use banks	86.5	13.5	
Total %	87.5	12.5	100.0

Table 7.4.1.2

Q 24

Cross-tabulation of Those who use Deposit Accounts by their Awareness of the Existence of Islamic Banks:

Use of deposit accounts	Awareness of the existance of Islamic banks		
	Yes %	No %	
Users	81.5	18.5	
Non-users	88.9	11.1	
Total %	87.5	12.5	100.0

Table 7.4.1.3

Q 24

Cross-tabulation of Those who Believe that Saudis are Reluctant to use Banks by their Awareness of the Existence of Islamic Banks:

Belief that Saudis are reluctant to use banks	Awareness of the existance of Islamic banks		
	Yes %	No %	
Yes	86.5	13.5	
No	86.9	13.1	
Do not know	89.9	10.1	
Total %	87.4	12.6	100.0

7.4.2 Opinions on whether Islamic Banks Operate According to Islamic Laws

Q 25 allowed those aware of the existence of Islamic banks to assess whether these banks operated according to Islamic law. Approximately half replied positively. 12% replied negatively and 38% did not know. About 50% doubt that these banks operate according to Islamic law. The level of doubt increases in accordance with the higher educational and higher income levels. The chi-square test shows a high level of significance for the educational, income and age groups. (Tables 7.4.2.1 to 7.4.2.3 Appendix B.)

It is interesting to note that the higher educated people show the highest percentage of "don't know" replies. This may be due to their awareness that Islamic names and issues appeal easily to Muslims, yet Islam may not actually be practised. Accordingly, they need to know whether these banks are operating under Islamic rules.

Table 7.4.2.1 shows that for those who are reluctant to use bank services, over half state that Islamic banks operate under Islamic laws.

Table 7.4.2.1

Q 25

Cross-Tabulation of those who believe that Saudis are Reluctant to use Bank Services by their Assessment of whether Islamic Banks Operate under Islamic Law:

Belief that Saudis are reluctant to use banks	Awareness of the existence of Islamic banks		
	Yes %	No %	Do not know %
Yes	57.5	12.3	30.2
No	48.2	15.1	36.7
Do not Know	36.2	5.4	58.4
Total %	50.3	11.6	38.1 100.0

7.4.3 Islamic Banks as an Alternative to Commercial Banks

Q 26 asked the respondents to show whether Islamic banking is the best alternative for Saudi society. This question was asked not only to elicit the opinion and attitude of respondents towards Islamic banking, but also to evaluate the current attitude towards commercial banks. A second aim was to measure the willingness of respondents to support an Islamic banking system.

About half of the respondents replied positively i.e. in their opinion Islamic banking is the best alternative. 5.3% replied negatively, and 20.3% did not know. The latter result may be explained by the fact that there are no indigenous Saudi Islamic banks, and those which do operate within the Saudi market may not

have a high market profile. The negative reply is surprising considering the strict adherence to Shari'a laws in an Islamic society.

A majority of those who do not believe that Saudis are reluctant to use bank services also believe that Islamic banking is the best alternative to commercial banks in Saudi society. (Table 7.4.3.1)

It is important to note that there is no significant relation between the educational, income and age levels of respondents and their opinions that Islamic banks are the best alternative to commercial banks.

Table 7.4.3.1

Q 26

Cross-tabulation of Those who are Reluctant to use Bank Services by Their Opinion whether Islamic Banking would be the best alternative for Saudi Society:

Reluctance	Islamic banking as an alternative for Saudi society			
	Yes %	No %	Can't Decide %	
Yes	83.5	0.7	15.8	
No	72.8	9.4	17.8	
Do not Know	64.1	2.0	33.9	
Total %	74.1	5.4	20.6	100.0

In summary, Saudis are aware of the existence of

Islamic banks. Although they doubt whether these banks operate under Islamic law, the majority consider Islamic banking as an alternative to commercial banks.

7.5 Attitudes Towards Handling Money

Q 7 and Q 27 dealt with the attitudes of respondents on how they handle money, especially saving and investment. The object of these questions was to give further information on what may affect how Saudis deal with banks.

Q 27 presented the respondents with five proverbs and asked them to indicate which represented their attitudes towards money. The largest percentage indicated the fourth statement: cut your coat according to your cloth. This implies that borrowing is not a desirable practice and could be an indication of the difficulty in obtaining a loan or the wish to avoid the interest involved in a loan. Some expressed that saving for a rainy day was their attitude towards how they use money. The implication of the two proverbs is similar i.e. the need to be financially independent. A few evaluated their attitudes towards money as "money is for spending" and showed an opposite view to the other statements.

The chi-square tests for the educational, income and age levels shows significant relationship existing between these levels and the proverb "cut your coat according to your cloth". The higher education and

income levels and those aged less than 50 believe that one should live within his means. A majority of those who prefer the proverb "those who borrow get a sorrow" are from the lowest educational and income levels. (Tables 7.5.1 to 7.5.3 Appendix B.)

Q 7 asked the respondents to indicate in what way they would use an amount of money which is superfluous to their needs. This question is aimed to elicit information on what extent the respondents consider banks as an alternative for investing.

The most popular options are depositing in a current account, investing in real estate and depositing in an Islamic bank.

Deposit accounts were indicated by a few as an option. The other options included private enterprises such as imports and exports.

It is interesting that a comparatively high percentage opted for Islamic banks, although Islamic banks in Saudi Arabia are only representatives of Islamic banks operating outside of the Kingdom.

There is a significant relationship existing between education and income levels and respondents' opinions towards handling money superfluous to their needs. It shows that those who have the highest educational level and who are more aware of the existence of Islamic banks prefer to invest their extra money in Islamic banks. Those at the highest income level prefer other investments e.g. real estate and investing in the stock

market. (Tables 7.5.4 and 7.5.5 Appendix B.)

In summary, the attitudes of Saudis towards handling money is conservative. Savings and investments are on non-interest bearing accounts or as deposits in an Islamic bank.

Conclusions

The consumer survey proves that Saudis have a strong negative attitude towards banks. Their use of bank services varies according to educational, income and age levels. The higher educational and income levels and those aged less than 50 are the greatest users of bank services, however they indicate more negative attitudes and are less satisfied with bank services. On the other hand, the lowest educational and income levels and those over 50 years have the least negative attitudes to banks and are more satisfied with bank services.

There seems to be an inverse relationship between attitudes and behaviour of consumer with respect to bank services. This inverse relationship is due to the fact that use of bank services is highest for non-interest based services while their negative attitude is focused on interest based services. Also, since the highest socio-economic level are more aware of the bank services, their expectation, are higher, so they are less satisfied with bank services than the other levels. Consumer behaviour is measured by the respondents' usage of bank services. Likewise, the

respondents' opinions of attitudinal statements regarding their perception of banks in general and on loan and interest in particular sum up their attitudes towards banks. Since the Islamic religion is the main factor in deterring Saudis from using interest-based bank services a positive alternative is needed to improve bank patronage and to encourage non-users. In the light of this, Islamic banking is welcomed as the alternative banking system by Saudis.

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Chapter 8

General Findings and Conclusion

Chapter 8

General Findings and Conclusion

This chapter deals with the research findings that were drawn and interpreted from correlating the results of the consumers survey, the marketing managers' questionnaire and the consumer qualitative interview.

The main topics discussed are as follows:

- 8.1 Research findings and Conclusions
- 8.2 Discussion and Conclusions
- 8.3 Hypotheses testing and validity
- 8.4 Study implications
- 8.5 Recommendations
- 8.6 Study limitations
- 8.7 Further research suggestions.

8.1 Research findings and Conclusions

The concept of services marketing is relatively new to the banking industry, and bankers have traditionally taken a primarily production perspective.

According to the modern marketing concept, the focus of marketing activities is to meet both bank profit targets and consumer wants and needs. The primary aspect of this concept is that marketing is customer-orientated. This approach necessitates identifying customer attitudes which influence their

needs and decision process. Knowledge of customers' attitudes have important implications for a number of marketing activities.

The objectives of this research have been to assess the attitude and practice of marketing by banks operating in Saudi Arabia, to assess the attitude of consumers toward these banks and to determine the effect of Saudi bank marketing practices on Saudi consumer attitudes toward banks. In this research two hypotheses were formulated. The first hypothesis is concerned with the practice of marketing by Saudi banks. The second hypothesis is concerned with the attitude of Saudi consumers towards banks. A hypothesis correlating the two hypotheses about banks and consumers was made to assess the effect of Saudi bank marketing practice on the consumer attitude towards banks.

The study was carried out through questionnaires directed to bank marketing managers and consumers. This survey was complemented by exploratory studies through ethnographic interviews with the consumer to gain a better insight into the problems which may affect the Saudi consumers' attitudes.

Evaluative measures used were the Chi-Square Test of Significance, the Analysis of Variance and the Student-Newman Keuls Multiple Range Test.

This study contends that Saudi consumer attitudes caused by the religious factor affect their dealings with banks. Although consumers can be induced to act

against their will and best interest by marketing activities e.g. advertising,¹ the widespread implementation of marketing is hampered by the Saudi consumers' religious beliefs and attitude which are deeply ingrained. These deeply rooted religious beliefs and attitudes influencing Saudis behaviour create a complex interrelationship between the practice of marketing by banks and Saudi attitude towards banks.

What follows are the findings from the bank marketing managers questionnaires, the consumer survey and discussion of the findings and conclusions.

8.1.1 Findings of the bank marketing managers' questionnaire

The analysis of the marketing managers' questionnaire shows that the banks do grasp the concept of marketing. Although the level of application is varied, all banks show positive attitudes towards the application of marketing. As has been mentioned earlier, the development of commercial banks in Saudi Arabia has been influenced by foreign banking practices. As such the analysis of the bank marketing managers' questionnaire was carried with reference to the bank's place of origin. i.e. Saudi banks , Arab banks and banks of foreign (mostly western) origin. The objective was to gain more insights into the effect of the management on the implementation of marketing by the banks. As a rider, it should be mentioned that the

respondents may have over-reported their attitudes and practice in relation to the marketing concept, and that their behaviour may not always match their words. In the specific case of marketing managers, they may indeed be striving to justify their existence within the banks. For example, some managers ticked every option in the questionnaire instead of being selective. In addition the questionnaire methods, thus, has certain drawbacks. Findings show that in general:

- Marketing has been recognised and identified as a specific unit in the organisational structure. (Q5)
- Formal short and long term marketing strategies exist. (Q10 and Q13)
- Market segmentation is widely practised by Saudi and foreign banks, acknowledging different marketing mixes for the different segments. (Q16)
- New services were introduced to satisfy the customer needs. The types of services introduced include technology, investments and bill payments services. (Q20 and Q21)
- Banks are locating their branches according to well known bases of branch location i.e. the proximity to consumer facilities and the anticipated changes in

population. (Q29)

- Traditional distribution of bank services is carried through the networks of bank branches. Modifying the inseparable characteristic of services, some banks are distributing their services through ATMs. (Q29 and Q36)
- Banks show interest in adopting new technology e.g. ATMs. (Q36)
- Banks recognise the fact that they are in the service industry. Although services tend to share the characteristic of intangibility, banks try to furnish tangible evidence by enhancing their physical environment. However, the use of uniforms is not prevalent since Saudi men wear the traditional costume. (Q33)
- Reasonable involvement in marketing training from senior executives down to tellers is exhibited. Banks use internal training centres and also avail themselves of training programmes sponsored by other institutions. (Q30A and Q30B)
- Customer satisfaction seems to be the main objective. The majority of banks feel that they meet the desire of their customer to a large

degree. They are also aware of dissatisfaction with some services, particularly in the areas of the number of branches, attractiveness of offices, regularity of financial statements and charges and commissions. (Q32)

- Banks seem to be aware of their consumers and competitors. The negative attitude of Saudis towards banking is perceived and the appeal of Islamic banking to their consumers market is recognised. To compensate, banks are trying to Islamicise some of their services. (Q39 and Interview)

- As many as half the banks perceived a negative attitude on the part of the consumer, and these banks are aware that this negative attitude undermines the practice of marketing to a large extent, (Q 39). This result is perhaps surprising in view of their attempts to promote interest-based banking in Saudi Arabia.

Banks apparently want improvements in their marketing departments. The improvements would take the form of:

- Increasing the marketing budget.
- Hiring more qualified staff.

- Conducting more continuous on-the-job training.
- Improving both market and consumer research.
- Establishing information systems in marketing and other banks activities.

However, it seems that the application of marketing concepts is hindered by the lack of experience as well as some environmental factors. The areas that stand out clearly are:

- Strategies and goals need to be more clearly defined. Although 80% of the banks have detailed long-term strategies, only 40% of the banks were able to translate these strategies into long range planning. (Q10 and Q13)
- Involvement in consumer research needs to be intensified. (Q19B) In addition to a lack of qualified researchers, societal barriers hindered banks from conducting periodic research. (Q19H)
- The result of a highly competitive consumer market has brought about a high degree of copied services, (Q20) and an increased number of branches within the same general location. (Q29)

- Although personnel, from senior executives down to tellers, are reasonably involved in marketing training, there is a need for continuous on-the-job training at all personnel levels. The lack of on-the-job training is perhaps due to their dependence on expatriates where employment is temporary.

- Location of bank branches is based primarily on proximity to consumers facilities. The lack of basic information on population characteristics and business structure hinders the banks from predicting the demand for banking services and determining the degree of financial service competition. (Q29).

- Pricing is not a widely used marketing tool since the prices of bank services are regulated by SAMA. Furthermore, due to attitudinal constraints shown by customers, banks do not publicise the prices of their services. (Q32 and Q34)

- Being aware of the negative attitude of customers towards interest-based services, customer education which helps to build the bank image and attract new customers is not widely practised. This restricts the banks from reaching their marketing goals since education not only teaches but also leads to positive decision-making. (Q26) and interview.

- Promotion of some bank services, e.g. loans and savings accounts, is not encouraged because such action would create more negative attitudes. Consumers might think promotion of such services would be an indirect form of encouraging interest. "interview".
- The extent of customer satisfaction with bank services implies that the banks have not fully dealt with the matter of customer orientation. Although banks show personnel courtesy, banks do not fully comprehend customers' needs. (Q32)
- Priorities facing bank marketers are attracting and keeping the high networth individuals, "supercustomers". Other profitable segments seem to be untapped e.g. students, expatriates and women. (Q17)

There were obvious differences not only between the three groups of banks in origin but also within the groups. Within the groups, differences can be attributed to bank size. The smaller the banks are, the less competitive they are in the consumer market. Due to their small size banks target a specific group i.e. commercial businesses.

The differences between the groups showed that foreign banks are the forerunners and are highly

competitive in the consumer market. Saudi banks are in turn more competitive than Arab banks. Some of the differences are:

- Arab banks are more committed to their marketing goals on paper than the other groups (Q8). However, they do not segment the consumer market (Q16). Saudi banks and foreign banks construct different marketing strategies for each consumer division. (Q18)
- Arab banks are committed to research the consumer market more frequently than the others (Q19A), and they rely more on their own bank staff than foreign banks in conducting consumer research. Foreign banks use specialised outside agencies as well as their own specialised consumer research staff. Saudi banks employ all three methods of conducting consumer research.
- Arab banks do not distinguish between small and large accounts in terms of methods of promotion of new services (Q25A and Q25B). This is supported by the fact that Arab banks do not segment their market.
- Foreign banks are less influenced by competitors' plans than the other two bank groups in terms of

decisions pertaining to the introduction of new services and branch location (Q22 and Q29). It appears that Saudi and Arab banks employ a "follow the leader" strategy.

Overall, the marketing managers questioned appeared to be market oriented in both attitude and practise.

