THE MARKETING OF ISLAMIC BANKING SERVICES WITH PARTICULAR REFERENCE TO FAISAL ISLAMIC BANK, SUDAN

BY

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DEDICATION

To my children, Bushra and Amera, in the hope that this thesis will be a source of inspiration and an expression of my wish that they pursue their studies to a similar level.

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ABSTRACT

This empirical study primarily aimed to make some assessments on the issues of the marketing orientation of Islamic banks and their implementation of the marketing concept. To achieve this, a comparative study based on a survey of Islamic and "Western" (traditional interest based) banks was made. The survey questioned these banks concerning their attitudes toward the marketing concept, the organisation and structure of their marketing efforts, the marketing functions of which they perform and the perceived outcome of adoption of the marketing concept. It was anticipated that in these four areas, the Islamic banks would be no less marketing oriented. It was found however, that though both types of banks had favourable attitudes toward the marketing concept, there were significant differences in emphasis and orientation.

Differences were assessed as being dictated by the inherent aims and philosophical principles on which the two groups of banks were established. In addition, it was found that while Islamic banks had an informal ad hoc approach to marketing activities and organisation, "Western" banks had developed and used an array of formal channels through which marketing activities took place. While Islamic banks appeared to be adopting a view of the marketing concept which stresses social responsibility in decision-making, "Western" banks appeared to be only just beginning to include this aspect in their definition of the marketing concept.

A second aim of the study was to investigate a major Islamic bank in depth; its goals, operations and environment and to recommend a marketing strategy for the bank. The chosen bank was Faisal Islamic Bank of the Sudan. While the findings of the case study cannot be generalised without further empirical investigations, they do provide useful insights into a number of common characteristics of other Islamic banks in the Arab world.

The study is important in the light of the increasing growth of Islamic banks and provides comparative data which is nowhere else available on the marketing orientation of Islamic banks as contrasted to traditional interest based banks. This collection and analysis of data is a major contribution of the study. The study also contributes to a better understanding of how Islamic banks can improve their total effectiveness by adapting certain relevant marketing strategies and by organising to integrate marketing formally with other business functions. In addition, it should provide individual marketing managers with standards which they can use when analysing their own and other organisations' marketing operations.

The research instruments used should also provide an adaptable example for researchers to make comparisons pertaining to marketing orientation, organisation and performance between Islamic and "Western" banks or other financial institutions.

CHAPTER ONE

THE STUDY PROBLEM

1.1 Historical Background and Scope of the Study

The introduction of modern commercial banking in the Arab world is of recent orgin, though the paradox of the situation is that many reliable studies of the history and development of financial institutions trace the origin of banking to the Middle East. [1] [2]

From the middle of the nineteenth century, the development of modern commercial banking in Arabic countries had been steady but slow; as the progress of banking depends to a large extent on the rate of economic growth and the degree of monetization of the economy. The region was underdeveloped. Most of the inhabitants lived on agriculture and the produce was consumed or traded locally. Therefore, income per capita was very little. Moreover, the lack of communications limited the possibilities for savings and their mobility from one place to another. Due to all these factors, the introduction of modern commercial banking in Arabic countries was ventured by foreign commercial banks, mainly British and French. Their prime aim was to finance foreign trade. They therefore confined their activities to the capitals and a few of the main commercial towns. They did not attract private deposits nor engage in any agricultural or industrial credit.

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[1] Orsingher, Rodger, (1964) *Banks of the World: A History and Analysis*, Paris. English Translation (1967).

[2] Morgan, Victor, *A History of Money*.

However, the rate of development of modern commercial banking in the Arab world was caused to accelerate by the stimulus from the political and economic changes which occurred in the region. Many countries in the area secured their independence and launched economic development plans in order to broaden and diversify their economic structures.

Thus, in the past underdevelopment and the incomplete monetization of the economy affected the growth of modern banking and finance in Arabic countries. Consequently, the ideologies and practices of the marketing of bank services have been affected. Other causes or factors of retardation in this area have contributed in varying degrees of intensity; to name but a few: illiteracy, instability and religious attitudes. Nevertheless, it is now a fact that generally speaking, the Arab world represents a market unique in multinational business, combining as it does enormous needs with enormous financial resources.

Unfortunately however, apart from the very wealthy oil sheikhs, the West knows little about the Arab world. There is another Arab world, as it has been cogently put by Robert Stephens (1976):- [1]

> "It is the bread-and-butter, everyday world of the Arab countries where people have to earn their living; the world of farmers, factory workers, businessmen, civil servants, engineers; where tractors and trucks have long been replacing camels, where giant dams and diesel pumps are taking over from water-wheels, where more and more villages rely on power stations instead of Kerosene lamps, where hundreds of thousands of students go to modern universities

[1] Stephens, R. (1976) *The Arabs' New Fronteirs.* London: Temple Smith.

instead of Koranic schools, where more and more girls work computers and run clinics instead of staying behind veils and shutters at home, and where even oil sheikhs are likely to have graduated from Harvard or the London School of Economics." (p.9)

While no overall generalisations will suit all Arabic countries, for naturally, there are differences from one country to another in terms of modernisation, opportunities for trade, investment and the provision of products and services, for the businessman interested in the potential of the Arab world, there is still enough homogeneity as the Arabs share many historic, cultural, political, religious and social features in common. They have enough in common for the term "Arab World" to be justified as a unifying label. Unlike "Europe", they share the common Arabic language and the Islamic religion, though there are other religious minorities. They share a common culture and a similar historical experience, which has included for the most of them, a period under European colonial rule.

As for banking and finance, the Arabs share the under-developed banking services for, there are often too few bank branches relative to the population and in fact, large areas of the countries have no banks at all, most banks being confined to the provincial capitals and a few of the main towns.

One has only to visit a commercial bank in many of these countries to notice the struggle of customers to be served, the general reluctance of executives and senior employees to staff bank branches in rural areas which have no amenities of the urban life, or the delay in the referral of cheques and mail transfers.

In resolving these problems and in modernising their countries there is now a great tendency to adopt Western methods and ideas without destroying the spiritual traditions which have been inherited from the Islamic religion. Indeed, many Muslim scholars feel that there is no contradiction between Islamic ideas and a science-based civilisation. Even in Saudi Arabia where the Islamic traditions and modernisation have had their heaviest confrontation, the society is now in an irrevocable process of development and transformation, and that includes the most backward societies in Saudi Arabia. Their aim is to modernise Arab society without destroying its cultural identity.

In this quest, most Arabs recognise that to survive, their businesses must become more specialised, more flexible and more responsive to the needs of the communities they serve. However, unfortunately, banking is still lagging far behind. The structure and attitudes that it inherited from an earlier generation are still with it today. As yet, there is little evidence to suggest that Arab bankers have thoroughly considered and analysed the customer's personal and business finance needs. Thus, the future of banking in this region lies in identifying new customer needs and developing new ways of doing business. Clearly, innovative change is needed and marketing is the key to this change.

In the personal sector, for example, the market has broadened immensely from what was the situation at the end of the Second World War. Borrowing methods, payment methods, investment methods and insurance methods have all changed in response to wider financial knowledge, the growth of cultural changes, particularly the wider acceptance of consumer credit, together with the growth of disposable income. All these innovations continue to produce a need for marketing expertise in many kinds of financial service markets.

Arab bankers have found themselves in a position similar to that of the British bankers in the early 1970s. These changed circumstances have caused them to reconsider their traditional business thinking and to be willing to accept the possibility of adopting the marketing concept as a means of coping with their changing environments. However, the awareness of the marketing concept has manifested itself in the creation of new services, but this may be a predominantly defensive measure and not attributable to any foresight on the part of bank management.

It was with a need for an up-to-date understanding of the impact that economic changes of the past two decades in the Arab world have had on the present state of ideologies and practices in financial sectors in mind, that this study was first conceptualised. However, due to obvious practical and theoretical limitations, particularly the constraints of time and resources, an in-depth study of over twenty independent Arabic countries, could not feasibly be undertaken.

Indeed, Egypt, Sudan, Jordan, Syria, Iraq, Bahrain, Yemen, Morocco, Algeria, Tunisia, Saudi Arabia, Libya, Kuwait, Oman, Muscat, Quatar and the United Arab Emirates, constitute the over twenty independent states which now form the Arab world. They stretch across North Africa and the Middle East, from the Atlantic to the Indian Ocean and from the borders of Turkey to Equatorial Africa. They are inhabited by more than one-hundred and twenty million peoples and they are widely different in size, character, and degree of development.

One can therefore, appreciate the difficulties a researcher embarking on an empirical study of this nature faces, given the vastness of the areas under consideration. Hence, three countries which could be taken as representative of the whole region have been singled out and visited by the writer for thorough investigation, these were: Saudi Arabia, Egypt and the Sudan. These were obvious choices for a number of reasons.

Saudi Arabia was an obvious choice firstly, because one of the prime aims of this thesis is to study the marketing of Islamic bank services and the inhibiting effects of the Koranic laws relating to the acceptance of interest bearing bank services. Islam is one of the world's great religions; nowhere is it practised more devotedly than in Saudi Arabia. Being the country of its origin and the guardian of its holy cities; Mecca and Medina, Saudi Arabia has never divorced the religious edicts or ethics from the day-to-day functioning of the State. Indeed, Islamic ethics and institutions are the framework of Saudi Arabian society and they shape its policies in all aspects of social and economic life; not least banking and finance. Indeed, the importance of Islam in Saudi Arabia and its integration in the lives of the people make it more than a religion in the sense generally understood. The nearest parallel perhaps was the influence of the Church in Medieval Europe, when religion was a political and military force as well as a moral and spiritual one.

Businessmen wishing to work or establish a business in Saudi Arabia must learn something about Islam and how it will affect them and their business operations. Islam decrees precise and careful details concerning all aspects of life, including business agreements, sales, marriage, divorce, inheritance and crime and the law of Saudi Arabia is the law of Islam and the Holy Koran.

The second choice was that of Sudan, for, although the present Islamic banking began with the foundation of the Islamic Development Bank in Saudi Arabia (inter-government), one of the first and most successful Islamic commercial banks was also incorporated in the Sudan by His Royal Highness Prince Mohammed Al Saud, in memory of the late King Faisal of Saudi Arabia (Faisal Islamic Bank of the Sudan). This bank was established as a public rather than a private bank and all its operations are based on the new concept of Islamic banking (the alternative to the Western style of banking) and was chosen as an Islamic "model" bank on which to run a comparison between an Islamic-run bank based on profit-sharing principles and a traditional Western banking system, based on interest-lending.

As most researchers will appreciate, banks which allow outside investigators into their establishments are rare - particularly relatively new ones. However, of those Islamic banks corresponded with for the purpose of gaining permission to undertake a case study, Faisal Islamic Bank of Sudan appeared, in the researchers opinion, the most welcoming and receptive to the aims of the study. It was also chosen because the researcher, being Sudanese, could better understand the local culture and so any response bias in the questionnaire and interviews could be kept to a minimum.