8.1.2 Findings of the consumers' survey

The findings of the consumer survey have to be qualified by the fact that sampling among Saudi consumers is complicated by cultural problems is complicated by cultural problems and the absence of sampling frames: For example, only men could be included in the survey, and most of these worked in government offices, as they could not be interviewed at home. From the analysis of the consumer survey, the following findings are salient:

- It is clear that Saudis use banks. Only 13% of the respondents declare that they never use bank services. (Q1)
- The use of bank services is varied. Non-interest bearing accounts are the most used. For example, the majority use a current account, while only 19% use a deposit account and 5% have loans. This result could be qualified by the fact that although

Saudis rated banks as their third actual source of loans after non-interest sources (Q8), they prefer to secure loans from banks than from money changers and lenders. (Q6)

- The method of paying salaries by cheque compels Saudis to use banks, (Q2). This is confirmed by the fact that still a considerable number do not consider banks as a place to keep their money, (Q3). And utilisation of cheques for day-to-day transactions is limited.
- Customers tend to consider banking services as a convenient method of payment and handling essential transactions rather than as providers of full financial services. (Q1 and Q7).
- Saudis show hesitancy in dealing with banks (Q13), quite apart from any avertly religious considerations, Even though they are aware that banks are necessary for economic development, and a safe place to keep money, over half of the respondents feel that Saudis are reluctant to use banks, and only a quarter feel they are not. (Q11)
- It was shown that a majority of the respondents think that the major cause of reluctance in using banks is the religious factor. Although a

considerable number feel that the bank interest charge is high, (Q17), high charges and other factors related to bank marketing activities, i.e. protracted procedures, long queues, the impersonal aspect of banks etc., were given low ratings as causes for their reluctance (Q12).

- A negative attitude toward interest is shown by the fact that a minority keep interest for themselves. About half of the respondents either refuse to take interest or they collect and give it to charity. Those who give the interest to charity show an extremely negative attitude towards interest, since they do not want the bank to benefit from uncollected interest. However, there is a possibility that some respondents were not entirely honest in their answers and in fact keep the interest they collect for themselves.

- Saudis are not very knowledgeable about interest. The respondents' awareness of banks charging interest is higher than their awareness of banks giving interest (Q14 and Q16). In general they are unaware of how banks calculate interest. (Q18).

- Although there is a genuine resentment to the dealings with interest, consumers consider banks as being dishonest for taking interest on loans but not

giving interest on deposits. (Interview)

- Saudi borrowers rated banks behind other non-interest sources for loans. Loans are usually obtained from relatives and friends. Also, to avoid using commercial banks, other means such as instalment-based purchases are used despite the fact that the interest paid could be higher than that of a bank. (Q8 and Interview).

- Saudi consumers feel that personal relationships are a prominent factor in the sanctioning of bank loans. Some refer to fulfillment of bank requirements as the major factor in securing a bank loan (Q9). Accordingly, the perceived bank mistrust of customers and the difficulty of meeting all requirements are the prime factors of failure to secure personal loans (Q10). However, a majority of the loan users feel that a combination of personal relationships and the fulfillment of requirements is the major factor in loan sanctioning.

- Due to the difficulty of securing personal loans, the attitude of Saudis towards using money is conservative. Spending habits are generally limited to the amount of available resources (Q27).

- Saudis are aware of the availability of a

non-interest banking system, Islamic banks (Q24). Moreover, those who consider them as alternatives for investments exceed the number of those who deposit their money in savings accounts with commercial banks (Q7). Deposit account users are less aware of the existence of Islamic banks.

- Saudis generally lack information on the real operation of Islamic banks. A considerable number are unaware whether Islamic banks actually do operate under Islamic rules, although half believe they do (Q25).
- Although Saudis doubt whether Islamic banks operate under Islamic rules, the majority consider Islamic banking as an alternative to commercial banks (Q26).
- Consumers are generally satisfied with banks especially with respect to the number of branches and the attractiveness of offices. Bank charges and commissions do not greatly appeal to consumers.
- The most important factors considered by consumers in selecting a bank are the location and the speed and range of services. These are the same factors considered by the marketing managers in their customers' choice of banks as shown in the analysis of the bank marketing managers questionnaire. With

respect to the grouping of banks mentioned in the previous chapter, consumers show more satisfaction with the services of foreign origin banks (Q20). The wide spread of ATMs and the range of services are the two primary considerations of respondents in choosing foreign origin banks (Q21).

- Consumers observe that there are distinct differences between Saudi banks. These differences are mainly in terms of the location of branches and quick counter services. Charges and commissions are not perceived by consumers as a differentiating factor between Saudi banks. With respect to bank grouping, the significant factors differentiating Saudi origin banks from foreign origin banks are bank charges and commissions and providing a wide range of services (Q23).

- Concerning the consumers' educational, income and age levels, there appear to be significant relationships between the consumers' attitude and use of banks and their educational, income and age levels regardless of religious factors. It was found that an inverse relationship exists between the attitudes and behaviour of the consumers as pointed out in the following:
 - The higher the educational level the more

negative the attitude towards banks. About half of the respondents educated to university level believe that Saudis are reluctant to use banks.

- Similarly, the higher the income the more negative the attitude is towards banks.
- The oldest group of respondents shows a more favourable attitude toward banks than other age groups.
- The higher the educational level of the respondents the higher the level of dissatisfaction with regard to bank services.
- The lowest-income level and those aged over 50 years are more satisfied with bank services than the other groups.
- The higher educational and income levels and those aged between 30 and 50 years use banks services the most.
- Deposit account services are more used by the lower educational and income levels and those who are under 30 years of age.

- The highest socio-economic level at the middle age group makes more use of bank services related to travel, i.e. travellers cheques, credit cards and currency exchange. They are also the highest users of current accounts.

- The youngest age group makes more use of trust funds and deposit account services.

- People with the lowest educational and income levels and those over 50 see no need to use banks.

8.2 Discussion and Conclusions

The outstanding issue raised by this study is how cultural attitudes interact with bank marketing practices. There follows a discussion of the main elements of this interaction.

Marketing of Bank Services

The movement towards service economies has drawn the attention of academics. As a result there is much development in the area of marketing services. The researcher's view of services is that they are benefit providing activities which are the object of transactions, performed for another use - not to be owned, and characterised to a varying degrees, as being intangible, perishable, inseparable and heterogeneous.

That is to say services are on a continuum according to these characteristics. This definition has led the researcher to regard the marketing of services as different to the marketing of goods. The difference relates to the marketing concept and approach which must be considered in accordance with the level of intangibility, perishability, inseparability and heterogeneity of the services on the continuum.

Banking services may be classified according to these characteristics and occupy a mid position in the continuum. This means that bankers when marketing these services tackle different problems to those experienced by product marketers. They may select from general marketing concept and this selection is according to the level of the characteristic of intangibility, perishability, inseparability and heterogeneity.

This study has highlighted the role of people - both customers and personnel - in service industries. The customer is simultaneously a consumer and producer of services, while the personnel act as both sellers and providers of services. The nature of services demands a very high degree of simultaneous production and consumption with relatively high human involvement, as a result careful management of the employee - customer interaction is very important throughout the process of the service. The twin concepts of internal marketing and relationship marketing "banking" emphasise the

interactive roles of customer and personnel. Internal marketing involves marketing to employees - a satisfied employee makes for a satisfied customer. With relationship marketing services aim to attract, build and maintain relationships with their customers.

In banking, these concepts are of particular importance. Traditional attitudes of bank personnel towards themselves and towards their customers have led to a myopic approach. Banks looked upon themselves as being product - or sales - oriented, and were seemingly not aware of customer orientation. This superficial attitude was felt by the customer and created negative attitudes towards banks. Changes in the market place have forced banks to re-evaluate their approaches to marketing and to develop a more customer-oriented strategy, and banks have recognised the necessity for cooperation between customers and personnel, to overcome any reciprocal negative attitudes.

Banks can develop this customer/employee relationship through a variety of means for example the fact that customers are resistant to change is mainly due to the large and ever - changing array of products and fast - changing technology. More reciprocal confidence - building relationships could help customers to participate more effectively in the provision of bank services.

Pricing of bank product, unlike pricing of goods, is a difficult area. Customers have little idea of the

real costs of bank products and tend to pay unquestioningly. However customers do look for value for money and banks have to be aware of this and educate customers in their pricing policy.

Banks can also explore the role of customers and personnel by designing service process in which customers, personnel and physical facilities interact effectively.

Through training of personnel, banks can develop the other way of the relationship. If personnel have a thorough knowledge of the service they are offering and have a friendly approach, they can help to make the relationship smoother and customer thereby more satisfied.

The role of technology in banking was also emphasised throughout this study because it is continually changing, introducing new services and decreasing operating costs. Consequently it has also affected customer and personnel.

Bank marketing in Saudi

The most important finding of the bank marketing manager's survey was that they are fully aware of the concept and importance of marketing. In the existence of marketing departments, the development of strategies, the introduction of new services, the location of branches, the distribution of services and the adoption of new technology, they show their ability to implement

marketing concepts. They understand they are in the service industry and are trying to overcome the main characteristics of services : intangibility - e.g. by enhancing the physical environment of banks; inseparability - e.g. by the use of new technology; heterogeneity - e.g. by training staff to perform services in a standardised way.

They are aware of their customers, and in fact the main objective appears to be customer satisfaction. They feel they mostly achieve this, although they are also aware of dissatisfaction of some services. No serious discrepancy in the views of bankers and their customer with regard to the level of satisfaction and importance of attributes affecting the customer choice of banks. However, the study also found that a negative attitude to interest on the part of the customer was perceived by the bankers, and that this undermines attempts to implement effective marketing. Thus banks have tried to compensate by trying to Islamicise some of their services. However, as discussed below, Islamicisation has not overcome customers' objections to any great degree, and so it could be argued that banks have failed to fully comprehend customers' needs, although they appear sympathetic. Since Islamicised services were offered with little idea of whether they were filling customers' needs, it could be said that their effort to provide such services which they assumed their customer wanted and which competitors provided

could be regarded as following the typical sales - oriented approach in this area.

Bank marketing in Saudi Arabia has also to cope with particular constraints, mainly social and cultural. Social barriers have hindered banks trying to carry out accurate research because Saudi homes are off-limits to strangers, there are restrictions on the intermixing of the sexes; in addition there are representative sampling difficulties. Attitudinal constraints of customers restrain banks from using pricing as a marketing tool and from promoting certain bank services. Because of negative attitudes towards banks, they are restricted in carrying out customer education and so the achievement of marketing goals is undermined since education not only teaches but also leads to positive decision - making.

Service loyalty seems to be low: customers tend to use money changers, particularly in money-changing, in preference to banks. This low level of loyalty may be due to the Saudi consumers perception of banks as imposing unfriendly places, whereas money changers are perceived as part of the community, local and accessible. On the other hand, customers perceive differences between banks, and this has been achieved through image-building efforts; since image building, as part of market-positioning, helps customers to recognise differences between competing firms so that they can then match themselves to the firm that can be of most

value to them. For example, the Saudi British Bank has promoted itself as "the bank who understands" with an intensive campaign.

Beliefs, attitude and behaviour

The relationship between beliefs, attitudes and behaviour is complex, but the general consensus is that behaviour is the outcome of attitudes which are in turn affected by beliefs.

A wide variety of beliefs and attitudes towards handling money become apparent during the course of the study. In some cases attitudes appeared to be related to other variables such as education, income and age, but overall, religious beliefs were the major factor in determining attitudes towards money. It appears that awareness due to education restricts Saudis from using interest-based services, perhaps because in Saudi Arabia, religious studies form a significant part of education up to the highest level of the education system. A higher level of education leads to more conscious reasoning with regard to the nature of interest although it does not mean that those educated to a high level are devout. This leads to a realisation that interest is related to usury and as such is prohibited by Islamic law. Therefore a high level of education may bring about a greater negative attitude towards interest. Hence the higher the education the higher the use of non-interest based bank services

only. The study also found that the higher the education level the higher the negative attitudes. This is the opposite to what might be expected in the west².

In addition, the higher the education the greater the dissatisfaction with bank services. This could be explained by the fact that educated people tend to be more critical and to expect more due to their religious knowledge and their awareness of how the service should be efficiently operated. Since these people are also the highest users of bank services, they could encounter more problems as a result of their frequent dealings with banks.

Most Saudi customers belonging to the low educational and income levels prefer to deal with money changers and money lenders. Their success in serving this segment is a result of their convenient location in relatively underbanked areas, their friendly and relaxed atmosphere, and an accessible and welcoming image. Their services are more in line with the local lifestyle, customers, trade and interpersonal relationships. It is common for money changers/lenders to call themselves companies rather than banks. The word bank is provocative and generally causes Saudis to be wary because of their religious beliefs.

It was found that Saudi attitudes to saving and investment is also affected by religious beliefs. It tends to be conservative and hostile to interest - based

investments, while investment in real estate is high, this is shown by the fact that 20.4% of respondents opted for investment in Islamic banks, while only 5.6% chose deposit account. in spite of the delay and insecurity of saving with Islamic banks. Again, the higher the educational level the greater the preference for non-interest based saving and investment.

Thus awareness of the prohibition of interest creates a psychological barrier against banks, so that the recent practice of giving interest on deposits did not change the image of banks being perceived as dishonest. The donation of the collected interest to charity and the refusal to take interest implies an extremely negative attitude towards banks and a feeling of being sinful as it mixes their money with the banks' interest.

So long as customers are using non-interest-based bank services, they feel satisfied with these services but this satisfaction does not alter their hostility towards banks as a whole, i.e. an institution based upon usury. Customers see interest as an integral part of the banks machinery and so cannot easily separate the services offered from the interest factor.

The issues of Islamic banking

Although Saudis doubt whether Islamic banks operate under Islamic rules, they are predisposed to use these banks and are happy to know that their money is being

used for Halal investment. Why has Islamic banking been slow to develop in Saudi Arabia?

One reason is that foreign origin banks began banking in Saudi Arabia and thus introduced the western, interest-based system. A second reason is that until recently it was not clear in the public's mind that bank interest was identical to usury, and so prohibited by Islam. Also, only in the last two decades has an Islamic theory and practice of banking been thoroughly worked out, and only in the last few years has this practice been applied in other Islamic countries³. Customers doubt the genuineness of Islamic banks and so have hindered rapid development. Since these banks are still obliged to deal with interest-based banks. Only when all banks operate under the Islamic code will it be possible to have a truly Islamic banking system. In addition, and most importantly, the government needs to support those banks and their depositors, as is the practice with interest - based banks.

The recent conversion of ARBIC into a full Islamic bank may not convince customers that they are being offered genuinely Islamic banking services. Although this is mentioned in its articles of incorporation, the name remains basically unchanged, and so the conversion is not visible to the general public. This may be because it allows ARBIC to operate both as a western and as Islamic bank.

Bank marketing managers are aware that commercial

banks may be threatened by Islamic banks; therefore to appeal to consumers, some commercial banks are Islamicising some of their interest-based services, (loans and investments), i.e. "if you can't beat them, join them".

The actual practise of Islamicising loan and investment services is however not being done in accordance with Islamic rules. The nature of loans and investment services is like "Alaenah" sale which is prohibited in Islam. The procedures involved in taking out a loan from a bank are: The bank initiates the loans in foreign currency, i.e. US Dollars and deposits the dollars in the loan users account in the same bank, in which case the loan user has no access to this money. At a later date, the bank buys back the dollars at relatively lower rates benefitting from the difference in the exchange rate. The loan user repays the dollars or their equivalent in Saudi Riyals as arranged. In this transaction there is no exchange risk involved for the bank since Saudi Riyals' exchange rate against the dollar is fixed in the short term. Although Alaenah is prohibited in Islam, this particular case is clearly prohibited in Sharia law for two reasons⁴. Firstly, the object of the transaction is money. Islam prohibited the selling of "money for money" "wheat for wheat" "gold for gold" etc. unless equal. Secondly, Islam prohibited the selling of silver for gold on credit. This prohibition can be generalised to the

selling of different currencies on credit.

As discussed in Chapter 4, few people are aware of the actual practises of "Alaenah" sale and its prohibition. This is why services which are pseudo-Islamicised may have found their way onto the Saudi market.

Conclusion

To conclude, the negative attitude of consumers affects their behaviour in such a way that their usage of bank services is mainly on non-interest based services. On the other hand, marketing managers of banks operating in Saudi Arabia are market oriented. However, the implementation of their consumer - oriented marketing is peripheral since it is carried out with no strict adherence to the local culture. The Islamicisation of some of their services at present seems to be purely cosmetic, not a fundamental change in the approach to banking: in other words they are giving the impression of making a cultural compromise.

8.3 Hypotheses Testing and Validity

Based on the results of the bank marketing managers survey and the interviews, the researcher can not accept the established hypothesis for this research which is:

"Banks in Saudi Arabia do not practice bank

marketing."

On the contrary, the researcher is inclined to accept an alternative hypothesis that marketing is an accepted business practice in the banking community of Saudi Arabia. However, the degree of market orientation varies according to each bank group.

From the consumer survey, the researcher is inclined not to reject the general hypothesis and its sub-hypotheses which are as follows:

"Saudis' attitude towards banks is negative."