Egypt was selected as another obvious country to visit, for apart from being the birthplace of banking, this is where one of the first Islamic banking experiences was tested, the headquarters of the Association of Islamic Banks based and most of the protagonists and professors of Islamic banking to be found.

No matter where one looks however, in the oil-rich Middle East, the field is wide open for business and finance and for the recycling of oil monies. But a change in attitudes is needed and the key to this change must begin from a deeper understanding of the customers' needs: his personal and business finance needs. The key to this change is marketing.

Over two and a half decades ago, Peter Drucker (1954) [1] wrote of marketing:-

> "... marketing is so basic that it is not just enough to have strong sales departments and to entrust marketing to it. Marketing is not only much broader than selling, it is not a specialised activity at all. It encompasses the entire business. It is the whole business seen from the point of view of final results, that is from

[1] Drucker, P. (1954) *The Practice of Management*, New York, Harper and Row.

> the customers' point of view. Concern and responsibility for marketing must therefore permeate all areas of the enterprise." (pp.38-39)

And, marketing in banking, as we shall see, has been no exception to these trends.

1.2 Statement of the Problem

Arab bankers have only rarely seen the unbanked individual as relevant to their own marketing strategies, as a result, the home-safe method of saving is still most prevalent. A bank account was an unpopular alternative due to the social and religious beliefs that prohibited interest and promoted a cash society.

However, the 1973 oil price boom changed all economic and social realities in the region; but despite the recent dramatic growth, the banking industry remains less sophisticated than the market it serves. Generally speaking, banks are underlent, have too few branches, too few qualified staff, lack stable deposit bases, have poor communications networks, have little or no computerization and no secondary market for money market instruments, etc. Thus, prima facie, it would appear that the Arab banking industry is not sufficiently marketing oriented.

In Saudi Arabia for example, 73 per cent of the composition of the bank balance sheets are in interest free current accounts, coupled with another 10 per cent or more in deposit accounts at 2 to 5 per cent interest. Arab Muslims as well as other dedicated Muslims, consider "Riba" or usury an unforgivable sin and therefore it is very common for bank customers in the Arabic countries (and elsewhere) to have deposits amounting to hundreds or thousands of pounds without receiving any interest on these deposits.

Consequently, there is a pressing need for the mobilisation of savings and surplus funds of the unbanked individuals of Islamic countries in an unusurious and inoffensive manner. There is also a need for the Western world to understand the religious and the cultural heritage of Islam.

Islam calls for the development of a society which will allow the worship of Allah (God) and in accordance with this principle, all wealth is considered by Islam to be the property of Allah and man is considered only a "vicegrent". This means that the principles governing Islamic banks and other financial institutions, and their operations, must be in accordance with "Sharia" (Islamic Code).

1.3 The Importance of and Need for the Study

In embarking on this study the researcher discerned certain gaps in, and a lack of, empirical knowledge in the field. First, very little research appears to have been done on the implementation of the marketing concept in banking. Because of the importance of the banking services, it is argued that the application of this marketing concept in this field would be of great assistance to the rest of the economy.

Furthermore, because the banks, even in the Western world, have only relatively recently begun to form marketing departments, the effect of this innovation is just beginning to be felt and noticed. The opportunity for investigating the implementation of the marketing concept and whether, where the implementation has taken place, has attracted customers or has enabled the banks better to achieve their specified objectives, has just recently presented itself. The need therefore still exists for an accurate study of the degree and success of the implementation of the marketing concept.

Secondly, and more importantly, to the researcher's present knowledge, no research at all has yet been done in the field of the marketing of bank services in the Arabic countries - nor has there been any research done on the practices of Islamic banking. Therefore, there is also an urgent need for examining the effect of the concept of Islamic banking on the marketing of bank services in Islamic or Arabic countries.

Given the increasing presence of Islamic banking, it is possible that the two forms of commercial banking (Western and Islamic) may have to seek and find acceptable means of working in harmony. Hence, to accommodate this aim, there is the need for a study of the practical problems which are just beginning to appear between the two systems, with a view to finding acceptable means of resolving these problems. The inhibitions of the Koranic injunctions must be resolved in a manner which is inoffensive to these principles and a method of reconciling the two commercial practices must be found. It is hoped that this study will encourage and assist future research in empirically investigating and seeking methods of reconciliation between the two commercial: Western and

Islamic, practices.

1.4 Purpose of the Study

The aims of this study are to:-

1. Ascertain the extent to which the marketing concept has been understood and implemented by Islamic banks compared with Middle East "Riba" or "Western-style", British clearing, and other Western banks, by assessing:-
   (a) customer orientation;
   (b) profit orientation;
   (c) status of the marketing department within the organisational structure of banks;
   (d) social responsibility;

2. To ascertain the differences and similarities between Islamic and "Western" banks on:-
   (a) organisation of marketing administration;
   (b) performance of the scope of activities involving the components of the "marketing mix";
   (c) perceptions of areas in which the adoption of the marketing concept has made most significant contributions.

3. Examine the effect of Koranic injunctions on the marketing of bank services in Arab countries.

4. Case study and investigate Faisal Islamic Bank of Sudan in order to ascertain:-
   (a) how the marketing function operates within the bank;
   (b) why customers chose to bank here in preference to any other traditional commercial bank;

(c) the most important facets of the bank's image

(d) the demographic and socioeconomic composition of the bank's clientele;

(e) whether the existence of an Islamic bank is effective in mobilising the savings of the unbanked individual and "mopping up" the surplus funds of Muslims in an unusurious manner;

(f) to recommend a marketing strategy for the bank.

1.5 Research Assumptions and Limitations

Assumptions

For the puspose of this study it is assumed that:-

1. All the commercial banks (Islamic, Western or Arab-Middle-Eastern "Riba") are operating within a competitive environment and that no monopoly situation exists.

2. All Islamic, Western and Arab-Middle East "Riba" commercial banks make decisions to enhance their long-run positions.

3. The marketing activities of all aforementioned banks can be identified via use of the appropriate research methodology.

4. The marketing activities of Islamic, Western of Arab-Middle-Eastern "Riba" commercial banks, though dissimilar, can be categorised, compared and valid conclusions drawn from the comparisons.

5. If the aforementioned commercial banks do not apply the marketing concept, they cannot be classified as marketing oriented.

6. It is assumed that Islamic and Western commercial banks on the whole provide the same bank services.

Limitations

Before presenting a definition of key terms used in this study, an attempt should be made to indicate some of the limitations to be borne in mind when interpreting the results of a study of this kind.

It may be suggested that the size and choice of the population sample impose certain limitations on the generality of the findings. However, since the number of Islamic banks in existence are themselves at present relatively small and the study investigates nearly all these, the population for this study can be considered large. It comprises the new Islamic banks based in the Sudan, Dubai, Jordan, Egypt, Bahrain, and Kuwait; the "Big Five" clearing banks in Britain; five Arab Middle East "Riba" Western style banks and five Western banks situated in the U.S., Australia, Canada, France and Germany together with a survey of 1,000 consumers of Faisal Islamic Bank of the Sudan. Hence, the sample is considerably large and the researcher's belief that the findings have considerable generality both at the theoretical and practical levels will be elaborated on in the final Chapter.

Nevertheless, it must be noted that the researcher makes no claims as to the conclusiveness of this study. Findings are tentative and point up general indications on which future studies can concentrate.

1.6 Definition of Terms

To avoid any ambiguity, certain terms which will appear in this and subsequent chapters, will be defined at this stage:-

Marketing and the Marketing Concept

In defining marketing, both academicians and practitioners include both goods and services. The basic definitions made by the 1948 Definitions Committee of the American Marketing Association [1] reads:-

> "... all the business activities involved in the flow of goods and services from producers to consumers".
> (p.209)

Even the new expanded definitions of the marketing concept include both goods and services.

However, for the purposes of this study Barry and Donnelly's [2] view of marketing has been provisionally accepted. They see marketing and its philosophy as being concerned with:-

> "Adapting to external change with internal change to continue satisfying customers profitably, efficiently, and responsibly..."
> (p.5)

The marketing concept is viewed as an organisational philosophy aimed at:-

> "customer satisfaction at a profitable volume in an integrated efficient framework and in a socially responsible manner". [3]

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[1] Report of the Definitions Committee, *The Journal of Marketing*, XIII, No. 2 (October 1948), p.209.

[2] Berry, L. L. and Donnelly, J. H. (1975), *Marketing for Bankers*, American Institute of Banking.

[3] Berry, L. L. and Donnelly, J. H. (1975) op.cit. p.4.

However, other relevant definitions and the more general concept of marketing will be extensively examined in the third chapter.

<u>Bank</u>

The American College Dictionary, 1966, [1] defines a bank as:-

> "an institution for receiving and lending money (in some cases, issuing notes or holding demand deposits that serve as money) or transacting other financial business".
> (p.7)

However, generally speaking, a bank serves as an intermediary between the depositers and borrowers and for the purposes of this study, a commercial bank is defined as any private, public or government owned institution that is allowed to accept current account deposits from the public.

<u>Bank Services</u>

This consists of all the services commercial banks offer to the personal and corporate customer, e.g. current and deposit account, overdrafts, safekeeping, cheque cards, credit cards, advising on insurance, business consultancy, guarantees and letters of credit... etc.

<u>Arabic Countries</u>

The following countries will be referred to collectively as Arabic countries:-

Bahrain, Algeria, Egypt, Iraq, Yemen, Jordan,

Lebanon, Morrocco, Tunisia, Libya, Kuwait, Oman,

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[1] The American College Dictionary, 1966, p.7.

Muscat, Quatar, Sudan, Syria, Jordan, Saudi Arabia, and the United Arab Emirates (Abu Dahbi, Dubai, Ras Elkheima, Alsharga, Um Algowain).

Saudi-isation

This term refers to the relinquishment of a 60 per cent stake in foreign owned banks to local Saudi interest while retaining the overall management of the bank.

Western Banking

Traditional banking.

Islam

In simple terms Islam means submission to God. It is the religion of Muslims, revealed through Mohammed as Prophet of Allah.

Koran

The holy book of the Muslims. Collection of Prophet Mohammed's oral revelations, written in Arabic.

Shariah

Islamic code or law.

Islamic Banking

The concept of Islamic banking derives its authority from the Koran, which forbids the receipt or payment of interest. These banks are tied to the Islamic thought and work within the framework of Shariah. They are structured to provide participation based on profit-sharing principles. Public account holders participate in profit or loss on investments as

Sharia commands that the owner of surplus funds must share risks and rewards, rather than receive a fixed amount of interest.

Islamic banks are specialised in non-usurious dealings aiming at meeting the economic and social needs in the field of banking and bank services. They provide most bank services, e.g. current and deposit accounts, clearance of cheques, credit cards, mutual lending in various currencies without interest, giving fixed term loans without interest, transfer of funds, trustees, advisers, consultants, giving benevolent loans, etc.

Islamic banks are integrating economic actions with moral values, for instance, an Islamic bank will not finance public bars or gambling casinos or night clubs. Therefore an Islamic bank is not only a bank that does not operate on usurious bases but it is a financial institution based on economic philosophical and moral principles. In order to appreciate what Islamic banking is, one needs to understand the Islamic economic principles and the ideologies of Islam which will be studied in depth and treated adequately in the next few chapters.

<u>Riba</u>

Riba is the receipt and payment of interest which is usury. The Oxford English Dictionary defines usury as the

> "practice of lending money at exorbitant interest, especially at higher interest than is legal". [1]

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[1] Oxford English Dictionary, 1978, 6th Edition, J. B. Sykes (ed.) Oxford: Clarendon Press.

In Islam usury is forbidden, whatever the rate of interest, because of its oppressive nature. Indeed, the Koran states:-

> "O ye believe. Observe your duty to Allah and give up what remaineth (due to you) from usury, if ye 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". [1]

The Koran permits trade but forbids "Riba" - usury:-

> "... Those who swallow usury cannot rise up save as he arisen whom the devil has prostrated by (his) touch. That is because they say: trace is just like usury, whereas Allah permitteth trading and forbiddeth usury..." [2]

However, some scholars argue that interest on consumption loans is usury while interest on productive loans is not. They argue that in the case of the consumption loans, that the needy must not be exploited by the wealthy. El Hawari, Professor of Islamic Banking and Finance at Ain Shams University, Cairo, argues that all interest is usury [3], and according to Dr. Sami Hamoud [4], Doctor in Islamic Banking and Deputy Chairman of Jordan Islamic Bank, that the texts concerning the prohibition of usury in the Koran are clearly mentioned in four Suras: Al-Room, An Nisa, Al Imran, and Al Bagarah (The Cow). These Koranic texts regarding usury are generally speaking similar to those of the Bible; especially in the

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[1] The Koran, The Cow, pp.278-279.

[2] The Koran, The Cow, p.275.

[3] El Hawari, Sayed (1981) "Economic Philosophic Principles of Islamic Banking", *Paper Presented at 2nd International Conference on Islam and Banking, Geneva, Switzerland, June 1981.*

[4] Homoud, Dr. Sami (1976) *Developing Banking Services Within The Islamic Law.*

book of prophet Ezekiel, the text indicates that the prohibition of usury is absolute.

Usury in the Islamic sense of the word, has two meanings:-

(a) lending - paying or receiving interest;

(b) buying or selling currencies or commodities on forward basis;

and both types of usury are prohibited.

Al-Zakat

Al-Zakat is an Islamic wealth tax of two-and-a-half per cent, and one of the Five Pillars of Islam. It is a religious tax levied at 2½ per cent on wealth held for one year.

The Messenger of God, Prophet Mohammed said:-

"Islam has been based on five principles:-

(i) believing that there is no God but Allah and that Mohammed is his Messenger;

(ii) performing the prayers;

(iii) paying the Zakat;

(iv) fasting during Ramadan, and

(v) making the pilgrimage to the House (In Mecca)."

We are informed that Alms purifies man:-

> "Take alms of their wealth,
> wherewith though mayst
> purify them and mayst
> make them grow". [1]

The "have not" have a vested right in the money of those who possess it:-

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[1] The Koran, Repentence, p.103.

> "And in their wealth the
> beggar and the outcast
> had due share..." [1]

Also:-

> "Give the kinsman his
> due and the needy, and
> the wayfarer". [2]

Dr. Siddigi [3] observed that when "Al-Zakat" is paid to the needy an upward shift in the aggregate demand function takes place as the marginal propensity to consume of those who receive the transfer payment is relatively higher.

Al-Modaraba (trust or agency)

Al-Modaraba means somebody giving somebody else money in order to invest. The first party is called the investor or money owner while the second party is called the "Modarib". In a sense, the "Modarib" is a trustee or agent, therefore. The money lender or money owner is normally a sleeping partner. The net profits realised are divided between the two parties according to certain ratios agreed upon in advance. Any loss on capital is borne by the owner of the money and the "Modarib" only loses his efforts and the expected profit. Of course, the Modarib can be sued for any wilful act or negligence on his part.

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[1] The Koran, The Winnowing Winds, p.19.

[2] The Koran, Al-Isra, p.26.

[3] Siddigi, Mohamed (1975), "A Survey of Contemporary Literature on Islamic Economics", in *Studies in Islamic Economics*, Khurshid Ahmad (Ed.) Leicester: The Islamic Foundation, pp.191-269.

Al-Modaraba is a type of contract that prevailed between the Arabs in the pre-Islamic era of paganism (Jahilia) and later Islam endorsed it as a means of investment and profit sharing. There are two types of Modaraba. One is "absolute" or unconditional and the second is restricted or conditional. The unconditional authorisation gives the Modarib (trustee or agent) the right to determine the fields and methods of investment. That is because Modaraba is actually a power of attorney given to the Modarib (trustee) to effect buying and selling on unconditional bases. In the case of a conditional or restricted Modaraba, then the investor or money owner specifies the fields of investment or rather the fields wherein his money should not be invested.

Modaraba is an authorisation from an investor or money owner to a Madarib for a limited period of time, although not all the Islamic schools of thought agree on that. Makek and Al Shafie Schools of thought are of the opinion that having a time limit is only valid providing it does not restrict the Modarib from acting freely and also providing that this was pointed out to the Modarib before he started his trading or investments. However, Abu Hanifa school of thought does not see any harm in setting a time limit. The Hanbolist school of thought argue that Al-Modaraba can be extended to meet most of the requirements of a modern society.

Another kind of Al-Modaraba is based on self-liquidating partnership. This is applicable to all cases where it is possible to finance a productive scheme where capital can be repaid through its expected profits. A further type of

Modaraba is where a non-usury bank acts as an intermediary financier, for example, in the field of consumer goods (refrigerators, colour televisions, cars, etc.). [1]

<u>Individual Modaraba</u>

A non-usury bank or finance house advances funds for financing a particular commercial or industrial operation managed by another party on the basis of participation on the profit or loss basis.

<u>Joint Modaraba</u>

Depositing money with a non-usury bank, finance house or investment company by an investor who wishes to invest in a joint investment account or subscribing for a joint-Modaraba bond. These funds, however, will be employed in all kinds of joint financing in anticipation of sharing in the net profits.

<u>Modaraba Bonds</u>

These are bonds issued by an Islamic Bank or finance house or Islamic investment company in the name of the person or persons who pay the face value of these bonds on the basis of participation on profit sharing principles of the net profits realised.

Being based on consensus only, in the writer's view, Al-Modaraba becomes an important device for circumventing the Koranic injunctions on the receipt and payment of interest

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[1] See for example, Dr. Sami Homoud (1981) "How An Islamic Bank Operates on an International Basis" *Paper presented at 2nd International Conference on Islam and Banking, Geneva (June).*

rates (Riba); and since there is no binding text, the field is wide open for improvements, innovations and flexibility in the field of banking in order to create a working relationship between Islamic and Western banking.

Al Mosharaka (partnership)

According to the Koran, an Islamic bank, finance house, or an investment company is prohibited from lending or borrowing money on fixed interest bases, but they can invest money on Mosharaka bases, i.e. partnership. [1]

Therefore, Al Mosharaka can be defined as the advancing of money by an investor (bank) to one party on the basis of an agreement by this party that the money owner (or the bank) will receive a certain proportion of the net profit realised after the liquidation of the operation on pre-agreed ratios. For instance, in financing commodity traders, Faisal Islamic Bank of the Sudan provides 80 per cent of the needed capital and the other partner participates with the remaining 20 per cent (this ratio can vary according to agreements). The Bank agrees beforehand to allow the partner, for example, 20-35 per cent of the profits for managing the operation or partnership. The rest of the profit is shared between the two contracting parties according to the ratios of the money originally invested by each partner. If a loss occurs, then the two partners bear it according to the same ratio.

From an Islamic point of view no collateral can be taken

[1] The Koran, The Cow, pp.278-279.

by a bank from a partner except as security against negligence or a wilful act on the part of the partner.

Morabaha (sale for profit)

Morabaha means purchasing goods by the bank on behalf of a customer on pre-agreed bases. The bank may pay purchase price partially or in full on the promise of the contracting party to repurchase goods at a profit agreed upon in advance.

There is a consensus on this type of contract by almost all the Islamic schools of thought. Morabaha sale can be employed in financing internal and external trade. According to Abdel Rahim Hamdi, Deputy General Manager of Faisal Islamic Bank, Sudan [1], many people confuse the sale for profit (Morabaha) with interest sales operations. In sale for profit, a commodity is sold for money, therefore the operation is not a mere exchange of money for money as it is in the case of interest fixed loans. The confusion results because the profit is determined in advance. Furthermore, according to Faisal Islamic Bank policy, the customer or the contracting party has got the right to refuse repurchasing the goods bought on his behalf. At this point, Dr. Sami Homoud, Deputy Chairman of Jordan Islamic Bank [2], disagrees, and points out that in the case of a defaulting party, the banks have the right to

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[1] Hamdi, Abdel Rahim (1981) *Speech presented at 2nd International Conference on Islam and Banking, Geneva, June 1981.*

[2] Homoud, Dr. Sami (1981) *Speech presented at 2nd International Conference on Islam and Banking, Geneva, June 1981.*

sue the contracting party for breach of promise or breach of agreement.

However, in the writer's view, this difference of opinion between Abdel Rahim Hamdi of the Sudan and Dr. Homoud of Jordan, is primarily due to the fact that Sudan prescribes to the Malikite school of thought, while the Jordanians are followers of Abu Hanifa.

Dar al-Mal

House of Funds.

Fatwa

A legal opinion on a point of Shari'a law, usually given in question and answer form by a religious scholar (a Mufti).

Figh

Islamic jurisprudence, the science of interpretation of the Shari'a.

Mazhab

School of jurisprudence, particularly one of the four orthodox schools: Hanafi, Shafi'i, Maliki and Hanbali.

Mudarib

The entity that manages the mudaraba, the managing trustee. This could be a bank using the funds of beneficial owners or a commercial organisation that has received funds from an Islamic bank under a mudaraba arrangement.

Mufti

A religious scholar who issues an opinion on a point of

Islamic law.

Qard Hassan

An interest-free loan.

Tadamon

Solidarity, Islamic insurance.

1.7 Summary

In the Chapter concluded here, a brief introduction to the study was given as were the importance, need for, and aims of the study. The research assumptions and limitations as well as definition of key terms were also presented.

CHAPTER TWO

HISTORY AND ENVIRONMENT OF BANKING

2.1 Introduction

The aim of this Chapter is to present a brief overview of the history and environment of commercial banking. This is undertaken by a subdivision of the Chapter into four sections in which the salient points under the headings are discussed. Thus, sub-headings include The Changing Environment of Banking, Arab Commercial Banking, The Economic Philosophical Principle of Islam and Banking and finally, the Emergence of Islamic Banking.