- The negative attitudes towards banks depend on the educational level.
- The income level affects the negative attitude towards banks.
- Age is a factor affecting the negative attitudes towards banks.
- Religion affects negative attitudes towards banks.

With regard to marketing practices affecting the consumers' attitudes towards banking, the results of the study show that bank users are highly satisfied in all aspects except for bank charges and commissions. Saudi consumers are aware of the element of interest involved with banks charges and commissions therefore they hold a negative attitude towards this aspect of bank services. The banks at the same time being aware of this do not

strongly market this area of their services. Therefore, the following link hypothesis is partially rejected:

"Bank marketing as practised by Saudi banks does not cause the negative attitudes towards banking."

Acceptance of the above hypotheses is supported by applying construct validities, quality check and cross-checking. The following validates the rejection of the bank marketing managers' hypothesis:

Construct validity shows that bankers' attitudes towards marketing are directly related to the theoretical marketing concept. All banks hoped to improve their present marketing practices as shown by their suggested improvements stated earlier.

Moreover, quality check was shown in two instances:

- The attitudinal question (Q39) was quality checked by interviews. The reply to Q39 indicated that bank marketing managers were apprehensive that the negative attitude of consumers would affect banks. The interview suggested that some bankers' wariness of Islamic banking may be due to the perceived threat to their interest-based banking system.

- The second instance was clearly manifested by their responses to the questionnaires and the interviewers. The researcher was impressed by their enthusiastic support for marketing activities.

Internal Cross-checking was accomplished as stated in the following cases:

- Foreign banks are the forerunners with respect to almost all aspects of marketing practices, Saudi banks follow and Arab banks are third.
- Q16 was cross-checked by Q25. Banks which do not segment their market (Q16) were the same banks (Q25) which use similar promotional methods for different segments, i.e. large and small accounts.
- Q22 and Q29 cross-checked each other. The banks who act according to competitors' plans in introducing new services (Q22) also follow the competitors in locating new branches (Q29).

The acceptance of the consumer survey is supported by applying the following measures of validity:

Internal cross-checking within the consumers' survey

resulted in consistent findings, for example:

- Responses to Q1 about increased patronage of non-interest earning services is cross-checked by Q8 where Saudis rated banks behind other non-interest sources of loans. Moreover, Q15 assesses the Saudis' negative attitudes against interest as shown by the fact that over half of the respondents either refuse to take interest or collect it and give it to charity.
- Q27 shows that Saudis spending habits are limited to their resources. This is cross-checked in Q10 whereby consumers find difficulty in securing personal loans.
- Q1 shows that only 13% of the sample group never use banks at all. This is cross-checked in Q2 whereby Saudis are compelled to use banks since salaries are being paid by cheques.

Applying construct validity, the study shows valid results, for example:

- The questionnaire measured peoples' attitudes in relation to the theoretical reasons affecting these attitudes, i.e. religious factors and bankers' approach to consumers exemplified in their practice of marketing

activities.

- The highest number of bank users belongs to high educational and income levels, as those who benefit from higher incomes lead to an increased need of bank services. When compared to the remainder of the consumers, these groups have a larger disposable income which consequently needs more bank management. However, the higher the education level the stronger the negative attitude. This inverse relation between attitude and behaviour is discussed in greater detail later.

- A nonsignificant relation between reluctance to use banks and income levels exists since reluctance is affected by religion. This is valid since religion does not differentiate people according to their income levels although it affects the use of bank services.

To accomplish external cross-checking of the two questionnaires specific questions of the bank marketing manager survey i.e. Q32, Q33 and Q39 correspond directly to Q20, Q21 and Q11 respectively, of the consumer survey. The marketing managers' questionnaire shows that Saudi consumers, like the marketing managers, show preference for the location and the speed and range of

services in their choice of banks. Furthermore, both consumer and bankers consider that Saudis are reluctant to use and show negative attitudes towards banks.

8.4 Study implications.

Applying the scientific methods of marketing research helps lessen uncertainty and heighten the quality of management decision. In developing countries, however, research facilities and information cannot be expected to be as readily available as elsewhere. However business decision making has the same need for a rigorous rationale and systematic procedures, so compromise and creative research methods have to be employed to cope with difficulties with lack of data and of facilities. Also, this is needed to avoid the danger of simply transposing marketing concepts from one culture to another.

This research has, as can be seen, had to face such difficulties, but it can be said that the findings are applicable to other Islamic countries where religious belief is similarly paramount. The study also revealed some implications for developing countries in general with for example, similar levels of education. Implications for multinational corporations in developing countries are also indicated. Although the logic remains the same the specific obstacles and constraints understandably may be different.

Some of these implications can be summarised as

follows:

- International banks and multinational companies in general must have a comprehensive knowledge of customers' attitudes and perception of the various services they offer and the image which customers have of them. These issues appear to be important for international banks operating in Islamic countries because of their interest-based banking system opposes people's religious beliefs.

- Since education was the deterring factor in dealing with banks, it would be expected that as education expands, more people become aware of the prohibition of interest and banks can expect to encounter more negative attitudes, especially given the growing strength of Islamic fundamentalism. In fact the spread and development of education is a major concomitant of social change and leads to greater sophistication and higher level of services. The dramatic changes in income levels, leading to changes in demand for goods and services, including bank services, has also been the recent feature of the Saudi economy. This implies that banks and companies in Saudi Arabia and developing countries should respond more flexibly to environment changes, and prepare for them, although, as mentioned above, quantifying the effect of such changes presents more

difficulties in developing than in developed countries.

- Due to the generally-recognised volatility of public feeling towards multinationals, it would be preferable for the latter to set up joint-venture companies in developing countries, so as to satisfy nationalist sentiment. This implication is drawn from the fact that although foreign banks have been present in Saudi Arabia since the 1920, they were heavily regulated and not allowed to expand until the Saudi-isation of foreign banks took place in 1977.

- In chapter 3 it was found that Saudi banks suffered from bad debts when lending to companies which then found it impossible to repay loans which was mainly due to lack of management experience. This has implications for banks considering loans not just to individual companies but also to developing countries which then similarly fall into bad debt. Not by not lending to these countries but by adopting the PLS system, which considers the bank and the borrower as partners, the bank can insure the safety of capital, through participation in management, studying the potential of the project and advising on problems. etc.

- The study found that money changers appeal more to consumers, especially to those on low socio-economic levels. Their success seems to be a function of the friendliness and accessibility of their personnel, and of the fact that their services are more in tune with local life-styles. It would therefore be advisable for multinational corporations operating in developing countries to employ nationals as "contact personnel", who could form closer links with customers.

- Unexpectedly the study revealed that foreign banks had a greater understanding of the marketing concept with regard to the Saudi consumer. The varying cultural values of management and employees in banks of differing origin explain the differing degree of marketing orientation, i.e. "management know-how". Banks and other large companies can learn from Western marketing know-how, either through joint ventures, management contracts or consulting contracts, etc.

This study has implications for service marketing theory. It is the researcher's view that service marketing is different from product marketing, because of the predominant characteristics of services. These occur in different services to varying degrees, which suggests that each service must be marketed in a

different way by selecting strategies from general marketing concepts according to the levels of intangibility, perishability, inseparability and heterogeneity present in the service.

8.5 Recommendations

Saudi consumers are psychologically prepared and predisposed to use Islamic banks as an alternative to commercial banks. This view is also held by the bankers who feel threatened by Islamic banking.

As mentioned earlier Islamic investment in Islamic countries is providing a real alternative to the interest-based banking system. The Islamic nature of such banking has a strong appeal to Muslim since there is a general movement back to Islamic principles in all aspects of social life.

Accordingly, the researcher recommends the continued development of the Islamic banking system which could be an alternative for Muslims to giving or accepting interest. Although, at present, most Saudi consumers doubt whether the actual operation of Islamic banks falls under Islamic rules, the establishment of Islamic banking inside the Kingdom would generate more understanding of Saudi consumer needs and patronage would be highly beneficial for both banks and customers. As bank services fall into two categories - interest-based and non-interest based - Islamic banks can benefit from following western-bank practices in

offerring the latter services, and can adopt the profit and loss system of Islamic banking for interest-based services as discussed earlier.

The recent conversion of Al-Rajhi for Banking and Investment Corporation, ARBIC, (formerly Al-Rajhi Company for Exchange and Commerce) into a full Islamic bank exemplifies the perceptions of some banks of the need for an Islamic banking system. It is predicted that ARBIC backed up by its years of successful banking experience will probably be able to offer all consumer banking services. Yet ARBIC has to prove that its operations are in accordance with Islamic rules to erase any doubt in the consumers' mind about its compliance with Islamic rules.

ARBIC's success will be followed by money changers who are required by SAMA either to limit their activities to money changing or to be converted into Islamic banks. Commercial banks may also follow this path.

8.6 Study Limitations

- Only the marketing managers were included in the bank survey. Though they are considered to have a first hand view, the opinions of all the other banks staff could add another dimension. In addition, the responses of the marketing managers have to be treated with caution because it is reasonable to assume that they would want to give a good account

of their banks and of themselves rather than reporting actual results.

- All the respondents of the consumer survey were male and so the findings presented could only be representative of a male population.
- Sampling among Saudi consumers was of the non-probability type because of cultural problems in designing a representative sample. However, samples were weighted to avoid bias towards the group most represented i.e. those in the university educated, middle-income level, aged less than 50 and who are users of Saudi origin banks.
- Another limitation of this study is the language translation, Arabic to English and vice versa. In translation, the real essence of a word may be lost or partially lost. It should be noted that it was not possible to make direct translations of the proverbs regarding the Saudis' attitudes towards money. Furthermore, responses in the marketing managers' questionnaire were written partly in English and partly in Arabic. Bias due to question wording and questionnaire technique could also raise problems of validity and reliability.
- The study was conducted only in the city of Jeddah due to limited time and resources. Jeddah,

considered as the commercial centre of the Kingdom, has a more open and accessible population than the rest of the Kingdom. The influx of foreigners in Jeddah could have influenced the traditional life-style that still exists in neighbouring towns and cities of the Kingdom.

- Although qualitative interviews with the bank marketing managers and consumers helped further the investigation and highlighted the issues raised in the questionnaire, they should not to be interpreted as a method of validating data in this study.

8.7 Further Research Suggestions

- All levels of bank employees should be involved in the study to gather more information on the issue of marketing practices in Saudi banks.
- An in-depth study of the religious fundamentalist non-users versus the non-users who might be willing to participate in banking might enlighten bankers who wish to attract the latter group.
- A comparative study between Saudi and other Islamic countries and non-Islamic countries should be conducted to ascertain whether religion is the main factor affecting attitudes towards banks, i.e. does religious belief deter people from using banks and the level of use of interest and non-interest based services.

- To further evaluate consumers' satisfaction and consumers' attitudes towards Islamic banking, a study should be conducted where an Islamic bank is in actual operation.
- Further investigation of banks marketing from the consumer viewpoint should be conducted to gain more insight into customers attitudes, perception of banks and satisfaction etc..
- A study of the consumers opinions towards the recently converted money changers into full Islamic bank, ARBIC, to determine whether its operations are conducted under Islamic rules should be done.
- A study on the present users of Islamic banks operating in the Kingdom should be conducted to determine if consumers needs are being met or partially met.
- Replicating the study using larger sample size would give a more reliable result.
- A study of the broader implications in relation to transposing marketing concepts from one culture to another, especially transposition from developed countries to developing countries.

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APPENDIX A

SELECTED TABLES OF THE BANK
MARKETING MANAGERS' SURVEY

Appendix A

SELECTED TABLES OF THE BANK MARKETING MANAGERS SURVEY

Table 6.2.1.1

Q 16

Division of Consumer Market:

	Saudi (N=3)	Arab (N=2)	Foreign (N=5)	Total (N=10)
Yes	3	-	4	7
No	-	2	1	3

Table 6.2.1.2

Q 18

Different Marketing Strategies for Different Groups:

	Saudi (N=3)	Arab (N=0)	Foreign (N=4)	Total (N=7)
Not at all	-	-	-	-
Somewhat	-	-	1	1
To a large extent	3	-	3	6

Table 6.2.2.1

Q 19 A

Frequency of Involvement in Consumer Research:

	Saudi (N=2)	Arab (N=2)	Foreign (N=2)	Total (N=6)
Once or more every 6 months	-	1	1	2
Once a year	1	1	1	3
Once every 2-5 years	1	-	-	1

Table 6.2.3.1

Q 23

Sources of Customers' Discovery of New Services:

	Saudi (N=3)	Arab (N=2)	Foreign (N=5)	Total (N=10)
Friends	1	1	1	3
Advertisements	2	2	1	5
Personal selling activities	3	1	5	9
Banks' leaflets	3	1	3	7
Others	2	-	2	4
Do not know	-	-	-	-

Table 6.2.4.1

Q 25 A

Methods of Promotion of New Services for Small Accounts:

	Saudi (N=3)	Arab (N=2)	Foreign (N=5)	Total (N=10)
Advertising	3	2	4	9
Sales promotion	-	1	3	4
Personal selling	2	1	1	4
Others	1	-	-	1

Table 6.2.4.2

Q 25 B

Methods of Promotion of New Services for Large Accounts:

	Saudi (N=3)	Arab (N=2)	Foreign (N=5)	Total (N=10)
Advertising	2	2	-	4
Sales promotion	-	1	3	4
Personal selling	3	1	5	9
Others	1	-	1	2

Table 6.3.1.1

Q 32

Extent of Customers' Satisfaction with Bank Services:

	1 very satis.	2 satis.	3 uncer.	4 dissa.	5 very dissa.	mean
Bank hours	4	5	1			1.70
Range of services.	4	5	1			1.70
Courtesy of personnel.	2	7	1			1.90
Understanding needs.	2	6	1			2.33
Number of branches.	4	2	3	1		2.10
Attractiveness of offices.	1	7	1	1		2.20
Regular statements.	2	7		1		2.00
Charges & commissions.	1	8		1		2.10
Overall level of satisfaction						2.00

Mean =

Number of responses in each category x level of satisfaction

 Number of participating banks

Mean for each group:

Saudi banks = 2.0425

Arab banks = 1.750

Foreign banks = 1.725

Table 6.3.2.1

Q 33

Factors Affecting Customer Choice of Banks:

	Saudi (N=3)	Arab (N=2)	Foreign (N=5)	Total (N=10)
- Bank location	3	2	4	9
- Personal recommendation	2	1	3	6
- Wide range of services	3	2	5	10
- Friendly staff	3	2	3	8
- Friends work there	2	2	1	5
- Salary transferred by employer	2	2	2	6
- Widespread ATMs	2	2	2	6
- Premises and atmosphere	2	2	2	6
- Speedy services	3	2	5	10

Table 6.3.3.1

Q 34

Importance of Factors Affecting the Availability of Bank Services:

	Level of Importance					Mean
	1 Very	2	3	4	5 None	
- Improving "product" quality	9	1	-	-	-	1.1
- Increasing ATMs	2	5	1	1	1	2.4
- Extending banking hours	2	1	2	3	2	3.2
- Achieving lowest possible charges	3	3	3	-	-	2.0
- Speed of service	8	1	1	-	-	1.3
- Simplifying procedures	7	3	-	-	-	1.3
- Courtesy of Staff	8	2	-	-	-	1.0
Overall level of importance for the above factors						<u>1.76</u>

Range of mean (1.0 - 3.2)

Mean for each group:

Saudi banks = 1.50

Arab banks = 1.85

Foreign banks = 2.00

Table 6.4.1.1

Q 35

Benefits and Difficulties Caused by the Introduction of Marketing:

	Level of Agreement					Mean
	1 str. agree	2 agree	3 can't decide	4 dis-agree	5 strongly disagree	
- Improved the bank image	4	4	1		1	2.0
- Divided the bank into factions	1	1		2	6	1.9
- Enabled the bank to be competitive	5	4	1			1.6
- Difficult to find qualified staff		3	2	1	4	2.4
- Helped obtain new accounts	7	2		1		1.5
- Changed the organisational structure	1	2	2	3	2	2.7
- Identified new opportunities	6	4				1.4
- Confusion due to lack of textbooks	1	1	1	1	6	2.0
- Focus on particular groups	2	5	1		2	2.5
- Resisted by older managers	1	1	5	1	2	2.8
Overall mean						2.08
Range of mean (1.4 - 2.8)						

Mean =

Level of agreement x number of responses in each category

Number of participating banks

Mean for each group:

Saudi banks = 2.37

Arab banks = 2.40

Foreign banks = 2.10

Table 6.4.2.1

Q 36

Marketing Managers' Attitudes towards Marketing:

	Level of Agreement					Mean
	1 str. agree	2 agree	3 can't decide	4 dis agree	5 strongly disagree	
- Marketing contributed to bank success	5	2	1	1	1	2.1
- Marketing is more applicable to manufacturing	2	1		3	4	2.4
- A satisfied employee is a satisfied customer	2	5	2	1		2.5
- Marketing has little effect on daily operations	1	3		2	4	2.3
- Marketing manager participates in top level decisions	5	2	3			1.8
- Our bank does not really offer different services	1	5		4		3.3
- All bank personnel who have direct contact with customers are well trained to interact well with customers	4	4	1		1	2.0
- Our concern is to sell current products to whoever will buy them	2	4	1	2	1	3.4
- Personnel are presentable & approachable	6	3	1			1.5
- ATMs introduced without market research	1	1	4	2	2	2.7
Overall mean						2.39

Range of mean (1.5 - 3.4)

Mean for each group:

Saudi banks = 2.37

Arab banks = 2.70

Foreign banks = 2.26

APPENDIX B

SELECTED TABLES OF THE CONSUMERS' SURVEY

Table 7.1.1.1

Q 1

Multi-variable cross-tabulation of the Use of Bank Services by the Respondents' Educational Levels:

Educational level	Bank services											
	% of level sample										Buy/	Never
	% of total sample	Curr.	Deposit	Trust	Trav.	Cheque	Credit	Currency	Sell	Use		
Residual	Acct.	Acct.	Fund	Loans	Cheqs.	Cashing	Cards	Exch.	Stock	Others	Bank	
Primary	34.5	25.5	2.8	2.8	6.9	23.8	1.4	10.0	2.8	2.4	38.9	
	5.0	3.7	0.4	0.4	1.0	3.5	0.2	1.5	0.4	0.4	5.7	
	-21.0	3.5	0.4	-1.2	-11.4	-0.9	-6.8	-4.9	-5.4	0.0	13.7	
Intermediate	54.9	27.2	1.5	4.0	6.9	23.0	6.6	8.0	8.0	6.6	18.0	
	7.6	3.8	0.2	0.6	1.0	3.2	0.9	1.1	1.1	0.9	2.5	
	-9.5	4.2	-0.3	-0.5	-10.7	-1.3	-3.8	-5.7	-2.5	2.1	2.4	
Secondary	79.7	21.9	1.2	5.1	23.7	26.0	6.8	18.0	14.1	1.4	7.4	
	23.7	6.5	0.4	1.5	7.0	7.7	2.0	5.4	4.2	0.4	2.2	
	6.6	3.2	-0.9	0.1	-4.8	0.6	-7.9	-1.2	1.4	-1.1	-6.6	
University	89.3	11.8	2.5	6.2	45.6	26.6	26.2	26.8	17.1	1.8	7.2	
	37.4	5.0	1.1	2.6	19.1	11.1	10.9	11.2	7.2	0.7	3.0	
	24.0	-10.9	0.8	1.7	26.9	1.7	18.6	11.8	6.6	-1.0	-9.5	
Total %	73.7	19.0	2.0	5.0	28.1	25.5	14.1	19.2	12.9	2.4	13.4	
Significance	0.0000*	0.0238*	0.8459	0.7786	0.0000*	0.9475	0.0000*	0.0050*	0.0349*	0.2051	0.0000*	

* Indicates significance

Table 7.1.1.2

Q 1

Multi-variable cross-tabulation of the Use of Bank Services by the Respondents' Income Levels:

Income levels	Bank services											
	% of level sample										Buy/	Never
	% of total sample	Curr.	Deposit	Trust	Trav.	Cheque	Credit	Currency	Sell	Use		
Residual	Acct.	Acct.	Fund	Loans	Cheqs.	Cashing	Cards	Exch.	Stock	Others	Bank	
Less than	45.7	26.8	1.8	1.8	13.8	15.3	0.9	8.9	1.8	1.6	24.3	
3,000	10.4	6.1	0.4	0.4	3.1	3.5	0.2	2.0	0.4	0.4	5.5	
	-23.2	6.4	-0.2	-2.7	-11.8	-8.6	-11.0	-8.6	-9.2	-0.7	9.1	
3,000 -	69.3	18.2	1.9	0.0	9.7	16.0	3.6	9.5	4.0	5.0	15.0	
6,000	20.3	5.3	0.6	0.0	2.8	4.7	1.1	2.8	1.2	1.5	4.4	
	-4.5	-1.0	-0.1	-5.4	-19.6	-10.2	-11.2	-10.4	-9.4	2.8	1.8	
6,001 -	85.6	13.4	0.0	5.0	41.4	29.2	23.0	24.8	18.1	1.3	10.0	
10,000	25.9	4.0	0.0	1.5	12.5	8.8	7.0	7.5	5.5	0.4	3.0	
	13.5	-6.4	-2.2	0.0	15.0	4.1	10.0	6.3	6.0	-1.2	-3.7	
Over	95.4	20.8	6.0	17.7	53.2	48.0	33.0	38.6	32.1	1.0	2.3	
10,000	16.9	3.7	1.1	3.1	9.4	8.5	5.8	6.8	5.7	0.2	0.4	
	14.2	1.1	2.6	8.2	16.5	14.7	12.3	12.7	12.6	-0.9	-7.2	
Total %	73.5	19.1	2.0	5.0	27.9	25.5	14.1	19.1	12.7	2.4	13.4	
Significance	0.0000*	0.1254	0.0571	0.0000*	0.0000*	0.0000*	0.0000*	0.0000*	0.0000*	0.2167	0.0008*	

* Indicates significance

Table 7.1.1.3

Q 1

Multi-variable cross-tabulation of the Use of Bank Services by the Respondents' Age Levels:

% of level sample % of total sample Residual	Bank services											
	Curr.	Deposit	Trust		Trav.	Cheque	Credit	Currency	Buy/ Sell	Never		
	Acct.	Acct.	Fund	Loans	Cheqs.	Cashing	Cards	Exch.	Stock	Others	Bank	
Age levels												
Less than	70.9	29.5	3.3	3.9	24.6	19.9	10.7	12.9	5.8	3.7	8.9	
30	27.8	11.6	1.3	1.5	9.6	7.8	4.2	5.0	2.3	1.5	3.5	
	- 3.8	15.0	1.9	- 1.7	- 4.8	- 8.0	- 4.9	- 9.1	-10.0	1.9	- 6.4	
30 - 50	86.0	10.0	1.6	6.7	37.4	32.1	20.6	26.4	21.2	1.3	10.1	
	38.1	4.4	0.7	3.0	16.6	14.2	9.1	11.7	9.4	0.6	4.5	
	20.4	-14.9	- 0.7	2.7	15.5	10.7	10.6	11.9	13.8	- 1.8	- 5.3	
Over 50	46.0	18.9	0.0	3.4	10.1	21.2	4.6	14.5	6.5	2.2	32.8	
	7.6	3.1	0.0	0.6	1.7	3.5	0.8	2.4	1.1	0.4	5.4	
	-16.6	- 0.1	- 1.2	- 1.0	-10.7	- 2.6	- 5.7	- 2.8	- 3.8	- 0.1	-11.7	
Total %	73.5	19.1	2.0	5.0	27.9	25.5	14.1	19.1	12.7	2.4	13.4	
Significance	0.0000*	0.0001*	0.2636	0.4226	0.0002*	0.0361*	0.0031*	0.0063*	0.0001*	0.3799	0.0000*	

* Indicates significance

Table 7.1.1.4

Q 1

Multi-variable cross-tabulation of the Use of Bank Services by Income Levels for those educated to University level:

% of level sample % of total sample Residual Income levels	Bank Services										
	Curr.	Deposit	Trust		Trav.	Cheque	Credit	Currency	Buy/ Sell	Never	
	Acct.	Acct.	Fund	Loans	Cheqs.	Cashing	Cards	Exch.	Stock	Others	Bank
Less than 3,000	33.3 1.5 - 3.4	16.7 0.8 0.5	0.0 0.0 - 0.1	0.0 0.0 - 0.5	16.7 0.8 - 1.5	0.0 0.0 - 1.8	0.0 0.0 - 1.2	16.7 0.8 - 0.7	0.0 0.0 - 1.1	0.0 0.0 - 0.1	50.0 2.3 2.5
3,000 - 6,000	96.6 16.3 2.0	8.0 1.4 - 0.2	4.5 0.8 0.6	0.0 0.0 - 1.0	9.0 1.5 - 7.3	14.9 2.5 - 3.3	8.0 1.4 - 2.7	14.5 0.8 - 5.5	3.5 0.6 - 3.1	4.5 0.8 0.6	3.5 0.6 - 1.5
6,001 - 10,000	84.3 37.4 - 2.3	5.2 2.3 - 2.1	0.0 0.0 - 1.3	4.4 1.9 - 2.2	46.5 20.1 3.8	24.8 11.0 - 2.6	23.4 10.6 2.5	24.0 10.6 - 2.5	12.6 5.6 - 2.6	1.3 0.6 - 0.4	12.6 5.6 1.7
Over 10,000	96.1 32.7 3.8	12.5 4.3 1.8	4.0 1.4 0.9	17.5 6.0 4.5	50.9 17.4 5.0	45.7 15.6 7.8	22.8 7.8 1.4	46.7 16.0 8.7	31.2 10.6 6.7	1.7 0.6 - 0.1	4.0 1.4 - 2.8
Total %	88.1	8.7	2.1	7.9	40.3	29.1	19.7	28.1	16.8	1.9	9.8
Significance	0.000*	0.504	0.412	0.023*	0.003*	0.008*	0.211	0.002*	0.008*	0.782	0.002*

* Indicates significance

Table 7.1.1.5

Q 1

Multi-variable cross-tabulation of the Use of Bank Services by Educational Levels for Those Earning more than SR 10,000:

Educational levels	Bank services											
	% of level sample										Buy/	Never
	% of total sample	Curr.	Deposit	Trust	Trav.	Cheque	Credit	Currency	Sell	Use		
Residual	Acct.	Acct.	Fund	Loans	Cheqs.	Cashing	Cards	Exch.	Stock	Others	Bank	
Primary	0.0	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	0.0	5.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	- 3.6	3.1	- 0.1	- 0.8	- 2.0	- 2.1	- 0.9	- 1.7	- 1.1	- 0.0	- 0.1	
Intermediate	89.2	0.0	0.0	0.0	48.7	91.8	40.5	8.3	40.5	0.0	0.0	
	11.6	0.0	0.0	0.0	6.3	11.9	5.2	1.1	5.2	0.0	0.0	
	- 0.2	- 2.0	- 0.3	- 2.0	- 0.1	3.7	- 1.8	- 3.3	1.2	- 0.1	- 0.2	
Secondary	100.0	39.8	5.5	50.9	61.9	67.4	12.7	61.9	16.6	0.0	0.0	
	19.3	7.7	1.1	9.8	11.9	13.0	2.5	12.0	3.2	0.0	0.0	
	1.3	2.8	0.3	4.4	1.7	2.0	- 1.3	2.9	- 1.6	- 0.2	- 0.4	
University	96.1	12.5	4.0	17.5	50.9	45.7	22.8	46.7	31.2	1.7	4.0	
	60.0	7.8	2.5	10.9	31.8	28.9	14.2	29.2	19.5	1.1	2.5	
	2.4	- 3.9	0.2	- 1.5	0.4	- 3.6	0.4	2.1	1.5	0.3	0.7	
Total %	90.9	20.8	3.5	20.8	50.1	53.5	21.9	42.2	28.0	1.1	2.5	
Significance	0.000*	0.000*	0.875	0.008*	0.189	0.006*	0.284	0.017*	0.326	0.922	0.767	

* Indicates significance

Table 7.1.1.6

Q 1

Multi-variable cross-tabulation of the Use of Bank Services by Age Levels for Those Earning more than SR 10,000:

% of level sample % of total sample Residual	Bank Services										
	Curr.	Deposit	Trust		Trav.	Cheque	Credit	Currency	Buy/ Sell	Never	
	Acct.	Acct.	Fund	Loans	Cheqs.	Cashing	Cards	Exch.	Stock	Others	Bank
Age levels											
Less than 30	75.0	25.0	12.5	25.0	50.0	62.5	25.0	37.5	12.5	0.0	12.5
	8.4	2.8	1.4	2.8	5.6	7.0	2.8	4.2	1.4	0.0	1.4
	- 1.3	0.4	0.8	0.4	0.0	0.8	0.3	- 0.4	- 1.3	- 0.1	0.8
30 - 50	97.4	18.0	5.1	18.0	56.4	48.7	33.3	41.0	38.5	2.6	2.6
	40.6	7.5	2.1	7.5	23.5	20.3	13.9	17.1	16.0	1.1	1.1
	2.0	- 0.9	0.5	- 0.9	2.0	- 1.5	3.6	- 0.4	3.3	0.5	0.0
Over 50	88.9	22.2	0.0	22.2	44.4	55.6	11.1	44.4	22.2	0.0	0.0
	42.0	10.5	0.0	10.5	21.0	26.2	5.2	20.9	10.5	0.0	0.0
	- 0.7	0.5	- 1.3	0.5	- 2.0	0.7	- 3.8	0.8	- 2.0	- 0.4	- 0.9
Total %	91.0	20.8	3.5	20.8	50.1	53.5	22.0	42.2	28.0	1.1	2.5
Significance	0.113	0.866	0.173	0.866	0.621	0.733	0.089	0.920	0.193	0.567	0.110

Table 7.1.1.7

Q 1

Multi-variable cross-tabulation of the Use of Bank Services by Income Level for Those Aged Between 30-50:

Income levels	Bank Services											
	% of level sample										Buy/	Never
	% of total sample	Curr.	Deposit	Trust	Trav.	Cheque	Credit	Currency	Sell	Use		
Residual	Acct.	Acct.	Fund	Loans	Cheqs.	Cashing	Cards	Exch.	Stock	Others	Bank	
Less than	50.0	16.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	50.0	
3,000	2.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0	
	- 1.5	0.4	- 0.1	- 0.3	- 1.6	- 1.4	- 0.8	- 1.0	- 0.9	- 0.1	1.6	
3,000 -	70.3	8.1	0.0	0.0	5.4	18.9	2.7	5.4	5.4	0.0	21.6	
6,000	17.1	2.0	0.0	0.0	1.3	4.6	0.7	1.3	1.3	0.0	5.3	
	- 3.0	0.1	- 0.4	- 2.1	- 8.0	- 2.8	- 4.1	- 4.8	- 3.9	- 0.6	1.5	
6,001 -	78.6	1.4	0.0	5.7	35.7	24.3	15.7	21.4	15.7	2.9	18.6	
10,000	36.2	0.7	0.0	2.6	16.5	11.2	7.2	9.9	7.2	1.3	8.6	
	- 1.0	- 3.6	- 0.7	- 0.9	2.0	- 2.2	- 0.4	- 0.2	- 1.5	0.5	1.2	
Over	97.4	18.0	5.1	18.0	56.4	48.7	33.3	41.0	38.5	2.6	2.6	
10,000	25.0	4.6	1.3	4.6	14.5	12.5	8.6	10.5	9.9	0.7	0.7	
	5.4	3.1	1.2	3.4	7.6	6.4	5.3	6.0	6.3	0.2	- 4.3	
Total %	80.3	7.9	1.3	7.2	32.2	28.3	16.5	21.7	18.4	2.0	16.5	
Significance	0.014*	0.044*	0.194	0.041*	0.000*	0.018*	0.009*	0.005*	0.004*	0.807	0.028*	

* Indicates significance

Table 7.1.1.8

Q 1

Multi-variable cross-tabulation of the Use of Bank Services by Education Levels for Those Aged Between 30-50:

Educational levels	Bank Services											
	% of level sample										Buy/	Never
	% of total sample	Curr.	Deposit	Trust	Trav.	Cheque	Credit	Currency	Sell		Use	
	Residual	Acct.	Acct.	Fund	Loans	Cheqs.	Cashing	Cards	Exch.	Stock	Others	Bank
Primary	54.6	9.1	0.0	0.0	18.2	9.1	0.0	0.0	0.0	0.0	0.0	36.4
	4.0	0.7	0.0	0.0	1.3	0.7	0.0	0.0	0.0	0.0	0.0	2.6
	- 2.3	0.1	- 0.1	- 0.6	- 1.2	- 1.7	- 1.5	- 1.9	- 1.6	- 0.2		1.8
Intermediate	64.7	5.9	0.0	11.8	5.9	23.5	5.9	5.9	5.9	0.6		29.4
	7.2	0.7	0.0	1.3	0.7	2.6	0.7	0.7	0.7	0.0		3.3
	- 2.1	- 0.3	- 0.2	- 0.6	- 3.6	- 0.6	- 1.4	- 2.2	- 1.7	- 0.3		1.8
Secondary	75.7	8.1	2.7	8.1	24.3	29.7	5.4	24.3	18.9	2.7		18.9
	18.4	1.9	0.7	2.0	5.9	7.2	1.3	5.9	4.6	0.7		4.6
	- 1.4	0.1	0.4	0.3	- 2.3	6.4	- 3.3	0.8	0.1	0.2		0.7
University	88.5	8.1	1.2	6.9	42.5	31.0	25.3	26.4	23.0	2.3		10.3
	50.7	4.6	0.7	4.0	24.3	17.8	14.5	15.1	13.2	1.3		5.9
	5.8	0.1	- 0.1	- 0.2	7.2	1.9	6.2	3.3	3.2	0.2		- 4.3
Total %	80.3	7.9	1.3	7.2	32.2	28.3	16.5	21.7	18.4	2.0		16.5
Significance	0.027*	0.992	0.860	0.765	0.025*	0.563	0.024*	0.139	0.222	0.903		0.100

* Indicates significance

Table 7.1.2.1

Q2

Cross-tabulation of Receiving Salaries by Cheques by the Respondents' Educational Levels:

% of level sample % of total sample Residual Education levels	Salary received by cheque		
	Yes	No	
Primary	38.4 5.6 - 13.6	61.6 8.9 13.6	
Intermediate	61.4 8.5 - 1.4	38.6 5.4 1.4	
Secondary	65.3 19.5 1.4	34.7 10.4 - 1.4	
University	73.0 30.4 13.6	27.0 11.3 - 13.6	
Total %	64.1	35.9	100.0
Chi-square	D.F.	Significance	
<u>20.16391</u>	<u>3</u>	<u>0.0001</u>	

Table 7.1.2.2

Q2

Cross-tabulation of Receiving Salaries by Cheques by the Respondents' Income Levels:

% of level sample % of total sample Residual Income levels	Salary received by cheque		
	Yes	No	
Less than 3,000	49.6	50.4	
	11.3	11.4	
	- 12.0	12.0	
3,000 - 6,000	56.3	43.7	
	16.6	12.9	
	- 8.4	8.4	
6,001 - 10,000	74.6	25.4	
	22.4	7.6	
	11.5	- 11.5	
Over 10,000	77.7	22.3	
	13.9	4.0	
	8.9	- 8.9	
Total %	64.1	35.9	100.0
Chi-square	D.F.	Significance	
<u>20.91538</u>	<u>3</u>	<u>0.0001</u>	

Table 7.1.2.3

Q 3

Cross-tabulation of Treatment of Salary or any other Considerable Amount of Money by the Respondents' Educational Levels:

% of level sample % of total sample Residual Educational levels	Treatment of money				Deposit Extra
	Deposit in Bank	Carry	Keep at Home		
Primary	5.2	45.8	29.2	19.2	
	0.8	6.8	4.4	2.8	
	-14.7	15.7	3.7	- 4.6	
Intermediate	20.5	36.7	25.7	18.2	
	2.8	4.9	3.5	2.5	
	- 6.1	9.6	1.4	- 4.8	
Secondary	39.0	6.5	21.1	33.4	
	11.7	1.9	6.3	10.0	
	6.9	-11.0	- 2.0	6.1	
University	41.8	7.1	20.9	30.1	
	17.4	2.9	8.7	12.5	
	13.9	-14.3	- 3.0	3.4	
Total %	32.6	16.5	23.0	27.9	100.0
Chi-square	D.F.	Significance			
79.85563	9	0.0000			

Table 7.1.2.4

Q 3

Cross-tabulation of Treatment of Salary or any other considerable Amount of Money by the Respondents' Income Levels:

% of level sample % of total sample Residual Income level	Treatment of money				Deposit Extra
	Deposit in Bank	Carry	Keep at Home		
Less than 3,000	6.4	37.7	26.0	29.8	
	1.5	8.6	5.9	6.8	
	-21.7	17.5	2.5	1.6	
3,000 - 6,000	20.6	17.2	28.4	33.9	
	6.1	5.1	8.4	10.0	
	-13.0	0.7	3.8	6.5	
6,001 - 10,000	47.9	7.0	23.7	21.4	
	14.3	2.1	7.1	6.4	
	16.6	-10.3	0.8	- 7.1	
Over 10,000	60.8	4.3	8.6	26.2	
	10.8	0.8	1.5	4.6	
	18.1	- 7.8	- 9.2	- 1.0	
Total %	32.7	16.5	23.0	27.9	100.0
Chi-square	D.F.	Significance			
90.64909	9	0.0000			

Table 7.1.2.5

Q 3

Cross-tabulation of Treatment of Salary or any other Considerable Amount of Money by the Respondents' Age Levels:

% of level sample % of total sample Residual Age level	Treatment of money				
	Deposit in Bank	Carry	Keep at Home	Deposit Extra	
Less than 30	26.9	11.7	25.9	35.5	
	10.5	4.6	10.1	13.9	
	-8.2	-6.8	4.2	10.9	
30 - 50	40.8	10.8	22.0	26.4	
	18.1	4.8	9.7	11.7	
	13.1	9.2	-1.6	-2.4	
Over 50	24.6	43.1	18.6	13.8	
	4.1	7.1	3.1	2.3	
	-4.9	16.0	-2.6	-8.5	
Total %	32.7	16.5	23.0	27.9	100.0
Chi-square	D.F.	Significance			
45.32161	6	0.0000			

Table 7.1.2.6

Q 4

Cross-tabulation of the Extent of Using Cheques by the Respondents' Educational Levels:

Educational levels	Extent of using cheques			Only For Big Trans.
	% of level sample Residual	Never	Sometimes	
Primary	67.2	29.8	2.9	
	9.4	4.2	0.4	
	17.8	-13.0	- 4.8	
Intermediate	38.3	58.4	8.3	
	5.4	7.6	1.2	
	3.3	- 1.1	- 2.2	
Secondary	30.7	60.7	8.6	
	8.9	17.7	2.5	
	- 1.3	5.3	- 4.1	
University	19.0	61.3	19.7	
	8.1	26.2	8.4	
	-19.8	8.8	11.0	
Total %	31.9	55.6	12.5	100.0
Chi-square	D.F.	Significance		
47.95962	6	0.0000		

Table 7.1.2.7

Q 4

Cross-tabulation of the Extent of Using Cheques by the Respondants' Income Levels:

Income levels	Extent of using cheques			Only For Big Trans.
	% of level sample % of total Sample Residual	Never	Sometimes	
Less than 3,000	57.7	40.4	1.9	
	12.4	8.7	0.4	
	19.8	-11.6	- 8.2	
3,000 - 6,000	41.6	53.6	4.8	
	12.2	15.7	1.4	
	10.2	- 2.0	- 8.1	
6,001 - 10,000	15.2	64.7	20.2	
	4.7	20.1	6.3	
	-18.6	10.2	8.5	
Over 10,000	14.6	60.9	24.5	
	2.6	11.1	4.5	
	-11.3	3.5	7.8	
Total %	31.9	55.6	12.5	100.0
Chi-square	D.F.	Significance		
67.76912	6	0.0000		

Table 7.1.2.8

Q 4

Cross-tabulation of the Extent of Using Cheques by the Respondants' Age Levels:

Income levels	Extent of using cheques			Only For Big Trans.
	% of level sample % of total sample Residual	Never	Sometimes	
Less than 30	38.1	48.8	13.1	
	15.2	19.5	5.2	
	8.8	- 9.6	0.8	
30 - 50	20.2	66.9	12.9	
	9.1	30.2	5.8	
	-19.0	18.4	0.5	
Over 50	50.9	39.1	10.0	
	7.6	5.9	1.5	
	10.2	- 8.8	- 1.3	
Total %	31.9	55.6	12.5	100.0
Chi-square	D.F.	Significance		
22.57538	4	0.0002		

Table 7.1.2.9

Q 5

Cross-tabulation of Cheques Acceptance by the Respondents' Educational Levels:

% level sample % total sample Residual Educational Level	Cheque acceptance				Only Certi- fied	Never
	Always	Depends				
Primary	6.2	48.0	34.1	11.7		
	0.9	7.1	5.0	1.7		
	- 1.6	- 3.4	3.1	1.9		
Intermediate	6.7	36.6	37.8	19.0		
	0.9	5.0	5.2	2.6		
	- 1.3	- 8.8	4.7	5.4		
Secondary	7.6	49.8	34.3	8.4		
	2.2	14.6	10.1	2.5		
	- 1.8	- 4.8	6.4	0.3		
University	12.3	65.3	19.1	3.3		
	5.2	27.5	8.0	1.4		
	4.7	17.0	-14.2	- 7.5		
Total %	9.3	54.2	28.3	8.2	100.0	
Chi-square	D.F.	Significance				
30.56549	9	0.0004				

Table 7.1.2.10

Q 5

Cross-tabulation of Cheque Acceptance by the Respondents' Income Levels:

% level sample % total sample Residual Income levels	Cheque acceptance				
	Always	Depends	Only Certi- fied	Never	
Less than 3,000	2.3 0.5 - 5.8	47.9 11.0 - 5.1	36.7 8.4 6.9	13.0 3.0 4.0	
3,000 - 6,000	9.6 2.7 0.3	37.3 10.7 -17.5	36.9 10.6 8.8	16.1 4.6 8.3	
6,001 - 10,000	9.8 3.0 0.6	68.6 20.9 16.1	19.8 6.0 - 9.7	1.9 0.6 - 7.0	
Over 10,000	16.7 3.0 4.9	64.0 11.4 6.5	19.3 3.4 - 6.0	0.0 0.0 - 5.3	
Total %	9.3	54.1	28.5	8.2	100.0
Chi-square	D.F.	Significance			
50.60118	9	0.0000			

Table 7.1.2.11

Q 5

Cross-tabulation of Cheque Acceptance by the Respondents' Age Levels:

% level sample % total sample Residual Age levels	Cheque acceptance				
	Always	Depends	Only Certi- fied	Never	
Less than 30	9.1	46.4	32.6	11.9	
	3.5	18.1	12.8	4.7	
	- 0.3	-11.0	5.9	5.4	
30 - 50	10.0	63.1	21.5	5.4	
	4.4	27.9	9.5	2.4	
	1.2	14.6	-11.3	- 4.5	
Over 50	7.7	48.1	37.5	6.7	
	1.3	8.0	6.2	1.1	
	- 0.9	- 3.6	5.4	- 0.9	
Total %	9.3	54.1	28.5	8.2	100.0
Chi-square	D.F.	Significance			
14.10225	6	0.0285			

Table 7.1.4.1

Q 14

Cross-tabulation of the Knowledge of whether Banks give Interest on Deposits by the Respondents' Educational Levels:

Educational levels	Knowledge of banks giving interest			Residual
	Yes	No	Do Not Know	
Primary	56.2	11.3	32.5	
	7.8	1.6	4.5	
	-4.0	0.9	4.9	
Intermediate	49.1	12.3	38.6	
	6.9	1.7	5.4	
	- 7.7	0.4	8.1	
Secondary	62.0	19.7	18.3	
	6.9	1.7	5.4	
	- 2.3	7.1	- 4.8	
University	73.3	9.4	17.3	
	30.9	4.0	7.3	
	14.0	- 5.7	- 8.3	
Total %	64.2	13.1	22.7	100.0
Chi-square	D.F.	Significance		
20.37084	6	0.0024		

Table 7.1.4.2

Q 16

Cross-tabulation of the Knowledge of whether Banks Charge Interest by the Respondents' Educational Levels:

Educational levels	Knowledge of banks interest charges			Residual
	Yes	No	Do Not Know	
	% of level sample	% of total sample		
Primary	48.2	5.2	46.4	
	7.0	0.8	6.8	
	-17.2	0.2	17.1	
Intermediate	80.2	11.0	8.8	
	11.1	1.5	1.2	
	- 0.1	3.0	- 2.9	
Secondary	79.2	8.1	12.7	
	23.5	2.4	3.8	
	- 1.3	3.3	- 1.8	
University	92.5	1.0	6.5	
	38.7	0.4	2.7	
	18.6	- 6.4	-12.2	
Total %	80.4	5.1	14.5	100.0
Chi-square	D.F.	Significance		
65.85076	6	0.0000		

Table 7.1.4.3

Q 16

Cross-tabulation of the Knowledge of whether Banks Charge Interest by the Respondents' Income Levels:

Income levels	Knowledge of banks interest charges			Residual
	Yes	No	Do Not Know	
Less than 3,000	51.8	10.7	37.5	
	11.8	2.4	8.5	
	-23.9	4.6	19.2	
3,001 - 6,000	76.5	9.2	14.3	
	22.4	2.7	4.2	
	- 4.2	4.4	- 0.2	
6,001 - 10,000	95.6	0.0	4.4	
	28.9	0.0	1.3	
	16.9	- 5.7	-11.2	
Over 10,000	97.5	0.0	2.5	
	17.3	0.0	0.4	
	11.2	- 3.3	- 7.8	
Total %	80.4	5.1	14.5	100.0
Chi-square	D.F.	Significance		
76.56145	6	0.0000		

Table 7.1.4.4

Q 16

Cross-tabulation of the Knowledge of whether Banks Charge Interest by the Respondents' Age Levels:

Age levels	Knowledge of banks interest charges			Do Not Know
	Yes	No		
Less than 30	72.9	9.2	17.8	
	28.6	3.6	7.0	
	-10.7	5.9	4.8	
30 - 50	90.8	3.4	5.9	
	40.2	1.5	2.6	
	16.9	- 2.8	-14.1	
Over 50	70.2	0.0	29.8	
	11.5	0.0	4.9	
	- 6.1	- 3.1	9.2	
Total %	80.4	5.1	14.5	100.0
Chi-square	D.F.	Significance		
31.96601	4	0.0000		

Table 7.1.4.5

Q 18

Cross-tabulation of the Respondents' Knowledge of how Banks Calculate Interest by the Respondents' Educational Levels:

Educational levels	Knowledge of banks' interest calculation		Residual
	Yes	No	
Primary	16.8	83.2	
	2.5	12.3	
	-12.1	12.1	
Intermediate	29.2	70.8	
	4.0	9.6	
	- 5.0	5.0	
Secondary	39.6	60.4	
	11.9	18.1	
	0.2	- 0.2	
University	50.6	49.4	
	21.1	20.6	
	16.9	-16.9	
Total %	39.4	60.6	100.0
Chi-square	D.F.	Significance	
21.54611	3	0.0001	

Table 7.1.4.6

Q 18

Cross-tabulation of the Respondents' Knowledge of How Banks Calculate Interest by the Respondents' Income Levels:

Income levels	Knowledge of banks' interest calculation		Residual
	Yes	No	
Less than 3,000	18.2	81.8	
	4.2	18.8	
	-17.7	17.7	
3,000 - 6,000	27.3	72.7	
	7.9	21.1	
	-12.7	12.7	
6,001 - 10,000	55.1	44.9	
	16.6	13.5	
	17.2	-17.2	
Over 10,000	59.6	40.4	
	10.7	7.2	
	13.2	-13.2	
Total %	39.4	60.6	100.0
Chi-square	D.F.	Significance	
44.60043	3	0.0000	

Table 7.1.4.7

Q 18

Cross-tabulation of University Level Responses on Awareness of Interest Calculation with Respect to their Income Levels:

Income levels	University level awareness of interest calculation		Residual
	Yes	No	
Less than 3,000	8.6	91.4	
	0.6	6.1	
	- 4.2	4.2	
3,000 - 6,000	49.4	50.6	
	7.2	7.4	
	- 0.3	0.3	
6,001 - 10,000	52.0	48.0	
	23.6	21.8	
	0.9	- 0.9	
Over 10,000	58.0	42.0	
	19.4	14.1	
	3.7	- 3.7	
Total %	50.7	49.3	100.0
	Chi-square	D.F.	Significance
	8.23823	3	0.0413