The main thrust of the Chapter has been in three directions:-

(a) giving a broad outline of the development of banking and changing attitudes to banking and the marketing of bank services;

(b) a broad outline of Islamic economic and philosophical principles and how these apply to banking;

(c) an exposition on a certain economic issue - riba (usury and interest) and the emergence of a model for its practical replacement - viz. Islamic banking.

The central theme of the latter two areas is an old and much neglected issue of the relevance of God and His guidance in the economic and social life of mankind.

2.2 The Changing Environment of Banking

In order to better enable the reader to appreciate the evolution of marketing management in banking and its effectiveness, a concise history of banking and its changing environment is attempted here.

Indeed, the inclusion of this section at this point stems from the researcher's belief that it is necessary to try to put the origins and operations of commercial banking in an historical and geographical perspective and to relate the changing economic, social and financial circumstances which have and are likely to continue to influence the growth of commercial banking and the marketing of its services.

According to Davies [1] in his book *The National Giro*:-

> "As Egypt was the originator of Giro, so Babylon was probably the birth place of banking - well over 3500 years ago".
> (p.27)

Indeed, though the origin of banking is uncertain, the ruins of Babylon indicate that credit instruments existed there as early as the 9th century B.C. and safe-keeping and bank savings existed as early as 2000 B.C.

Professor Davies goes on to argue that in Egypt [2] security for deposits was more easily assured in the temples and royal palaces than private houses and therefore it was natural enough that the first banking operations were carried out by the royal and temple officials.

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[1] Davies, Glyn (1973), *National Giro: Modern Money Transfer*, London: George Allen and Unwin Ltd. (p.27).

[2] *ibid.*, p.27.

The common and widespread existence of simple banking operations is confirmed by Orsingher [1] in whose comprehensive analysis of banks of the world we are informed that by 1686 B.C. bank operations by temples and wealthy landowners had become so numerous that it was thought necessary to establish standard rules of procedure.

By the fifth century B.C. coinage had become so fashionable in the Middle East that there was a demand for international money merchants among whom the Greeks were especially prominent. Early Greek bankers therefore progressed from initial money changers to safety depositors and commercial investors. Prior to the fall of the Roman Empire, the Italians had a well developed private banking system. However, after the fall of the Roman Empire, banking over much of Mediterranean regressed to little more than money changing and did not return until the Renaissance and the establishment of the Bank of Genoa in 1585, a bank in Venice in 1587, followed by public banks in Amsterdam (1609), Hamburg (1618) and later some English banks.

Indeed, according to Davies [2], the Italian banks:-

> "... more than any others were the fathers of modern banking".
> (p.32)

By the mid-16th century the banking habit had become so well developed that indigenous banking developments were taking place in most major towns of Europe - a process no

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[1] Orsingher, Roger (1964), *Banks of the World: A History and Analysis*. (Paris, 1964) (English translation London, 1967).

[2] Davies, *ibid.*, p.32.

doubt accelerated by the activities of foreigners such as the Jews, Italians and Dutch.

The business operations of foreigners again was instrumental in the development of a comparable banking system in England and Wales, though this was one of the last of the Western European countries to achieve this. Until 1640, the Tower of London was used for safe-keeping and in 1563 the business of the goldsmith which was originally started by Sir Thomas Gresham in London was expanded. Originally, the goldsmith was a safe-depositor and money changer. He became the first commercial banker by making money transfers from one account to another until it was developed into a fully fledged banking system that we see today.

The role played by commercial banks today is unique. [1] Firstly, banks demand deposits from the largest portion of the nation's money supply. Secondly, commercial banks serve as the main vehicles through which the monetary policy of governments is implemented, i.e. when the government for example, tries to exert influence on the supply or cost of money, it makes commercial banks a party to this action which sometimes may not be in their favour. Thirdly, commercial banks are essentially specialist lender institutions that accommodate all types of borrowers. A fourth and unique characteristic is that banking is a concept rooted in "antiquity". For centuries, the activities of commercial banks have helped to shape the political and economic affairs of all nations; as

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[1] The American Bankers Association (1962) *The Commercial Banking Industry*, p.1.

early as 2000 B.C. approximately, the Babylon Code of Hammurabi dealt with debts and mortgage.

It would seem appropriate here to briefly identify some of the more momentous environmental forces affecting the markets of banking.

Market demand has changed tremendously for both economic and attitudinal reasons because of the increase in promotional methods; also laws have been enacted which make banks a much safer place for depositing money. Widespread cultural changes have taken place; over the years people's attitudes to borrowing have changed considerably. Indeed, according to Hodges et al [1]:-

> "Some practices considered 'improper' for a bank in a mature, conservative, tradition-oriented culture would be wholly acceptable in a younger, more transient community".
> (pp.6-7)

Thus, over the past two decades, the course of events, domestic and external, have forced a revolution in the psychology and attitudes of banks throughout the world. The starting point came with the turn of 1958-1959 when the major currencies of the world became convertible for all external purposes. This provided the major impetus to the development of the truly free, international and (so far) unregulated money market to which the prefix "Euro" is frequently applied. [2]

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[1] Hodges, Luther H. J. and R. Tillman (1968) *Bank Marketing: Texts and Cases*.

[2] Bareau, P. (1971) "Trends in Services" in *The Marketing of Bank Services*: The Institute of Bankers' Seminar, Cambridge. Institute of Bankers, pp.1-13.

The growing internationalization of American industry (e.g. oil companies, computer, motor cars, etc.) and the consequent need for American banks to become multi-national if they were to provide adequate services for their large clients, was one of the most dominant reasons for American banks' invasion of other countries in the 1960s and '70s, for example in the U.K. One response of the clearing banks to this competition was to provide a range of new services which they offered to their large industrial and commercial clients for the new services the American banks devised for their multinational customers were also attractive to non-Americans.

Thus, there is little doubt that the foreign invasion of American banks helped to create a greater diversity of services and techniques for marketing such services. Similarly, the increased diversity of requirements from personal and corporate customers has brought traditional banks throughout the world to widen the range of their activities.

Competition not only came from external sources. For example, in 1900 banks controlled approximately 50 per cent of the financial business of the British economy. This figure then fell dramatically to almost 30 per cent in subsequent years due to inroads made by the following non-bank financial intermediaries:-

(a) public and quasi-public sector - National savings movements, trustee savings banks; local authorities, post office giro;

(b) private sector - building societies, financial houses, discount market, inter-company market and the stock exchange.

These public, quasi-public and private sector institutions have grown over the last two decades at the expense of the banks for a number of reasons:-

1. new borrowing instruments;
2. affluent and consumer-oriented society;
3. credit restrictions;
4. failure on the part of the banking system itself.

This was then another factor bringing banks to a painful awareness that they had lost a substantial part of the financial market and to recognise the need for greater marketing activities. New branches were opened, and larger banking units were being formed through acquisitions and mergers, competition for retail business intensified and services and facilities expanded for the convenience-minded consumer.

Most of the above changes however took place as reactions to a changing environment. Berry and Donnolley [1] emphasised the need for bankers to be adaptive and innovative thus:-

> "Unfortunately, changes in traditional business thinking are more often necessitated through environmental changes which force a defensive reaction or response on the part of the firm rather than any foresight on the part of the executive. Hopefully, the banker will have the forethought to act rather than to wait and then be forced to react."
> (p.267)

To achieve this, an effective use of marketing tools and techniques is being and must continue to be used as a major adaptive mechanism to meet the changing environment

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[1] Berry, L. L. and Donnelly, J. H. (1975) *Marketing for Bankers*, U.S.: American Institute of Banking.

of banking.

To the traditional bank manager who looked on himself primarily as a lender of money, the concept of marketing would have seemed very strange. His customers were personally known to him and their needs changed very slowly. But, as Sir Frederic Seebohm rightly put it:-

> "Banking is now a large and complex service industry whose business is rural, urban, suburban and international." [1]

According to McKitterick [2], a bank's main task therefore, is:-

> "... not so much to be skilful in making the customer do what suits the interest of the business, as to be skilful in conceiving and then making the business do what suits the interest of the customer".

Thus, an individual banker's survival in the long run depends on its management at all levels being marketing oriented. Indeed, banks must apply the marketing concept in all its facets.

One of the facets of the marketing concept which appears to becoming increasingly important is social orientation. In a later section of this Chapter it is suggested that Islamic banks are highly socially-oriented. It is here suggested that the major institutions of Western society are in the process of evolving from a purely profit orientation to a mix of profit

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[1] Seebohm, F. (1971) *The Marketing of Bank Services*, p.16.

[2] McKitterick, J. B. (1957) *What is the Marketing Management Concept?* American Marketing Association: New York.

and social orientation. Indeed, it is further suggested that various social forces, consumerism, the ecology movement and the various minority movements all have as their foundation the striving for more dignity, opportunity and quality in life.

The implications of this for traditional banking practices are becoming clearer:- [1]

1. Because of the vast control of resources available to banks (to whom to make loans, in what to invest) banks may well come under increasing pressure to include more social goals in the determination of loan and investment policy. That is banks may be increasingly perceived as instruments for fostering social responsibility on the part of would-be corporate borrowers and publicly owned companies.

2. Banks will become far more engaged in disclosure to the public of their activities than is the case at present. Banks will in the future face increasing pressures to disclose practices in all areas of their business. Indeed, Capaldini [2] states:-

> "The challenges of adequate disclosure includes but goes beyond providing sufficient information to the customer so that he/she can decide whether or not a given bank service or set of services is right. Disclosure also relates to making publicly available certain information that the public has the right to have in ascertaining whether or not the bank is operating in the public interest." (p.369)

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[1] Berry and Donnelly (1975), *Marketing for Bankers*, p.28.

[2] Capaldini, L. A. (1974) "Bank Marketing: The Future", in L. L. Berry and L. A. Capaldini, eds., *Marketing for the Bank Executive*, New York: Petroceili Books.

The direct relevance of all this to our concern in this section is that the changing environment of banking will not only continue to affect the marketing of bank services but also the areas on which marketing orientation will be focused.

We have learned in this section of the power of the changing environment of banking to change the shape and nature of the markets in which it operates. We have also learned that as markets change so must banks change. Thus, the influence of any bank regarding persuading members of the market to patronise it relates directly to how well it meets the changing needs of the market relative to the competition. In short, the aim of this section has been to illuminate the relationships between banking as it was, is now, environmental change, market change and marketing.

The changing operations of Arab commercial banks is an appropriate example of adaptation on the part of a group of banks to changing social and economic environments. We now therefore, turn to a brief examination of the operations of these banks in the following section.

2.3 Arab Commercial Banking

As stated in the first Chapter of this study, Arab commercial banking has a long history dating back to the precolonial periods. Three phases of development are discernible which have moulded the Arab banking system into its present form.

First from the colonial era until the early 1960s, banking services were brought about by foreign commercial banks engaged in financing trade transactions. Indigenous banks established themselves gradually during the 1930s and 1940s, though with minimal impact in the market. However, the whole banking system during this phase comprised of a few money changers, branches of foreign banks and local organisations of private bankers. Normally, no central banks existed, though in some Middle East countries the largest commercial bank performed some of the functions of a central bank.

Secondly, the 1960s to the beginning of the 1970s was most significant in the history of the Arabs. Many countries in the region obtained their independence and undertook economic development programmes to broaden and diversify their economic structures. During this period a number of national commercial banks were opened. Whilst some countries were already enjoying a relatively developed banking system, e.g. Egypt and Lebanon, ideological and institutional factors such as nationalisation and foreign exchange controls, did not provide banks with the most conducive atmosphere for global expansion.

As a result of these constraints the commercial banks catered only for the local needs and were unable to do business on either regional or international levels. Funds which could not be absorbed locally were invested in short-term foreign assets.

A third phase started in the early 1970s following the oil price boom which resulted in a massive expansion of Arab financial institutions. International banks increased their physical presence in the Arab markets, especially in Bahrain and the United Arab Emirates. As the need for a more direct presence grew, consortium banks were established.

However, new policies and strategies were designed to enable Arabs to develop their domestic financial markets as capital and money markets through the founding of new indigenous institutions and credit instruments. As a result of this Bahrain has established itself as the Arabian Gulf's offshore banking centre whilst Kuwait has focussed upon achieving world status as an international investment centre. Indeed, in March 1983 Bahrain was reported to have 77 offshore banking units, 18 commercial banks serving the local market, 15 investment banks and 62 representative offices. [1]

The relative backwardness of local banking in the region made the activities of the Western banks even more important. However, Saudi Arabia has been one country which has manifestly shown its preference to keep control of its currency and banking system, by instigating a policy of Saudi-isation which among other measures, entails foreign commercial banks having to become joint stock companies with a 60 per cent Saudi shareholding. [2]

Whilst in the early 1970s Arab investors very rarely ventured further West than Beirut, leaving the dealing in

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[1] *Bankers' Magazine*, June 1983, "New Role for Arab Banks", No. 1671, Vol. CCXXVII, pp.18-49.

[2] *Bankers' Magazine*, July 1981, No. 1648, Vol. CCXXIV, "Middle East Banking", pp.18-49.

Western markets to Lebanese middlemen, as the need for a more direct presence grew, consortium banks were set up combining a mixture of Western expertise and Arab capital. As the Gulf based banks became more experienced and started to expand their business operations, it was inevitable that they should also set up branches in the West and take a more direct role in the recycling of petrodollars.

Yet, it is only comparatively recently that any attempts have been made to define the role of the Arab banks. Faced with new challenges and opportunities of this third phase, many sought to develop their services to cope with the rapid economic development of their own region and secondly, to help intermediate the financial flows necessary for financial equilibrium, i.e. recycling. Indeed, according to the general manager of the Paris based consortium bank, Union de Banques Arabes et Francaises:-

> "... the main responsibility of the Arab banking community is to help the Arab countries in economic and social development and to prepare for the future by acquiring assets which will generate income to replace eventually depleted oil resources."[1]

Similarly, the general manager of the Kuwait International Investment Company forecasts that the next decade will see more direct Arab lending both internally and externally for the Arab banks have a substantial role to play in the euro-markets as international lending increases rapidly to redress some of the imbalances between developed and developing

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[1] *ibid.*, p.30.

countries. [1] Thus, in addition Arab banks and financial institutions see themselves as having a crucial role to play in laying the foundations for a healthier and more co-operative approach to a new international economic order.

Brief mention should also be made here of the slowly increasing numbers of Islamic banks who, according to their economic and philosophical principles do not allow the payment or receipt of interest. Although these banks and financial institutions will be discussed in more detail in later sections of this chapter, one can point out here that since 1977 Islamic banks have been established in Jordan, Sudan, Egypt, Kuwait, Bahrain, and Dubai, whilst in some non-Arab countries such as Malaysia and Nigeria there are plans to form popular Islamic banks and London already has two such institutions. Though interest in these banks has grown rapidly among the international banking community in the last decade, many are still, however, faced with the difficulties of meeting conditions imposed by the regulatory authorities and other money centres whose requirements are tailored for interest bearing operations.
A possible fourth phase in the history and development of Arab banks and institutions can be seen developing. Though there is a discernible slow down in the growth of banks of many nationalities mainly attributable to current economic factors, for Arab banks the fall in oil prices in the Spring of 1983 to the new level of $25 per barrel is significant for it is thought that many oil exporting countries will

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[1] *ibid.*, p.30.

consequently move into current account deficit forcing them to liquidate capital investments or to take up loans. This presents the Arab commercial banking community with a new challenge.

Financial institutions created or expanded to assist in re-cycling surpluses earned by selling oil to the rest of the world at least in the short-term may have to act for local borrowers of funds as well as suppliers of funds to OECD and Third World countries. Thus, the turn-round in the supply of cheap funds which has enabled Arab banks to expand in the international market during the last few years may seriously impede their growth.

In summary, it may be said that the ways in which Arab banks have met the challenges and opportunities of the last ten years have brought about profound changes in the form, size and role of these banks. Within the last ten years "new types" of specialised banks and institutions have emerged financing projects in industry, agriculture, investment and real estate. They have been formed as joint ventures with foreign and indigenous ownership, government entities and private entities. Many branches, subsidiaries and affiliates have appeared. Indeed, there is great diversity in the form and type of Arab banking.

2.3.1 The Internationalization of Arab Banking Activities

Since the oil price boom, Arab bankers have become more aggressive and have established a role for themselves in the international market by creating consortium foreign Arab banking ventures. The main function of these consortium banks was to absorb part of the Arab deposits destined to be placed with Western banks with the ultimate aim of directing these funds to finance development projects in Arab countries and channel the excess funds into international investments. This resulted in mutual banking relations between Arab and Western banking institutions.

Another important aspect of this internationalisation has been the setting up of branches and representative networks in Europe, the U.S. and the Far East by several major commercial Arab banks.

Although there are many Arab banks in other European countries, the main concentration seems to be in Paris and London. The Paris banks fall into four categories:-

(a) three consortium banks - FRAB Bank International, UBAF - Union de Banques Arabes et Francaises, and BAII;
(b) the second largest group consists of eleven Lebanese banks;
(c) a number of branches and affiliates of Arab banks, and
(d) the last group consists of seven French Arab Banks.

The future role of Arab banks in Paris is, however, restricted by a number of factors. First, most of the Middle East, West European and American markets, particularly on the retail or deposit side, are virtually closed to them. Secondly, the Arab consortium banks can rely for their deposits on shareholders, Arab central banks and government funds. Third, the private Arab banks are not in a very strong position and their future will depend to a large extent on attracting deposits from the private sector.

Until relatively recently Arab banks have left the bulk of their oil-generated wealth in the hands of European and U.S. banks. Previous to 1970 the only Arab bank with representation in London was the Rafaidan Bank of Iraq which had established an office in the capital since 1952. The British capital is now however seen to have all the requirements of a major financial centre: sophisticated inter-related markets, e.g. foreign exchange, insurance, shipping bonds, equities, good communications, skilled staff, and good back-up services such as legal and printing.

The City of London now has some fifty Arab-related banks and financial institutions (see Table 2.1) and is the first place to which Arab banks wishing to expand outside their own country will usually turn besides Bahrain. Indeed, the Bahrain-based Arab Banking Corporation formed in 1980 was one such bank to choose London as the base for its first overseas operation. With a very large capital base of $1 billion provided by its three government shareholders - Abu Dhabi, Kuwait and Libya, this bank is assessed by some experts [1] to have one of the most sophisticated Arab managements in international banking. Founded in 1975, the slightly longer established Middle East consortium bank, Gulf International Bank set up its London Office in 1979 and has a staff of approximately 40. However, the largest Arab bank in London is Saudi International Bank, which is fifty per cent owned by the Saudi Arabian Monetary Agency and the remainder by leading international banks led by Morgan Guaranty with which it has a management contract.

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[1] *The Bankers' Magazine*, July 1981, Vol. CCXXIV, No. 1648.

TABLE 2.1

ARAB FINANICAL INSTITUTIONS IN LONDON

	STATUS	PARENT ORGANISATION'S HEADQUARTERS
Abu Dhabi Investment Authority	Liaison Office	Abu Dhabi
Allied Arab Bank (2 offices)*	U.K. Registered	(N/A)
Al-Mal International Services (Al-Group)	U.K. Registered	Luxembourg
Al Rajhi Company for Islamic Investments	U.K. Registered	Riyadh
Alromaizan Company (U.K.	U.K. Registered	Jersey
Al Saudi Banque (2 branches)**	Branch	Paris
Altajir Ltd.**	U.K. Registered	Grand Cayman
Arab African International Bank	Representative	Cairo
Arab Bank (3 offices)*	Branch	Amman
Arab Bank Investment Co.**	U.K. Registered	Amman
Arab Banking Corporation**	Branch	Manama
Arab International Finance (Arinfi)	U.K. Registered	Luxembourg
Arab Latin American Bank	Representative	Lima
Bank of Oman**	Branch	Dubai
Banque de la Mediterranee	Representative	Paris

TABLE 2.1 (cont.)

	STATUS	PARENT ORGANISATION'S HEADQUARTERS
Banque du Liban & d'Outre-Mer	Representative	Beirut
Beirut Riyad Bank**	Branch	Beirut
Byblos Arab Finance Bank (Belgium)	Representative	Brussels
Capital Guidance	U.K. Registered	Luxembourg
CE Coates & Company**	U.K. Registered	Manama
European Arab Bank*	U.K. Registered	Luxembourg
Finarab Investment Company	Representative	Curacao
Gulf Bank, The	Representative	Kuwait
Gulf International Bank*	Branch	Manama
International Trade and Investment Bank	Representative	Luxembourg
Islamic Finance House[(a)]	Branch	Luxembourg
Khalij Commercial Bank	Representative	Abu Dhabi
Kuwait Investment Office	Representative	Kuwait
Middle East Associates (Investment Company)	U.K. Registered	Luxembourg
Middle East Bank**	Branch	Dubai
National Bank of Abu Dhabi* (2 branches)	Branch	Abu Dhabi
National Bank of Egypt**	Branch	Cairo

TABLE 2.1 (cont.)

	STATUS	PARENT ORGANISATION'S HEADQUARTERS
National Bank of Kuwait[(b)]	Representative	Kuwait
National Commercial Bank	Representative	Jeddah
Oriental Credit (2 offices)**	U.K. Registered	Luxembourg
Qatar Investment Office	Representative	Doha
Qatar National Bank (2 branches)*	Branch	Doha
Rafidain Bank*	Branch	Baghdad
Saudi International Bank	U.K. Registered	(N/A)
Saudi Arabian Investment Company (Overseas)	Representative	Jeddah
SCF Finance Company	U.K. Registered	Geneva
Sharjah Group Company	Representative	Kuwait
UBAF Bank Limited*	U.K. Registered	(N/A)
UBAF Financial Services	U.K. Registered	(N/A)
United Bank of Kuwait* (5 branches)	U.K. Registered	(N/A)
Yemen Bank for Reconstruction and Development	Representative	Sana'a

* Recognised by the Bank of England.
** Licensed by the Bank of England as a deposit taker.
(a) At the time of going to press, the company's legal status in the U.K. was still being arranged.
(b) NBI's application to upgrade its representative office to a branch was approved in principle by the Bank of England at the end of 1982.