Table 7.1.4.8

Q 18

Cross-tabulation of University Level Responses on Awareness to Calculate Interest with Respect to their Age Levels:

Age levels	University level awareness of interest calculation		Residual
	Yes	No	
Less than 30	32.8	67.2	
	9.0	18.4	
	2.4	- 2.4	
30 - 50	38.5	61.5	
	6.4	10.2	
	1.9	- 1.9	
Over 50	2.5	97.5	
	1.4	54.6	
	- 4.3	4.3	
Total %	16.8	83.2	100.0

Chi-square	D.F.	Significance
10.13019	2	0.0063

Table 7.1.4.9

Q 19

Cross-tabulation of the Respondents' Opinion About Saudi Borrowers Knowledge of How Banks Calculate Interest by the Respondents' Income Levels:

Income levels	Opinion of borrowers knowledge of interest calculation			Residual
	Yes	No	Can Not Decide	
Less than 3,000	44.7	19.2	36.1	
	10.3	4.4	8.3	
	6.9	- 7.2	0.3	
3,001 - 6,000	33.7	25.4	40.9	
	9.8	7.4	11.9	
	- 2.9	- 2.5	5.4	
6,001 - 10,000	39.5	25.5	35.0	
	12.0	7.7	10.6	
	3.3	- 2.5	- 0.8	
Over 10,000	25.2	46.7	28.1	
	4.4	8.2	4.9	
	- 7.2	12.1	- 4.9	
Total %	36.5	27.7	35.8	100.0
Chi-square	D.F.	Significance		
17.04339	6	0.0091		

Table 7.1.4.10

Q 19

Cross-tabulation of Respondents' Opinion about Saudi Borrowers Knowledge of How Banks Calculate Interest by the Respondents' Age Levels:

Age levels	Opinion of borrowers knowledge of interest calculation			Residual
	Yes	No	Can Not Decide	
Less than 30	31.0	36.2	32.8	
	12.0	14.1	12.7	
	- 7.8	12.0	- 4.2	
30 - 50	34.4	26.1	39.6	
	15.3	11.6	17.6	
	- 3.5	- 2.7	6.1	
Over 50	55.2	12.2	32.6	
	9.2	2.0	5.4	
	11.3	- 9.3	- 1.9	
Total %	36.5	27.7	35.8	100.0
Chi-square	D.F.	Significance		
17.37143	4	0.0016		

Table 7.2.1.1

Q 11

Cross-tabulation of Respondents' Opinions on Saudi's Reluctance to Use Banks by the Respondents' Educational Levels:

Educational levels	Opinion on Saudi reluctance to use banks			Residual
	Yes	No	Do Not Know	
Primary	34.3	21.6	44.1	
	5.1	3.2	6.5	
	- 8.9	- 3.6	12.5	
Intermediate	60.9	21.4	17.7	
	8.5	3.0	2.5	
	5.1	- 3.5	- 1.6	
Secondary	61.4	17.0	21.6	
	17.9	4.9	6.3	
	11.1	-12.0	0.9	
University	46.1	40.7	13.2	
	19.5	17.2	5.6	
	- 7.3	19.1	-11.8	
Total %	50.9	28.3	20.8	100.0
Chi-square	D.F.	Significance		
40.34970	6	0.0000		

Table 7.2.1.2

Q 11

Cross-tabulation of Respondants Opinion on Saudi's Reluctance to Use Banks by the respondents' Age Levels:

Age Levels	Opinion on Saudi reluctance to use banks			Residual
	Yes	No	Do Not Know	
Less than 30	57.4	29.6	13.0	
	22.7	11.7	5.2	
	9.6	1.6	-11.2	
30 - 50	50.2	33.7	16.1	
	22.5	15.1	7.2	
	- 0.8	8.5	- 7.7	
Over 50	35.4	10.7	53.9	
	5.5	1.7	8.4	
	- 8.7	-10.2	18.9	
Total %	50.7	28.5	20.8	100.0
Chi-square	D.F.	Significance		
47.89702	4	0.0000		

Table 7.2.1.3

Q 11

Cross-tabulation of University Level Respondants' Opinion on Saudi's Reluctance to Use Banks with Respect to their Age Levels:

Age Levels	Opinion on Saudi reluctance to use banks			Residual
	Yes	No	Do Not Know	
Less than 30	37.9	51.3	10.8	
	10.4	14.1	3.0	
	0.5	4.4	- 4.9	
30 - 50	83.4	8.3	8.3	
	13.9	1.4	1.4	
	4.4	- 1.2	- 3.2	
Over 50	18.0	11.0	71.1	
	10.0	6.1	39.7	
	- 4.9	- 3.2	8.1	
Total %	34.3	21.6	44.1	100.0
Chi-square	D.F.	Significance		
28.22763	4	0.0000		

Table 7.2.2.1

Q 9

Cross-tabulation of Factors involved in Loan Sanctioning by the Respondents' Educational Levels:

Educational levels	Factors involved in loan sanctioning				
	% of level sample Residual	Personal Relation	Fulfill Requirement	Combina- tion	Don't Know
Primary	4.2	34.1	16.0	45.6	
	0.6	4.7	2.2	6.3	
	- 7.2	6.2	- 9.3	10.3	
Intermediate	36.8	19.2	23.9	20.1	
	5.1	2.6	3.3	2.8	
	8.6	- 1.1	- 5.5	- 2.1	
Secondary	21.3	19.5	31.3	27.9	
	6.2	5.7	9.2	8.2	
	2.2	- 1.9	- 4.0	3.7	
University	16.7	19.3	47.6	16.4	
	7.2	8.3	20.5	7.1	
	- 3.7	- 3.1	18.7	-11.9	
Total %	19.1	21.4	35.2	24.3	100.0
Chi-square	D.F.	Significance			
46.19441	9	0.0000			

Table 7.2.2.2

Q 9

Cross-tabulation of Factors Involved in Loan Sanctioning by the Respondents' Income Levels:

Income level	Factors involved in loan sanctioning				Don't Know
	Residual	Personal Relation	Fulfill Requirement	Combina-tion	
Less than 3,000	12.9	29.2	11.1	46.7	
	2.9	6.6	2.5	10.5	
	- 4.9	6.2	-19.0	17.7	
3,001 - 6,000	23.1	20.5	27.5	28.9	
	6.6	5.9	7.9	8.3	
	4.1	- 0.9	- 7.8	4.6	
6,001 - 10,000	18.3	19.3	49.5	12.9	
	5.7	6.0	15.4	4.0	
	- 0.8	- 2.3	15.6	-12.5	
Over 10,000	21.7	16.6	53.0	8.6	
	3.9	3.0	9.4	1.5	
	1.6	- 3.0	11.1	- 9.8	
Total %	19.1	21.4	35.2	24.3	100.0
Chi-square	D.F.	Significance			
61.89366	9	0.0000			

Table 7.2.2.3

Q 9

Cross-tabulation of Factors Involved in Loan Sanctioning by the Respondents' Age Levels:

Age levels	Factors involved in loan sanctioning				
	% of level sample Residual	% of total sample Personal Relation	Fulfill Require- ment	Combina- tion	Don't Know
Less than 30	20.7	21.5	27.8	30.0	
	8.2	8.5	11.0	11.9	
	2.2	0.2	-10.3	7.9	
30 - 50	23.5	17.8	45.7	13.0	
	10.4	7.9	20.3	5.8	
	6.9	- 5.6	16.4	-17.7	
Over 50	2.7	31.1	24.2	42.0	
	6.4	4.9	3.8	6.7	
	- 9.2	5.4	- 6.1	9.9	
Total %	19.1	21.4	35.2	24.3	100.0
Chi-square	D.F.	Significance			
39.31148	6	0.0000			

Table 7.2.2.4

Q 10

Cross-tabulation of Factors Causing Failure to Secure Bank Loans by the Respondents' Educational Levels:

Educational levels	Factors causing failure to secure bank loans					Can Not Decide
	% of level sample		Serve Business	Diff. Require-ments	Can Not Decide	
	Residual	Not Major				
Primary	0.0	15.4	2.5	36.6	45.4	
	0.0	2.3	0.4	5.5	6.8	
	- 4.0	- 7.6	- 2.2	5.5	8.2	
Intermediate	15.1	23.9	4.6	28.7	27.8	
	1.9	3.0	0.6	3.6	3.5	
	3.3	- 2.7	- 0.9	1.2	- 0.9	
Secondary	5.1	35.3	9.4	24.2	25.9	
	1.6	10.9	2.9	7.5	8.0	
	- 2.7	5.8	3.0	- 2.0	- 4.1	
University	10.0	33.0	6.7	22.8	27.6	
	4.1	13.7	2.8	9.5	11.4	
	3.4	4.4	0.0	- 4.7	- 3.2	
Total %	7.6	29.9	6.6	26.1	29.7	100.0
Chi-square	D.F.	Significance				
25.95830	12	0.0109				

Table 7.2.2.5

Q 10

Cross-tabulation of Factors Causing Failure to Secure Bank Loans by the Respondents' Income Levels:

Income levels	Factors causing failure to secure bank loans					Total %
	Residual	Not Major	Distrust	Serve Business	Diff. Require-ments	
Less than 3,000	5.1	17.9	8.0	27.8	41.2	
	1.2	4.2	1.9	6.6	9.8	
	- 2.1	-10.0	1.2	1.3	9.7	
3,000 - 6,000	8.2	30.3	6.3	28.5	26.6	
	2.3	8.7	1.8	8.1	7.6	
	0.5	0.4	- 0.3	2.3	- 2.9	
6,001 - 10,000	9.9	32.2	2.0	25.7	30.3	
	2.9	9.6	0.6	7.6	9.0	
	2.3	2.4	- 4.9	- 0.6	0.7	
Over 10,000	6.5	41.4	13.0	21.5	17.7	
	1.2	7.4	2.3	3.9	3.2	
	- 0.7	7.2	4.0	- 3.0	- 7.5	
Total %	7.6	29.9	6.6	26.2	29.6	100.0

Chi-square	D.F.	Significance
23.98192	12	0.0205

Table 7.2.2.6

Q 10

Cross-tabulation of Factors Causing Failure to Secure Bank Loans by the Respondents' Age Levels:

Age levels	Factors causing failure to secure bank loans					Can Not Decide	
	Residual	Not Major	Distrust	Serve Business	Diff. Requirements		
Less than 30		8.9	22.3	5.0	29.0	34.7	
		3.5	8.8	2.0	11.5	13.7	
		1.8	-10.5	- 2.2	3.8	7.1	
30 - 50		9.5	40.1	7.6	17.8	2.5	
		4.1	17.4	3.3	7.7	10.9	
		2.8	15.5	1.5	-12.8	- 7.0	
Over 50		0.0	21.4	7.7	41.5	29.4	
		0.0	3.6	1.9	7.1	5.0	
		- 4.6	- 5.0	0.7	9.1	- 0.1	
Total %		7.6	29.9	6.6	26.2	29.6	100.0
Chi-square	D.F.	Significance					
27.85693	8	0.0005					

Table 7.2.3.1

Q 15

Cross-tabulation of How Saudis Deal With Interest on Deposits by the Respondents' Income Levels:

Income level	Dealing with interest on deposits				Residual
	Keep	Refuse	Give to Charity	Do Not Know	
Less than 3,000	13.3	53.1	28.9	4.7	
	2.6	10.5	5.7	0.9	
	- 2.1	2.2	7.0	- 7.1	
3,000 - 6,000	17.8	43.8	6.7	31.7	
	4.7	11.6	1.8	8.4	
	- 0.1	- 2.7	- 4.3	7.0	
6,001 - 10,000	15.1	47.9	10.8	26.3	
	5.0	15.9	3.6	8.7	
	- 2.2	- 0.3	- 2.3	4.7	
Over 10,000	27.1	49.6	12.8	10.5	
	5.6	10.2	2.6	2.2	
	4.4	0.7	- 0.4	- 4.6	
Total %	17.9	48.2	13.7	20.1	100.0
Chi-square	D.F.	Significance			
27.21210	9	0.0013			

Table 7.2.3.2

Q 15

Cross-tabulation of How Saudis Deal With Interest on Deposits by the Respondents' Age Levels:

Age levels	Dealing with interest on deposits				Residual
	Keep	Refuse	Give to Charity	Do Not Know	
Less than 30	19.0	58.6	6.9	15.5	
	7.1	22.0	2.6	5.8	
	1.0	9.0	- 6.0	- 4.0	
30 - 50	17.4	48.8	13.1	20.6	
	7.9	22.2	6.0	4.4	
	- 0.6	0.6	- 0.6	0.5	
Over 50	16.9	23.7	30.3	29.0	
	2.9	4.1	5.2	5.0	
	- 0.4	- 9.7	6.6	3.5	
Total %	17.9	48.2	13.7	20.1	100.0
Chi-square	D.F.	Significance			
20.40071	6	0.0023			

Table 7.2.3.3

Q 15

Cross-tabulation of Low Income Level Responses on Dealing with Interest by their Age Levels:

Low income level dealing with interest on deposits					
Age levels	% of level sample		Give to Charity	Do Not Know	Residual
	Keep	Refuse			
Less than 30	19.0	64.9	13.2	2.9	
	10.5	35.8	7.3	1.6	
	1.4	3.0	- 4.0	- 0.4	
30 - 50	0.0	48.5	0.0	51.5	
	0.0	2.9	0.0	3.0	
	- 0.4	- 0.1	- 0.8	1.3	
Over 50	7.3	37.0	55.7	0.0	
	2.8	14.4	21.7	0.0	
	- 1.1	- 2.9	4.8	- 0.8	
Total %	13.3	53.1	28.9	4.7	100.0
Chi-square	D.F.	Significance			
24.20624	6	0.0005			

Table 7.2.3.4

Q 17

Cross-tabulation of the Rate of Interest Charged by Banks by the Respondents' Income Levels:

Residual Income level	Rate of interest charged					Do Not Know
	% of level sample		High	Reason- able	Very Reason- able	
	% of total sample					
Very High						
Less than 3,000	7.9	36.4	26.4	7.8	21.5	
	1.1	5.3	3.8	1.1	3.1	
	- 8.4	- 1.6	3.3	2.7	3.9	
3,000 - 6,000	27.2	43.6	14.7	0.0	14.5	
	7.7	12.4	4.2	0.0	4.1	
	- 0.5	2.9	- 3.2	- 1.1	2.0	
6,001 - 10,000	27.9	44.3	18.9	0.6	8.3	
	10.2	16.2	6.9	0.2	3.0	
	0.0	4.4	0.3	- 0.8	- 4.0	
Over 10,000	42.6	30.5	17.9	0.0	9.0	
	8.8	6.3	3.7	0.0	1.9	
	8.9	- 5.8	- 0.4	- 0.8	- 1.9	
Total %	27.9	40.1	18.6	1.4	12.1	100.0
Chi-square	D.F.	Significance				
35.51215	12	0.0004				

Table 7.2.3.5

Q 17

Cross-tabulation of the Rate of Interest Charged by Banks by the Respondents' Age Levels:

Age levels	Rate of Interest charged					Do Not Know
	Residual	Very High	High	Reason-able	Very Reason-able	
Less than 30	20.7	51.3	19.8	0.0	8.3	
	7.1	17.7	6.8	0.0	2.9	
	- 7.2	11.2	1.2	- 1.4	- 3.8	
30 - 50	33.8	39.0	17.3	0.4	9.5	
	17.2	19.8	8.8	0.2	4.8	
	8.8	- 1.4	- 2.0	- 1.4	- 3.8	
Over 50	24.1	17.4	20.5	7.8	30.2	
	3.5	2.5	3.0	1.1	4.4	
	- 1.6	- 9.6	- 0.8	2.7	7.7	
Total %	27.9	40.1	18.6	1.4	12.1	100.0
Chi-square	D.F.	Significance				
41.47796	8	0.0000				

Table 7.2.4.1

Q 13

Saudis' Attitudes Towards Banks:

	1	2	3	4	5	Mean
	St. Agree %	Agree %	Can Not Decide %	Dis- agree %	St. Dis- agree %	
Banks are a safe place to keep money in.	73.8	23.1	0.8	0.8	1.5	1.3
Banks do not pay attention to small accounts.	9.2	16.0	36.4	23.3	15.2	3.1
Banks carry out financial services reliably.	32.0	37.9	20.4	8.1	1.6	2.2
Banks give better services to businessmen.	7.1	23.5	23.3	17.7	28.4	3.4
Banks treat customers with small accounts the same way as those with big accounts.	13.5	12.3	26.6	27.5	20.1	3.3
Banks usually do not explain to customers the basis for calculating commission.	7.7	17.2	32.6	24.3	18.2	3.3
Banks contribute a lot of money to social projects.	32.7	37.3	17.7	4.2	8.1	2.2
Banks maximise their profit at the customers expense.	2.1	3.1	20.4	20.4	54.0	4.2
Banks contribute to the development of the economy.	38.1	39.2	13.6	2.8	6.4	2.0
Banks always come out on top in any transaction, customers do not have a chance.	3.6	8.0	22.6	26.7	39.1	3.9
Overall mean						2.9

Table 7.2.4.2

Analysis of Variance of the Respondents' Attitudes Towards Banks
According to their Income Levels:

Variable Q13
by Variable Income

Source	D.F.	Sum of Squares	Mean Squares	F Ratio	F Prob.
Between Groups	3	654.4360	218.1453	5.0303	.0020
Within Groups	356	15438.5271	43.3666		
Total	359	16092.9630			

Table 7.2.4.3

Analysis of Variance of the Respondents' Attitudes Towards Banks
According to the Respondents' Age Levels:

Variable Q13
by Variable Age

Source	D.F.	Sum of Squares	Mean Squares	F Ratio	F Prob.
Between Groups	2	1020.7125	510.3562	12.0883	.0000
Within Groups	357	15072.2506	42.2192		
Total	359	16092.9630			

Table 7.2.4.4

Student-Newman-Keuls Multiple Range Test for Respondents' Attitudes Towards Banks According to their Income Levels:

Variable Q13
By Variable Income

Multiple Range Test
Student-Newman-Keuls Procedure

Ranges for the 0.050 Level -
2.81 3.34 3.66

The Ranges above are Table Ranges.