Source: *Bankers' Magazine*, June 1983, No. 1671, p.44.

According to its executive director, SIB has stressed two particular areas - assistance to companies operating in or within Saudi Arabia and penetration of more traditional banking markets. In addition, since 1982 the National Bank of Kuwait has set up two branches in London. Although the majority of Arab banks in London are still representative offices, London is also seen as a safer place for funds than the United States, especially after the 1979 freezing of Iranian assets by the U.S.A.

However, although London is the main centre for petro-dollar re-cycling, the Arab banks in London do not receive directly much of the surplus oil revenues because Arab banks are of very recent origin and have traditionally had very little penetration abroad. Some Arab bankers have also become increasingly deterred by the restrictions placed on banks by the 1979 Bank Act in the U.K. and have opted for Paris where it is still relatively easy to open a bank. Due to cultural and historical ties, countries such as Lebanon, Morocco and Tunisia have indeed, encouraged the development of Paris as an Arab financial centre. Another significant achievement for London was the setting up of the Arab Bankers Association headquarters in early 1980. The majority of its membership are Arab bankers in London and the remainder are based in Paris, New York, Bahrain and the Middle East. Indeed, the main objectives of the ABA are to reinforce the ties between Associate members and co-ordinate their professional interests. The exchanging of views and expertise among members for the benefit of Arab financial relations with Britain and other countries is a priority shared by its over 350 strong membership.

As mentioned earlier, international interest is also growing in Islamic banking and financial institutions. Western bankers and businessmen, particularly those of the City of London, have begun to forge profitable links with Islamic institutions. In 1982 the Al Rajhi Company for Islamic Investments which is owned by shareholders of Saudi Arabia's leading money changing institution, Rajhi Company for Currency and Commerce, arrived in London. Similarly, in early 1983 the Islamic Finance House (IFH), a subsidiary of the Luxembourg based Islamic Banking System, was set up in the City. London's third Arab Islamic financial institution is scheduled to be opened in July 1983 by Dar Al-Maal Al Islami (DMI) of Geneva.

The internationalization drive has nevertheless created new challenges and opportunities for Arab commercial banking. Unfamiliar territories and the consequent risks means that there will be the need to undergo basic organisational and structural revisions to allow competition with their international counterparts. Lack of experienced professional bankers has often been mentioned as a handicap to the international drive of Arab commercial banks. However, due to the efforts of organisations suchas the ABA who hope to have established a bank training research centre in London by the end of 1983, more efficient and outward looking Arab bankers and money managers are emerging in the Arab world. Indeed, as a spur to this aim, some banks have already developed their own management training centres, for many realise that their success in the international markets depend largely on their skill and capabilities as bankers and managers.

In summary, it appears that the Arab nations are setting good and solid foundations for a local and international banking system and that given present trends, the Arab banks will be the richest financial institutions in the world. With this wealth, Arab banks can give the U.S. and European banks strong competition and exert considerable influence over the economies and politics of the West. Indeed, it will not be long before the Arab banks develop an international network which effectively links the Arab and non-Arab worlds in trade and project financing and documentary credits as well as syndicated loans.

Internationalization has not been the prerogative of Arab Middle East Western-styled banks but even now the young and growing Islamic banks are establishing their presence in the international market. However, before we examine the emergence of these Islamic banks in the final section of this Chapter, it will be necessary to consider the economic and philosophical principles on which these banks are founded.

2.4 The Economic and Philosophical Principles of Islam and Banking

The literature about the early Muslim economies and societies is rather limited and that which is readily available is almost totally written in Arabic and located in Arab countries which make the task of a researcher undertaking a study in a Western university distinctly more difficult and that of an English or European researcher not bilingual in Arabic almost impossible.

Arab Islamic countries vary in the degree to which they follow Islamic teaching and at present there is no Arab country with an economy strictly based on the Islamic teachings. The application of the teaching of the Holy Koran and the sayings and practices of the Prophet Mohammed (peace be upon him) and the caliphate may not be an easy task to apply to our present economies and as Dr. Metwally [1] of the University of Queensland, Australia, put it:-

> "... the experience of early Muslim economies is not always directly applicable now since these economies were much less complex than those of contemporary Muslim countries."

Dr. Metwally went on to suggest that:-

> "an investigation of verses of the Holy Koran, the traditions of the Prophet (peace be upon him) and the practices of early Muslims (e.g. the administration of the Caliphate) suggest that the economic behaviour of an Islamic firm would most certainly be different from that of a firm operating in non-Islamic economies."

There is consensus among Islamic economists that there are two key elements to the economic philosophy of Islam:-

> "one related to real or ultimate owner on earth and the other related to the relationship between man and the real owner." [2]

Thus, the first principle states that God is the creator of everything on earth and in the heavens. This argument is evidenced by the Koran:-

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[1] Metwally, M. M. (1982) *Behaviour Model of an Islamic Firm.*

[2] Professor Sayed El-Hawary, 1981 *Economic Philosophic Principles.*

> "Allah's is the sovereignty of the heavens and the earth and all that between them. He creates what he will. And Allah is able to do all things." [1]

and in Sorat Taha the Koran reads:-

> "Unto Him belongeth whatever is in heavens and whatever is in earth, and whatever is between them, and whatever is beneath the soil." [2]

Also in Sorat Family of Imran, the Koran states:-

> "say: O Allah! Owner of sovereignty! Thou givest sovereignty unto whom Thou wilt, and Thou withdrawest sovereignty from whom Thou wilt. Thou exaltest whom Thou wilt, and Thou abasest whom Thou wilt. In Thy hand is the good. Lo! Thou art Able to do all things." [3]

Hence, these and many other verses contained in the Koran considers resources of various kinds as the gift of God and that we are only trustees to utilise these resources in an efficient way to fulfil God's will for establishing prosperity on earth for the good of all mankind.

Accordingly, a Muslim entrepreneur is considered only a "vicegrent" on earth and this principle of "vicegrency" of man brings us to the second key element of the philosophy of Islam. Man's right to ownership is obtained by proxy from God and as Allah made man his "vicegrent", man must function according to His teaching and in the end be accountable to God for all deeds; be they good or bad. One of the many ways in which the Koran reveals and confirms this principle of "vicegrency of man" is as follows:-

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[1] The Koran: The Table Spread - Verse 17.

[2] The Koran: Taha, Verse 6.

[3] The Koran: Family of Imran, Verse 26.

"And then the Lord said unto the angels:
Lo! I am about to place a viceroy in the earth." [1]

The principle of economic trusteeship thus suggests that the object of an Islamic institution will not be profit maximisation. The Islamic firm will rather be satisfied to realise a "reasonable" or "fair" level of profit if that enables it to achieve the more important goal of "doing good to please Allah" and the same would apply to an Islamic customer of such an institution who invests or deposits funds on a profit or loss basis.

This brings us to a consideration of two important points which concern traditional economic theories and will only be briefly touched upon here but treated in more detail in the final chapter of this study.

The first concerns the motivation and behaviour of individuals (entrepreneurs and customers) within the Islamic framework. A hallmark of economic theorising is the assumption that the rational individual will "act in his interest" when exercising choice, and secondly that economists should not be concerned with the motives behind economic man's behaviour but primarily be concerned with what constitutes an economic relationship. For according to Wicksteed [2]:-

"When our conception of the nature of economic facts and relations has become clear, we shall see without difficulty that the market, in the widest sense of the term, is their field of action, and that market prices are the most

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[1] The Koran - The Cow, Verse 30.

[2] Wicksteed, Philip H. (1946) *The Common Sense of Political Economy and Selected Papers and Reviews on Economic Theory* London: George Routledge and Sons Ltd.

> characteristic expression and outcome. The individual in administering his resources, regards market prices as phenomena which confront him independently of his own action, and which impose upon him the conditions under which he must make his selections between alternatives.

Such a view of the utility maximising economic man lends credence to the criticism of entrepreneurs and customers within the Islamic framework as not being so "Islam minded" as to view the Islamic bank's offerings as the only acceptable method of financing their projects and thus, evaluate the Islamic banks' offerings as only an alternative to the offers of the alternative interest banks. There must be an economic advantage to cause the Islamic entrepreneurs and customers to accept profit and loss sharing principles, in other words. [1]

Yet, within the Islamic framework there should be no difficulty in seeing that the individual's behaviour culminates in a rational use of resources in seeking to maximise group interest as well as self-interest in the sense of, as stated earlier, doing good to please God, and not solely to maximise self-interested utility.

The principle of economic trusteeship thus, provides an answer to the puzzle of to what governs the extent to which an individual uses resources to maximise his self-interested preferences on the one hand, and his group interested preferences on the other, and helps in the formulation of a

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[1] Nienhaus, Volker (1983) "Profitability of Islamic PLS Banks Competing with Interest Banks: Problems and Prospects" in *Journal of Research in Islamic Economics*, Vol. 1, No. 1, pp.37-47.

model which allows for the two interrelated components of motivation.

This brings us to the second problem of the predominant tendency of economic theorists to stay clear of psychological and philosophical issues. In particular, the almost universal tendency has been to take preferences as given, or to take tastes as given, leaving the study of preference formation itself to the domain of social sciences. In recent years however, there has been some break with this tradition of no psychology in the work of such prominent figures as Wicksteed [1], who maintains:-

> "Many writers have thought that the Economist, as such, must not only limit his consideration to certain actions and conditions which concern exchangeable and mainly material things, but must also shut out of consideration all <u>motives</u> that are not 'economic'. And the economic motive is generally defined as the 'desire to possess wealth'."

He goes on to say elsewhere that we should not exclude altruistic motives from the field of economic study or imply that in his economic relations a man is purely self regarding and driven by a desire to possess wealth. [2] He maintains:-

> "... for a man may clearly desire wealth for altruistic motives, so that if I am to exclude altruistic motives I must insist on going behind the 'desire to possess wealth' and knowing why the man desire it, so as to be able to exclude all (economically) improper motives."

A second common theme in the economic literature is that which does not accept the profit maximisation

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[1] Wicksteed, Philip H. (1946) *op.cit.* p.163.

[2] Wicksteed, Philip H. (1946) *op.cit.* pp.164-165.

principle [1] [2] [3] [4], particularly that which incorporates Professor Herbert Simon's "satisficing" notion. According to the satisficing hypothesis, business enterprises will strive to achieve certain target levels of profits, but having achieved them, will not strive to improve the profit position further, for a number of possible reasons. For example, a firm might seek to "satisfice" rather than to maximise, once they achieve the goal of attaining a certain level or rate of profit or holding a certain share of the market or a certain level of sales. Satisficing is appropriate therefore for both a behavioural theory of some "Western" business enterprises and all Islamic institutions and customers. However, while as pointed out by Weston [5] satisficing is primarily a short-run search strategy relating to the cost of search for information on alternatives for the "Western" business enterprise, for Ismalic banking it is a long-term objective and strategy. A fuller discussion of both the above issues will however take place in the final Chapter.

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[1] Simon, Herbert A. (1959) "Theories of Decision-Making in Economics and Behavioural Science" *American Economic Review*, XLIX, June, pp.253-83.

[2] Solomon, Ezra (1963) *The Theory of Financial Management*, New York: Columbia University Press.

[3] Guthmann, H. and Dougall, H. (1940) *Corporate Financial Policy*, Englewood Cliffs, N.J.: Prentice Hall Inc., p.1.

[4] Bradshaw, T. F. (1952) "The Place and Status of the Financial Executive Today" *The Financial Executive's Job*, Financial Management Series No. 99, New York: American Management Association, p.22.

[5] Weston, J. Fred (1966) *The Scope and Methodology of Finance*, Englewood Cliffs, N.J.: Prentice Hall Inc.

Thus, from the above discussion true Muslims must necessarily believe in God and Islam:-

> "O my Lord! Grant me that I may be grateful for Thy favour which Thou hast bestowed upon me and upon both my parents, and that I may do right acceptable unto Thee, and be gracious to me in my issue. Truly have I turned to Thee and Truly do I bow (to Thee) in Islam." [1]

If Muslims must necessarily obey the teaching of Islam, a Muslim businessman will not seek to maximise his profits for the purpose of accumulating wealth, for a Muslim knows that:-

> "Wealth and sons are allurment of the life of this world..." [2],

and that the Koran tells us to:-

> "spend of that whereof He hath made you trustee; and such of you as believe and spend (a right), theirs will be a great reward." [3]

All the above Koranic verses without ambiguity, suggest that the owners, managers of an Islamic bank or an Islamic firm will direct their energies and efficiency to the investment and spending of wealth within the permitted domains of expenditure and investment, in such a way that fulfils the needs of themselves and of dependants without infringement of the interests of the community. This in turn creates goodwill for the firm's products or bank's services. Similarly the expenditure of firms on charities and good deeds must follow the same guide-lines. In effect, such expenditure is akin to spending on advertising but this is not to suggest that

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[1] The Koran: Chapter 46, Verse 15.

[2] The Koran: Chapter 18, Verse 46.

[3] The Koran: Iron, Verse 7.

spending on good deeds by an Islamic firm will be a complete replacement to advertising. Dr. Metwally suggests that spending on a charity or "good deed" may take a number of forms:-

From direct payment to the poor and needy in the community to expansion in the number of workers employed by the firm even beyond that level warranted by profit maximisation and so help in alleviating the problems of unemployment. "Good deeds" may also take the form of building hospitals, schools or mosques, promoting Islam, etc.

> "Thus, an Islamic firm would seek the maximisation of a utility function which is a function of the amount of profits and the amount of spending in charity or good deeds subject to the constraints that the amount of profit would, after the payment of all imposed taxes (Zakat and other dues) be no less than a minimum level which is 'safe' to keep the firm in business." [1]

Moderation in fulfilment of economic ends is emphasised and greed is decried, as is extravagance (isrāf) and expenditure on goods and services prohibited by Islam (tabdhīr). Economic relations, particularly in the production and exchange of wealth should be co-operative in nature. Indeed, co-operation is seen as one of the basic values in Islam's economic philosophy. This does not however rule out free and fair competition in the market providing all economic agents adhere to Islamic morality. Nevertheless, competition is emphasised in opposition to monopoly, the elimination of which is regarded as a prerequisite to ensuring justice and growth.

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[1] Metwally, Dr. M. M. (1982) *A Behavioural Model of an Islamic Firm: A Discussion Paper*, King Abdul Aziz University, Jeddah International Centre for Research in Islamic Economics, p.5.

The economic philosophy of Islam also creates a powerful drive for development. Indeed, developmental efforts are seen by the true Muslim as a striving in the cause of Allah. Economic development has become a necessary condition to be fulfilled to enable the Muslim peoples to perform their mission with humanity that the Koran declares to be their *raison d'etre*. Islamic principles are consequently a motivating force for development. [1] The chief distinguishing feature of the Islamic strategy for economic development is the inextricable relationship between social justice and growth.

Whilst the above brief overview of Islamic economic philosophy states the overall approach, one can legitimately ask: has Islam left the economic question at the theoretical level or has it gone further to formulate an economic system?

According to Hamdi [2], one of the leading protagonists of Islamic economics and banking, Islam has an economic system and its features are:-

First, the prohibition of monopoly for all firms and individuals. This principle has implications on the financing of Islamic banks and on State policies in the field of organisation of trade, distribution, etc. Secondly, hoarding is prohibited; wealth must be allowed to circulate. Here,

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[1] Mohammad Siddiqi (1975) *A Survey of Contemporary Literature on Islamic Economics,* Paper presented at the International Conference on Islamic Economics, Mecca, April, 1975, p.21.

[2] A. R. Hamdi (1981) *The Operation of Faisal Islamic Bank (Sudan)*, Paper presented at International Conference on Islam and Banking, Geneva, June 1981.

we find that "spending" and the circulation of wealth are one of the main characteristics of the Islamic economies. Hence, Zakat (a religious tax) is levied at 2.5 per cent on any wealth that is not in circulation and is disbursed to the various groups of beneficiaries listed in the Koran. Thirdly, the prohibition of usury; interest or riba, which is seen as involving exploitation because it violates the social function of wealth; it transfers wealth from the poor to the rich, thus increasing the inequality in the distribution of wealth. Hence, this has to do with conceptual considerations since it implies that wealth is not to gain a profit for the sake of being wealth on the basis of the postulate that interest is the reward for postponing expenditure. Therefore, the Islamic evaluation of modern banking centres on the evils of the institution of interest. Indeed, Islamic economists have analysed the role of interest in the economy and have traced the consequences of its abolition to the principle of profit sharing as a means of mobilising savings and channelling them into the productive process. A discussion of these points will however be postponed until the following section of this Chapter.

The final institution of capitalist economy severely criticised and prohibited by Islam and Islamic economists is gambling and speculation, on the basis of its consequent social and economic evils.

Guidance and blessing is promised to those who follow His instructions and threatened short life and punishment to those who do not believe in Him and remember Him:-

"But when there come into you from me a guidance, then whosoever followeth my guidance, he will not go astray nor come to grief. Be he who turneth away from remembrance of me, his will be a narrow life and I shall bring him blind to the assembly on the Day of Resurrection." [1]

The following verse similarly reveals to us:-

"And if the people of the townships had believed and kept from evil, surely we should have opened for them blessings from the sky and from earth." [2]

The accountability of the actions of Muslims is repeated on numerable occasions in the Koran, witness:-

"Whosoever doeth right, whether male or female, and is a believer, him verily we shall quicken with good life, and we shall pay them a recompense in proportion to the best of what they used to do." [3]

Muslims therefore see Islam not only as a religion but as a complete way of life which aims at the entire fabric of human life and culture within the values and principles revealed by God for man's guidance and true prosperity. Therefore, Muslim economists must always necessarily start from the assumption that economics is neither, nor can it be totally value-free.

2.5 The Emergence of Islamic Banking

All nations need a mechanism to channel savings from savers to investors on the basis of some understanding regarding repayment and returns. Traditionally, financial institutions have performed this task on the basis of receipt and payment

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[1] Koran - Taha, Verse 123-124.

[2] Koran - The Heights, Verse 96.

[3] Koran - The Bee, Verse 97.

of a fixed rate of interest.

Islam calls for the development of a society which will allow the worship of Allah (God) and in accordance with this principle, all wealth is considered by Islam to be the property of God and man is considered only a vicegrent. Thus, the principles governing Islamic banks and other financial institutions and their operations must be in accordance with "Sharia" (Islamic Code). The interest rate mechanism is replaced by joint-venture where sharing in profits (or losses) of investment takes place, as explained by Professor Siddiqi [1]:-

> "Instead of being promised a fixed return in the form of interest, depositors in savings or time deposits will be promised a definite share in the profits accruing on their deposits as a result of their investment by the bank. The entrepreneurs seeking advances from banks will promise the banks a share of the profits accruing to them. Should the enterprise end in a loss, the loss is regarded as an erosion of equity and banks get back what remains."

Without profit-sharing an Islamic bank cannot survive. Thus, an Islamic bank can be defined as a financial institution based on Islamic economic principles and ideologies and these ideologies stem from the Koran which forbids usury:-

> "O ye 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." [2]

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[1] Professor M. N. Siddiqi (1981) *The Rationale of Islamic Banking,* Paper presented by International Centre for Research in Islamic Economics. King Abdulaziz University, Jeddah.

[2] Koran - The Cow, Verse 278-279.

The Islamic financial institution differs from its western counterpart in numerous matters of detail and practice but most of these differences can be attributed to the principle of God's ownership and the prohibition of usury, already alluded to earlier. Hence:-

> "To Him belongs whatever is in the heavens and whatever is in earth and whatever is in between and to whatever is in between the soil." [1]

The Koran also reveals:-

> "Allah is the sovereignty of the heavens and earth and all that is between them. He createth what he will. And Allah is able to do all things." [2]

Perhaps the most remarkable phenomenon in the Middle East financial world in recent years, and one which has implications stretching from beyond the region, has been the growth of Islamic financial institutions. Working without the interest mechanism, one can say that an Islamic bank is to a large extent, a savings-investment institution.

As for the concept of Islamic banking, this is not entirely new. The earliest references to the reorganisation of banking on the basis of profit-sharing rather than interest are, according to Siddiqi [3], found in Qureshi [4], Naiem Siddiqi [5] and

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[1] Koran - Taha, Verse 6.

[2] Koran - The Table Spread, Verse 17.

[3] Siddiqi, M. N. (1980) Muslim Economic Thinking: Survey of Contemporary Literature. In *Studies in Islamic Economics*, Kurshid Ahmad (ed.).

[4] Qureshi, A. I. (1948) *Islam and the Theory of Interest* with an introduction by Syed Sulaiman Nadvi. Lahore, Muhammad Ashraf, xxiv, 223 p.

[5] Siddiqi, N. (1948) *Islami usul par banking* (*Banking according to Islamic Principles*), Chiragh-e-Rah (Karachi) 1 (11).

Mahmud Ahmad [1] in the late forties, followed by a more elaborate exposition by Mawdùdi in 1950 [2]. The first published work devoted to the subject by a professional economist was undertaken by Muhammad Uzair [3], and contains the core of future proposals on the subject, discussing and defining the principle of mudarabah. Irshad [4] also exclusively devoted attention to the subject and his work contains useful suggestions on the creation of reserve funds to absorb losses, a discussion of Industrial Development banks, building corporations and consumption loans.