The Value Actually Compared with 0.46565

* Denotes pairs of groups significantly different at the 0.050 level.

		G	G	G	G
		R	R	R	R
		P	P	P	P
		1	2	4	3
Mean	Group				
2.57358	Grp. 1				
2.71394	Grp. 2				
2.8897	Grp. 4	*			
2.90868	Grp. 3	*			

Homogeneous subsets (subsets of groups, whose highest and lowest means do not differ by more than the minimum significant range.)

Subset 1

group	GRP1	GRP2
Mean	2.57358	2.71394

Subset 2

group	GRP4	GRP3
Mean	2.88978	2.90868

Table 7.2.4.5

Student-Newman-Keuls Multiple Range Test for Respondents' Attitudes Towards Banks According to their Age Levels:

Variable Q13
By Variable Age

Multiple Range Test
Student-Newman-Keuls Procedure

Ranges for the 0.050 Level -
2.81 3.34

The Ranges above are Table Ranges.

The Value Actually Compared with 0.45945

* Denotes pairs of groups significantly different at the 0.050 level.

		G	G	G
		R	R	R
		P	P	P
		3	1	2
Mean	Group			
2.38803	Grp. 3			
2.82284	Grp. 1	*		
2.86623	Grp. 2	*		

Homogeneous subset:

group	GRP1	GRP2
Mean	2.82284	2.86623

Table 7.3.1.1

Analysis of Variance of the Respondents' Level of Satisfaction with Bank Services with respect to their Income Levels:

Variable Q20
by Variable Income

Analysis of Variance					
Source	D.F.	Sum of Squares	Mean Squares	F Ratio	F Prob.
Between Groups	3	6.3693	2.1231	5.4848	.0011
Within Groups	277	107.2245	0.3871		
Total	280	113.5938			

Table 7.3.1.2

Analysis of Variance of the Respondents' Level of Satisfaction with Bank Services According to the Respondents' Age Levels:

Variable Q20
by Variable Age

Analysis of Variance					
Source	D.F.	Sum of Squares	Mean Squares	F Ratio	F Prob.
Between Groups	2	6.1908	3.0954	8.0121	.0004
Within Groups	278	107.4030	0.3863		
Total	280	113.5938			

Table 7.3.1.3

Student-Newman-Keuls Multiple Range Test for Respondents' Level of Satisfaction with Bank Services According to their Income Levels:

Variable Q20
By Variable Income

Multiple Range Test
Student-Newman-Keuls Procedure

Ranges for the 0.050 Level -
2.81 3.34 3.66

The Ranges above are Table Ranges.

The Value Actually Compared with 0.4395

* Denotes pairs of groups significantly different at the 0.050 level.

	G	G	G	G
	R	R	R	R
	P	P	P	P
	1	2	3	4
Mean	Group			
1.8763	Grp. 1			
2.1751	Grp. 2	*		
2.2708	Grp. 3	*		
2.2850	Grp. 4	*		

Homogeneous subset:

group	GRP2	GRP3	GRP4
Mean	2.1751	2.2708	2.2850

Table 7.3.1.4

Student-Newman-Keuls Multiple Range Test for Respondents' Level of Satisfaction with Bank Services According to their Age Levels:

Variable Q20
By Variable Age

Multiple Range Test
Student-Newman-Keuls Procedure

Ranges for the 0.050 Level -
2.81 3.34

The Ranges above are Table Ranges.

The Value Actually Compared with 0.4395

* Denotes pairs of groups significantly different at the 0.050 level.

	G	G	G
	R	R	R
	P	P	P
	3	1	2
Mean	Group		
1.7733	Grp. 3		
2.2161	Grp. 1	*	
2.2396	Grp. 2	*	

Homogeneous subset:

group	GRP1	GRP2
Mean	2.2161	2.2396

Table 7.3.2.1

Q 21

Cross-tabulation of the Significant Factors Identified as Affecting Customers' Choice of Banks by the Respondents' Educational Level:

Educational levels	Factors significant in bank choice			
	Range of Services	Salary Transferred by Employers	Wide Spread ATMs	Bank Premises and Atmosphere
Primary	11.7	46.9	11.1	8.7
	1.2	4.9	1.2	0.9
Intermediate	28.2	32.7	28.5	7.5
	3.6	4.2	3.6	1.0
Secondary	29.4	20.8	30.6	3.1
	9.2	6.5	9.5	1.0
University	38.6	17.6	39.0	16.7
	17.7	8.1	17.9	7.7
Total %	31.6	23.6	32.2	10.5
Significance	0.0310	0.0033	0.0257	0.0106

Table 7.3.2.2

Q 21

Cross-tabulation of the Significant Factors Identified as Affecting Customers' Choice of Banks by the Respondents' Income Levels:

% of level sample % of total sample	Factors significant in choice of bank		
	Range of Services	Wide Spread ATMs	Bank Prem- ises and Atmosphere
Income levels			
Less than 3,000	17.0 3.1	12.1 2.2	3.9 0.7
3,000 - 6,000	23.2 6.4	17.9 5.0	11.3 3.1
6,001 - 10,000	45.8 15.3	55.2 18.9	17.6 5.9
Over 10,000	33.1 6.9	30.7 6.4	4.9 1.0
Total %	31.7	31.9	10.7
Significance	0.0008	0.0000	0.0237

Table 7.3.2.3

Q 21

Cross-tabulation of the Significant Factors Affecting Customers' Choice of Banks by Bank Groups:

Bank Group	Factors significant in bank choice				
	% of level sample % of total sample	Personal Recommend. from Friend	Range of Services	Salary Transferred by Employers	Bank Wide Spread ATM's
Saudi Origin	10.5	35.5	33.1	25.0	14.5
	3.3	11.2	10.5	7.9	4.6
Arab Origin	0.0	21.4	25.0	14.3	0.0
	0.0	6.9	34.0	4.6	0.0
Foreign Origin	9.7	40.3	11.1	58.3	18.1
	3.1	13.0	3.6	18.8	5.8
Total %	6.5	31.8	23.8	32.1	10.7
Significance	0.0100	0.0246	0.0016	0.0000	0.0004

Table 7.3.3.1

Q 23

Cross-tabulation of Significant Factors Differentiating Banks by their Educational Levels:

% of level sample % of total sample	Factors significant in differentiating banks		
	Bank Charges and Commissions	Quick Counter Services	Courtesy of Employers
Primary	10.0 0.8	95.0 7.0	95.0 7.5
Intermediate	49.2 4.9	81.9 7.9	71.3 7.3
Secondary	39.1 10.8	97.8 29.0	75.1 19.5
University	43.6 23.6	90.8 48.5	74.8 41.8
Total %	40.1	92.1	76.1
Significance	0.0101	0.0286	0.0498

Table 7.3.3.2

Q 23

Cross-tabulation of Significant Factors Differentiating Banks by the Respondents' Income Levels:

Income levels	Factors significant in differentiating banks		
	% of level sample % of total sample	Charges and Commissions	Bank Quick Counter Services
Less than 3,000	6.9	96.4	55.1
	1.1	17.4	9.6
3,000 - 6,000	38.8	92.8	73.0
	9.6	22.6	17.6
6,001 - 10,000	45.3	99.0	90.7
	15.1	32.3	29.4
Over 10,000	55.9	81.3	73.6
	14.4	20.3	19.2
Total %	40.1	92.1	75.8
Significance	0.0002	0.0000	0.0003

Table 7.3.3.3

Q 23

Cross-tabulation of Significant Factors Differentiating Banks by the Bank Groups:

Bank Group	Factors significant in differentiating banks	
	% of level sample % of total sample	Bank Charges and Commissions Wide Range of Services
Saudi Origin	52.6 16.4	77.6 22.9
Arab Origin	20.0 5.6	68.8 19.3
Foreign Origin	46.2 17.2	86.0 33.4
Total %	40.1	75.8
Significance	0.0087	0.0001

Table 7.4.2.1

Q 25

Cross-tabulation of Opinions Whether Islamic Banks Operate Under Islamic Rules by the Respondents' Educational Levels:

Opinions on Islamic banks operation under Islamic rules				
Educational level	% of level sample % of total sample Residual			Do Not Know
	Yes	No		
Primary	74.9	1.7		23.4
	10.5	0.2		3.3
	10.7	- 4.4		- 6.4
Intermediate	63.8	3.4		32.8
	9.4	0.5		4.8
	6.1	- 3.8		- 2.3
Secondary	40.4	13.7		45.9
	12.1	4.1		13.8
	- 9.8	2.0		7.9
University	45.3	16.3		38.5
	18.7	6.7		15.9
	- 7.1	6.2		0.9
Total %	50.7	11.5	37.8	100.0
Chi-square	D.F.	Significance		
23.17741	6	0.0007		

Table 7.4.2.2

Q 25

Cross-tabulation of Opinions Whether Islamic Banks Operate Under Islamic Rules by the Respondents' Income Levels:

Income levels	Opinions on Islamic banks operation under Islamic rules			Residual
	Yes	No	Do Not Know	
Less than 3,000	63.6	1.1	35.3	
	15.5	0.3	8.6	
	9.9	- 8.1	- 1.8	
3,000 - 6,000	60.2	12.7	27.1	
	18.0	3.8	8.1	
	9.0	1.1	-10.1	
6,001 - 10,000	35.5	15.1	49.4	
	9.9	4.2	13.7	
	-13.5	3.1	10.4	
Over 10,000	41.3	18.2	40.5	
	7.4	3.3	7.3	
	- 5.4	3.8	1.6	
Column Total	50.8	11.5	37.7	100.0
Chi-square	D.F.	Significance		
26.11495	6	0.0002		

Table 7.4.2.3

Q 25

Cross-tabulation of Opinions Whether Islamic Banks Operate Under Islamic Rules by the Respondents' Age Levels:

Age levels	Opinions on Islamic banks operation under Islamic rules			Residual
	Yes	No	Do Not Know	
Less than 30	52.7	8.6	38.7	
	21.4	3.5	15.7	
	2.5	- 3.8	1.2	
30 - 50	40.9	16.8	42.3	
	17.5	7.2	18.0	
	-13.3	7.2	6.2	
Over 50	71.0	5.2	23.8	
	12.0	0.9	4.0	
	10.8	- 3.4	- 7.4	
Total %	50.8	11.5	37.7	100.0
Chi-square	D.F.	Significance		
16.59242	4	0.0023		

Table 7.5.1

Q 27

Cross-tabulation of Respondents' Attitudes Towards Handling Money by the Respondents' Educational Levels:

% of level sample % of total sample Residual	Attitudes towards handling money					
	For a Rainy Day	For Spending	Penny Saved/ Gained	Coat to Cloth	Borrow = Sorrow	
Primary	43.4	9.9	8.1	25.2	13.3	
	6.2	1.4	1.2	3.6	1.9	
	7.9	- 1.6	- 0.3	- 8.8	2.9	
Intermediate	28.4	22.0	19.4	24.6	5.7	
	3.9	3.0	2.7	3.4	0.8	
	0.4	4.1	5.0	- 8.7	- 0.8	
Secondary	21.0	11.5	11.3	43.1	11.1	
	6.3	3.4	3.4	12.8	3.9	
	- 6.8	- 1.8	2.5	0.3	5.8	
University	26.6	12.8	3.9	54.6	2.1	
	11.2	5.4	1.7	23.1	0.9	
	- 1.5	- 0.7	- 7.2	17.2	- 7.9	
Total %	27.6	13.2	8.8	42.9	7.5	100.0
Chi-square	D.F.	Significance				
44.81657	12	0.0000				

Table 7.5.2.

Q 27

Cross-tabulation of Respondents' Attitudes Towards Handling Money by the Respondents' Income Levels:

% of level sample % of total sample Residual Income levels	Attitudes towards handling money					
	For a Rainy Day	For Spending	Penny Saved/ Gained	Coat to Cloth	Borrow = Sorrow	
Less than 3,000	33.4	2.0	10.3	39.4	14.9	
	7.6	0.5	2.3	9.0	3.4	
	4.6	- 8.9	1.1	- 2.7	5.8	
3,000 - 6,000	22.1	24.1	14.9	35.0	4.0	
	6.5	7.1	4.4	10.3	1.2	
	- 5.7	11.0	6.2	- 7.9	- 3.6	
6,001 - 10,000	26.9	11.7	7.0	47.6	6.9	
	8.2	3.6	2.1	14.6	2.1	
	- 0.8	- 1.7	- 2.0	5.1	- 0.6	
Over 10,000	30.8	12.5	0.0	52.1	4.6	
	5.3	2.1	0.0	9.0	0.8	
	1.9	- 0.5	- 5.3	5.5	- 1.7	
Total %	27.6	13.3	8.9	42.8	7.5	100.0
Chi-square	D.F.	Significance				
40.69150	12	0.0001				

Table 7.5.3

Q 27

Cross-tabulation of Respondents' Attitudes Towards Handling Money by the Respondents' Age Levels:

% of level sample % of total sample Residual Age levels	Attitudes towards handling money					100.0
	For a Rainy Day	For Spending	Penny Saved/ Gained	Coat to Cloth	Borrow = Sorrow	
Less than 30	23.7	11.7	9.9	46.0	8.6	
	9.4	4.6	3.9	18.2	3.4	
	- 5.4	- 2.1	1.5	4.4	1.5	
30 - 50	25.8	18.2	5.9	46.1	4.0	
	11.4	8.0	2.6	20.3	1.7	
	- 2.8	7.6	- 4.5	5.0	- 5.4	
Over 50	41.9	3.6	14.2	26.2	14.2	
	6.9	0.6	2.3	4.3	2.3	
	8.1	- 5.5	3.0	- 9.5	3.8	
Total %	27.6	13.3	8.9	42.8	7.5	100.0
Chi-square	D.F.	Significance				
26.33651	8	0.0009				

Table 7.5.4

Q 7

Cross-tabulation of the Respondents' Opinions Towards Handling Money Superfluous to Their Needs by the Respondents' Educational Levels:

Educational level	Opinions on handling superfluous money							Total %	
	Residual	Real Estate	Home Safe	Stock Market	Current Acct.	Deposit Acct.	Islamic Bank		Other
	% of level sample	% of total sample							
Primary	29.3	0.0	1.4	18.3	7.8	22.4	20.7		
	4.2	0.0	0.2	2.6	1.1	3.2	3.0		
	2.2	- 1.2	- 3.1	- 4.8	1.2	1.1	4.7		
Intermediate	20.7	8.1	0.0	33.3	8.7	19.3	9.8		
	2.9	1.1	0.0	4.6	1.2	2.7	1.4		
	- 2.1	2.9	- 3.8	2.9	1.6	- 0.5	- 0.9		
Secondary	25.9	2.8	10.0	32.8	5.9	15.7	6.9		
	7.8	0.8	3.0	9.8	1.8	4.7	2.1		
	1.0	0.5	2.8	5.6	0.4	- 5.0	- 5.2		
University	24.3	0.9	10.2	25.2	3.6	23.3	12.5		
	10.2	0.4	4.3	10.6	1.5	9.7	5.2		
	- 1.0	- 2.1	4.1	- 3.7	- 3.1	4.4	1.4		
Total %	25.0	2.3	7.5	27.6	5.6	20.3	11.6	100.0	
	Chi-square	D.F.	Significance						
	33.14361	18	0.0160						

Table 7.5.5

Q 7

Cross-tabulation of the Respondents' Opinions Towards Handling Money Superfluous to Their Needs by the Respondents' Income Levels:

		Opinions on handling superfluous money							
		% of level sample		% of total sample					
Educational level	Residual	Real Estate	Home Safe	Stock Market	Current Acct.	Deposit Acct.	Islamic Bank	Other	
Less Than 3,000		26.4	1.9	0.0	24.4	6.4	22.7	18.1	
		6.0	0.4	0.0	5.6	1.5	5.2	4.1	
		1.2	- 0.3	- 6.2	- 2.7	0.7	2.0	5.4	
3,000 - 6000		28.4	4.5	4.5	29.3	6.3	22.0	5.1	
		8.3	1.3	1.3	8.6	1.9	6.5	1.5	
		3.6	2.3	- 3.2	1.7	0.8	1.8	- 7.0	
6,001 - 10,000		18.7	1.2	12.9	29.5	4.4	22.4	11.0	
		5.7	0.4	3.9	9.0	1.3	6.8	3.4	
		- 7.0	- 1.3	6.0	2.1	- 1.4	2.2	- 0.7	
Over 10,000		28.7	1.2	13.0	25.7	5.4	10.8	15.2	
		4.9	0.2	2.2	4.4	0.9	1.8	2.6	
		2.3	- 0.7	3.4	- 1.2	- 0.1	- 6.0	2.3	
Total %		25.0	2.3	7.5	27.6	5.6	20.4	11.6	100.0
		Chi-square		D.F.	Significance				
		32.39416		18	0.0197				

Appendix C

Marketing Managers Questionnaire

MARKETING MANAGERS QUESTIONNAIRE

- Q1 Do you have a formal marketing department?
---- Yes
---- No
- Q2 How many people work in the marketing
 department at present?
---- Number of executives
---- Number of sales personnel
---- Number of clerical staff
---- Total number of people in the marketing
 department
- Q3 What is the educational background of the
 marketing departments employees?
---- Number with qualification in marketing
---- Number educated to a university level
---- Number educated to a secondary level
- Q4 Is the marketing executive a member of the
 bank's board of directors?
---- Yes

---- No
- Q5 How are the marketing activities organised in
 the bank?
---- Central marketing department
---- Central marketing department with decentralised
 offices in each branch
---- Central marketing department with decentralised
 offices in each region
---- No formal marketing department all staff are
 responsible
---- Decentralised marketing offices in each branch
 or region
- Q6 How does marketing activities co-ordinate with
 the activities of other departments?
---- Autonomous
---- Interdepartmental Meetings
---- Committees
---- Others, (Please Specify)

.....

- Q7 How are your marketing goals set?
 ---- Qualitatively
 ---- Quantitatively
 ---- Both
- Q8 Are the marketing objectives committed to paper?
 ---- Yes
 ---- No
 ---- Partly
- Q9 Do you think that all bank personnel are aware of the banks' marketing goals?
 ---- Yes
 ---- No
 ---- Some
- Q10 What is the extent of the formal marketing strategy?
 ---- management has no formal strategy
 ---- management has a formal short-term strategy
 ---- management has a formal short and long-term strategy
- Q11 How is this strategy implemented?
 ---- only by the marketing department
 ---- by all personnel
 ---- only by those who have contact with customers
- Q12 Do you have a marketing plan?
 ---- Yes
 ---- No
- Q13 What time period does the marketing plan cover?
 ---- Monthly or quarterly plan
 ---- Annual plan
 ---- Detailed annual plan
 ---- Long-range plan updated in a detailed annual plan
- Q14 What is the key components of the marketing plan?
 ---- Target market
 ---- Total marketing budget
 ---- Marketing budget allocation to personal and business accounts
 ---- Marketing mix elements
 ---- Others, (please specify)

.....

Q15 What is the relationship between marketing plan and business plan?
---- Fully integrated
---- Partially integrated
---- Independent of each other

Q16 Does your bank divide the consumer market?
---- Yes
---- No

Q17 If YES, what are these groups? Describe them

.....
.....
.....

Q18 Does your bank have different marketing strategies for different groups?
---- not at all
---- somewhat
---- to a large extent

Q19 Is your bank involved in consumer research?
---- Yes
---- No

If YES, go to Q19a-c If No, go to Q19d

Q19a How often?
---- Once or more every 6 months
---- Once a year
---- Once every 2-5 years

Q19b Who carries out the consumer research?
---- Banks' own staff
---- Banks' consumer research staff
---- A specialised outside agency
---- Other, (please specify)

.....
.....

Q19c What are the objectives of conducting consumer
 research?

 evaluation of consumer attitudes

 assessment of need preferences and buying
 habits

 measurement of changes in level of awareness of
 services

 evaluation of the quality of product and
 services

 others, (please specify)

.....

Q19d If your answer in Q19 was NO, What are the main
 reasons for not conducting any consumer
 research?

 unnecessary

 too expensive

 very difficult to conduct

 lack of specialised researchers

 other, (please specify)

.....

.....

Q20 Have you introduced new services last year?

 Yes

 No

Q21 If YES what are these new services?

.....

.....

.....

Q22 What are the major factors that influence your
 banks' decision-making when introducing a new
 service?

 following competitors

 acting on market research

 market demand

 recommendation from top management

 recommendation from marketing staff

 other, (please specify)

.....

Q23 In your opinion, from which sources do the customers find out about the new service?

- friends
- advertisements
- personal selling activities
- banks' leaflets
- other, specify
- do not know

Q24 Does your bank promote new services?
"Tick as appropriate"

- Before introduction
- During introduction
- After introduction
- Does not promote new services

Q25 What method does your bank use for promoting services?

- | | | |
|--|-----------|-----------|
| | A | B |
| | small/acc | large/acc |
- Advertising
 - Sales promotion
 - Personal selling
 - Others (Please specify)

.....

Q26 What are the promotional objectives of the bank?

- to increase market awareness of services
- to encourage trial of new services
- to encourage non-users to try current services
- to communicate the distinctive benefits of service
- to educate customers about new services
- other, (please specify)

.....

Q27 What percentage of the marketing resources (ie budget) are allocated to:

- Personal accounts %
- Business accounts %

Q28 On what basis do you allocate your marketing resources between business and personal accounts?

- According to:
- the products potential profitability
 - the most recent % of market share of each of the two markets
 - the recent overall profit from each market

Q29 What are the major factors that influence your
banks' decisions on branch location?
----- location of competitors
----- proximity to consumer facilities
----- anticipated changes in population
----- rental cost
----- other, (please specify)

.....

Q30 Does your bank organise marketing training
programmes for its personnel?
----- Yes
----- No

 If YES go to Q30a,b If NO go to Q30c

Q30a Who usually participates in the marketing
training programmes?

	<u>No of times</u>	<u>length of</u>
	<u>per year</u>	<u>programme</u>
- senior executives		
- branch managers		
- tellers		
- head office staff		
- all personnel		

Q30b Who organises the training programmes?
----- the bank itself
----- the chamber of commerce
----- the institute of banking
----- national universities
----- overseas universities or institutes
----- overseas banks

Q30c What are the main reasons for not having any
marketing training programmes?
----- too expensive
----- reluctance of staff
----- staff are already qualified

Q31 Marketing training and banking training?
----- conflict each other
----- compliment each other
----- are not comparable

Q32 To what extent do you feel bank customers are satisfied with bank services, in terms of:

very satisfied	very dissatisfied
1	5

1 2 3 4 5

- Bank hours
- range of services
- courtesy of personnel
- understanding needs
- number of branches
- attractiveness of offices
- regular statements
- charges and commissions

Q33 In your opinion, which of the following are important factors for your customers choice of banks?

- bank location
- personal recommendation from friend
- wide range of services
- friendly staff
- friends work there
- salary transferred by employer
- widespread ATMS
- premises and atmosphere
- speedy services

Q34 In your opinion, how important are the following factors in increasing the availability of the bank services to its customers?

	level of importance				
	very				none
	1	2	3	4	5

- improving "product" quality
- increasing ATMs
- extending banking hours
- achieving lowest possible charge
- speed of service
- simplifying procedures
- courtesy of staff

Q35 Please tick as appropriate to your opinion The introduction of marketing to your bank has:

- 1 = Strongly agree
- 2 = Agree
- 3 = Cannot decide
- 4 = Disagree
- 5 = Strongly disagree

Level of agreement				
Strongly agree				Strongly disagree
1	2	3	4	5

- improved the bank image
- divided the bank into factions
- enabled the bank to be competitive
- difficult to find qualified staff
- helped obtain new accounts
- changed the organisational structure
- identified new opportunities
- confusion due to lack of textbooks
- focus on particular groups
- resisted by older managers

Q36 Please tick as appropriate to your opinion for each statement

Level of agreement
 strongly agree strongly disagree
 1 2 3 4 5

our bank's marketing ability has contributed significantly to our success

marketing is more applicable to manufacturing than banks

a satisfied employee is a satisfied customer

marketing has little effect on the daily operations

marketing manager participates in top-level management decisions

our bank does not really offer different services from other banks

all bank personnel who have direct contact with the customer are trained to interact well with the customers

our banks' primary concern is to sell current products to whoever will buy them

it is important that bank personnel are presentable, approachable and pleasant

ATMS were introduced without market research as they were proved successful everywhere

Q37 Which of the following statements is closest to your approach of marketing?

---- marketing is concerned with offering good product/services that are reasonably priced

---- marketing is mainly concerned with promoting and selling product/services the bank chooses to offer

---- marketing is the management process which identifies, anticipates and supplies customer requirements efficiently and profitably

---- marketing is human activity directed at satisfying needs and wants through exchange process

Appendix D

Consumer Survey

CONSUMER SURVEY

(The word "bank" in this questionnaire refers to commercial banks, otherwise specified).

1. Which of the following bank services do you use at present or have used previously?
"please tick as appropriate".

- Current accounts.
- Deposit accounts.
- Trust funds.
- Loans.
- Traveller's cheques.
- Cheque cashing.
- Credit cards.
- Currency exchange.
- Buying/selling stocks.
- Others.
- Never use bank services.

2. Do you receive your salary paid by a cheque?

- Yes.
- No.

3. When you receive your monthly salary, or any other considerable amount of money, do you:

- Deposit it in a bank and withdraw according to your needs?
- Carry it on your person?
- Keep it at home?
- Deposit only what exceeds your needs?

4. To what extent do you use cheques?

----- Never use cheques.

----- Sometimes.

----- Only for big transactions, e.g. buying a car.

5. Do you accept cheques?

----- Always.

----- Depends on source.

----- Only certified cheques

----- Never accept cheques.

6. Which do you prefer to deal with for the following services, banks or money changers?

	Money	Neither
Banks	Changers	of them

Depositing money

Traveller's cheques

Cashing cheques

Loans

Money exchange

Transferring money

7. If you had a large amount of money superfluous to your needs what would be your final decision be as what to do with it?

"please tick only one alternative".

----- Invest it in real estate.

----- Keep it in your safe at home.

----- Invest in the stock market.

----- Deposit it in a current account.

----- Deposit it in a deposit account.

----- Deposit it in an Islamic bank.

----- Other, please specify.

.....

8 Please identify your actual sources of loans and rank them as follows:

1-Primary Source. 2-Secondary source etc..

- Banks.
- Employers giving loans which are deducted from future salary, (without interest).
- Friends and relatives.
- Money changers.
- Money lenders.
- Never use loans

9. Do you think Saudi Banks sanction loans to customers according to:

- Personal relationship with the bank personnel?
- Fulfillment of banks' requirements?
- A combination of the above?
- Don't know.

10. In most cases, when customers are not successful in loan application, it is because:
"pick the most important factor"

- Personal loans are not considered a major market for banks.
- Banks mistrust of customers.
- Banks serve only business firms.
- Difficulty for customers to attain all loans' requirements.
- Can't decide.

11. Do you think Saudis are reluctant to use banks?

----- Yes.

----- No.

----- Don't Know.

12. If YES the reluctance of Saudi people to deal with banks is because:
"tick as appropriate"

----- Customers' feelings that banks are avaricious.

----- Protracted procedures.

----- Religious factors.

----- Impersonal aspect of banks.

----- Unawareness of the services available.

----- Long queues.

----- Other, please specify.

.....

13. Please tick as appropriate on the scale that best describe your feelings about the statement.

Statement	Str Agr.	Agr	Cant Decide	Dis agr	Str Disagr
-----	1	2	3	4	5

Banks are a safe place to keep money in.

Banks do not pay attention to small accounts.

Banks carry out financial services reliably.

Banks give better services to businessmen.

Banks treat customers with small accounts the same way as those with big accounts.

Banks usually do not explain to customers the basis for calculating commission.

Banks contribute a lot of money to social projects.

Banks maximise their profit at the customers expense

Banks contribute to the development of the economy

Banks always come out on top in any transaction, customers do not have a chance

14 Do you know if banks give interest on deposits?

---- Yes.

---- No.

---- Don't know.

15 If YES, do you think that most Saudis:

---- Keep the interest they collect from banks.

---- Refuse to take interest on bank accounts.

---- Collect bank interest, but give it to charity.

---- Don't know.

16 Do you know if banks charge interest?

---- Yes.

---- No.

---- Don't know.

17 If YES, the interest charged by banks is:

---- Much higher than it should be.

---- Higher than it should be.

---- Reasonable.

---- Very reasonable.

---- Don't know.

18 Do you know how banks calculate interest?

---- Yes.

---- No.

19 In general do you think the Saudi borrower knows how banks calculate interest?

----- Yes.

----- No.

----- Can't decide.

Bank users go to Q20. Non bank users go to Q24

20 In general do you feel satisfied with your bank services in terms of:
"tick as appropriate".

	Very Satis	Sat	Can't Decid	Dis satis	Very Dissat
	1	2	3	4	5

Bank hours

Range of services

courtesy of personnel

understanding of customer's needs

number of branches

attractiveness of bank offices

Regular financial statements

Bank charges and commissions

21 Which of the following are important factors for your choice of bank?

"tick as appropriate"

- Bank location
- Personal recommendation from friends
- Wide range of services
- Friendly staff
- Friends work there
- Salary transferred by employer
- Wide spread ATMs
- Bank premises and atmosphere
- Speedy service

22 Do you think there are differences between Saudi banks?

- Yes.
- No.
- Don't know.

23 If YES, Saudi banks differ in terms of:
"tick as appropriate"

- | | agree | Can't
decide | dissagr |
|-----------------------------------|-------|-----------------|---------|
| | 1 | 2 | 3 |
| ----- | | | |
| Branches in many locations | | | |
| Bank charges and commissions | | | |
| Quick counter services | | | |
| Wide range of services | | | |
| Courtesy of employees | | | |
| Attractiveness of banks' premises | | | |

24 Are you aware of the existence of Islamic banks in Saudi Arabia?

- Yes.
- No.

25 If YES, in your opinion do these banks operate under Islamic rules.

---- Yes.

---- No.

---- Don't know.

26 Do you think a real Islamic banking system is the best alternative to commercial banks for Saudi society.

---- Yes.

---- No.

---- Can't decide.

27 Which of the following statements best sums up your attitude to money?

---- Saving for a rainy day

---- Money is for spending

---- A penny saved is a penny gained

---- Cut your coat according to your cloth

---- He who goes a-borrowing goes a-sorrowing

For the purpose of analysing the above questions, please give the following information.

Educational level:

---- Primary or less

---- Intermediate

---- Secondary

---- University

Age:

- Less than 30
- 30 - 50
- over 50

Monthly income "salary and any allowances":

- Less than 3,000
- 3,000 to 6,000
- 6,001 to 10,000
- more than 10,000

- Your bank name (Bank that you use most)

.....