Works on the subject have appeared in the late sixties undertaken by Dr. Abdulah Al Araby [5], Siddiqi [6], Baqir al Sadr [7] and Najjar [8], many of whom are quoted at various points in this study.

Al-Araby's [9] paper deals with the evils of contemporary

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[1] Ahmad, Sheikh Mahmud (1972) *Economics of Islam: A Comparative Study*. Lahore, Muhammad Ashraf, xv, 227 p.

[2] Mawdūdī, Sayyid Abul A'lā (1950) *Sud (Interest)* Lahore, Islamic Publications, 410 p.

[3] Uzair, Mohammad (1958) "Foreign Trade in an Interestless Economy" *Voice of Islam,* (Karachi) 7 (2-3), Nov-Dec. 58:90-104.

[4] Irshad, Shaikh Ahmad *Interest Free Banking,* Karachi: Orient Press of Pakistan, n.d. 100 p.

[5] al-'Araby, Muhammad (1967), Abdullah "Contemporary Bank Transactions and Islam's View Thereon" *Islamic Thought (Aligarh)* 11 (3, 4) July, 10-43, Cairo.

[6] Siddiqi, Muhammad Nejatullah (1969) *Banking Without Interest* Lahore, Islamic Publications.

[7] Baqir al-Sadr (1974) *Interest Free Bank in Islam,* Kuwait: Jami'al-Naqi (A).

[8] al-Najjar, Ahmad Muhammad 'Abd al-Aziz (1972), *Banks Without Interest as a Strategy for Economic and Social Development of Muslim Countries,* Jeddah, Jami'at al-Makik 'Abdal 'Assiz.

[9] *ibid.*

banking while Siddiqi [1] is essentially concerned with the economics of interest-free banking and in a more recent paper [2] addresses the problem of how to ensure an equilibrium between the demand for interest-free loans and their supply; he points out that:-

> "much of the demand for call money and short-term loans emanates from within the financial sector itself and is likely to be eliminated as that sector shrinks in consequence of the abolition of interest." (pp.224-225)

Papers presented at the Makka Conference on Islamic Economics in 1976, and other contributions made during the early 1970s include comprehensive studies by Gharib al-Gammal [3] and Mustafa Abdullah al-Hamshari [4] and expound varying conceptions of Islamic banking.

Many of the early works conceive Islamic banks as mainly financial intermediaries mobilising savings from the public on the basis of profit-sharing (mudarabah) and advancing funds to entrepreneurs on the same basis. Profits are shared by an Islamic bank according to a mutually agreed percentage while losses are attached to the bank. It should be noted, however, that the various models or conceptual expositions

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[1] *ibid.*

[2] Siddiqi, M. N. (1977) *Banking in an Islamic Framework.* Paper presented at the International Economic Conference: The Muslim World and the Future Economic Order, London, July, 1977.

[3] al-Gammal, Gharib (1972) *Banks and Banking Transactions in Islamic Law and Positive Law.*

[4] al-Hamshari, Mustafa, Abdullah (1973) *Banking Operations and Islam.*

of Islamic banking largely depend upon differing interpretations of Islamic jurisprudence.

One such model attained reality in the early 1960s. This was the Egyptian experiment evolving from a community development with a simple banking system aimed at serving the social and economic needs of the community. However it was a short lived experiment which failed due to political reasons beyond its own control.

The Egyptian Study on the Establishment of the Islamic Banking System (1972) [1], envisaged a Zakat fund and a "local and public Islamic Fund" together with the organisation of normal banking functions on the basis of mudarabah. The distinguishing features of that scheme included offering to current account depositors:-

> "a part of the profits due to the bank as its contribution",
> (p.20)

free service charges and priority in banking services such as "accepting bills of exchange" without interest. Savings account depositors were to be offered overdraft facilities without interest and other services such as letters of credit and acceptance of bills of exchange in addition to their due share in profits on the basis of mudarabah. Interest-free loans to the public were to be given out of Zakat funds. The problem of bad debts would be solved by means of a "Co-operative Insurance" to which "borrowers contribute a certain sum of

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[1] *The Egyptian Study on the Establishment of Islamic Banking System* (Economics and Islamic Doctrine), Cairo, 1972.

money to cover the possible risk" (p.43). Zakat funds was another source of funds from which bad debts could be recovered. The Egyptian Study also sets out the salient features of central and international banking.

Although the Egyptian experiment failed, the experience gained - particularly in the saving awareness among small savers - was useful in the development and successful establishment of the Islamic Development Bank at Jeddah in 1974, the first major institution of its kind. Of the Establishing Articles [1] of the Bank, Article 1 indicates that the purpose of the bank is:-

> "... to foster economic development and social progress of member countries and Muslim Communities individually as well as jointly in accordance with the principles of the Sharī'ah".

Among its aims - to make loans to the private and public sectors for the financing of productive projects, enterprises and programmes, to establish and operate special funds for specific purposes including a Fund for assistance to Muslim communities in non-member countries, invest in economic and social infrastructure projects in member countries and to undertake research for enabling the economic, financial and banking activities in Muslim countries to conform to Sharī'ah.

The authorised capital of the Bank was to be two thousand million Islamic Dinars (Article 4, 6) and according to Article 42, 4, the distribution of profits:-

> "shall be made in proportion to the number of shares held by each member".

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[1] Conference of Islamic Finance Ministers, Jeddah, Aug. 1974, Islamic Development Bank: Articles Establishing IDB.

Since it does not operate on the basis of interest the IDB has had to devise unique methods not traditionally adopted by development banks, such as participation in development projects at all levels including supply of capital, management and sharing of profits and losses. Another distinguishing feature of the bank is its emphasis on social progress as well as economic development since traditional banks are mainly interested in profits or in the case of development banks, in "economic development". Indeed, the establishment of the Islamic Development Bank is significant in being the forerunner of a viable and just alternative to an interest-based system.

The establishment of the IDB has been followed by the calling for on a popular level, the establishment of a number of Islamic banks by His Royal Highness Prince Mohammed El Faisal Al-Saud, who since 1977 has been instrumental in establishing seven Islamic Banks in the Middle East.

They comprise the Kuwait Finance House (capitalised at $36 millions), the Dubai Islamic Bank ($20 millions), the Faisal Islamic Bank of Egypt ($40 millions), the Faisal Islamic Bank of Sudan ($12 millions), the Jordanian Islamic Bank ($12 millions), the Islamic Bank of Bahrain ($28 millions) and the Iranian Islamic Bank. According to Professor Ahmed Al Najjar, Secretary General of the International Association of Islamic Banks, other Islamic banks are to be formed shortly in Lebanon, Pakistan, Mauritania, Bangladesh, Quatar and Morrocco. Moreover, Pakistan is now undertaking the complete conversion of its banking system and Iran has now officially cancelled the receipt and payment of interest.

In addition, His Royal Highness Prince Mohammed Al-Faisal Al-Saud has established a major new International Islamic bank called the Islamic House of Funds (capitalised at $1 billion), whose foundation in the Bahamas was declared at the Second International Conference on Islam and Banking held in Geneva, June, 1981. One of the main aims of this bank will be to create an alternative to the placing of petro-dollars and other Arab funds in Western financial institutions. Indeed, the very large amounts of investible funds many Middle East countries presents these banks with great opportunities and challenges. Only the future can reveal how far their stated objectives and potentialities have been realised.

Interest-free banks surrounded by a sea of interest-based institutions face a number of difficulties. However, at the Geneva Conference in June 1981, a number of Western banks declared their readiness to co-operate with these new Islamic banks and to engage actively in finding solutions to the problems faced in an integration of the two systems.

The emergence of such a powerful new force in international banking has therefore been recognised and approved by Arab leaders, prominent Islamic scholars and prudent Western bankers, who could have to deal with, according to Herbage [1]:-

> "... the most dramatic implications on the international banking scene of any development that has happened over the last 30 years."

If the recent growth of Islamic banks continue, again,

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[1] Herbage, Alex (ed.) (1981), *op.cit.* p.12.

according to Herbage (1981) [1], then this new development:-

> "... must be watched closely by all bankers; whether Western or present-day Arab Middle East Riba style, as a vast popular movement could sway unprecedented amounts of capital into the new organisation."

Indeed, whilst there are still significant problems to be overcome by Islamic banks, it is increasingly becoming evident that they are not only currently expanding in many Muslim countries but also operating alongside the well established Western commercial banks, successfully.

As the Middle East Review [2] recently pointed out:-

> "The speed with which Islamic banking has spread in the past decade has surprised many of those who were sceptical about its chances of success... If Islamic banking continues its rapid spread, bankers in the classical Western system will have to become acquainted with a new set of words and concepts."

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[1] Herbage, Alex (1981) ed., *op.cit.* p.12.

[2] *Middle East Review (1983)* "The Spread of Islamic Banking" pp.99-104.

CHAPTER THREE

REVIEW OF THE LITERATURE

3.1 Introduction

This research effort has been set forth in the context of a comparative marketing management study. In order to adequately study the frequency with which marketing orientation and implementation of the marketing function is associated with Islamic and Western (riba based) banks, it is necessary to examine existing knowledge pertinent to the topics of bank marketing and marketing management.

The purpose of this Chapter is to present such an examination. The Chapter therefore is divided into five main headings or sections. The first section concentrates on the scope of marketing. The second concentrates on the literature related to similarities and differences in the marketing of products and services. The third section reviews the literature concerning the marketing concept and marketing management. The marketing mix is dealt with in the fourth section while the last section focuses on the nature of commercial bank marketing.

3.2 The Scope of Marketing

It is feasible to initiate a review of the literature regarding the scope of marketing by presenting a few definitions of marketing.

Various definitions of marketing have been offered and an extensive review of the literature on this aspect leaves one with the distinct impression that marketing is deceptively easier to describe than to practise.

McCarthy [1], for example, defines marketing in the following way:-

> "Marketing is the performance of business activities which direct the flow of goods and services from producer to consumer or user in order to satisfy customers and accomplish the company's objectives."

Holloway and Hancock [2] define marketing as:-

> "those activities necessary and incidental to bringing about exchange relationships.".

While Philip Kotler [3] has argued persuasively that marketing is in essence an exchange process thus Kotler defined marketing as:-

> "... the set of human activities directed at facilitating and consummating exchanges."

However, according to Arndt [4] not all exchanges are marketing exchanges. This means that marketing will not include exchanges in non-economic areas where participants are non-marketing institutions such as churches, welfare agencies and cultural agencies. For Tucker [5], even within economics, the labour

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[1] McCarthy, E. J. (1969) *Basic Marketing: A Managerial Approach,* 3rd edition., Homewood, Illinois: Richard D. Irwin, Inc., p.9.

[2] Holloway, R. J. and Hancock, R. S. (1968) *Marketing in a Changing Environment.* New York: John Wiley and Sons, p.4.

[3] Kotler, Philip (1972) *Marketing Management - Analysis, Planning and Control.* 2nd ed. Englewood Cliffs, New Jersey: Prentice Hall, p.12.

[4] Arndt, Johan (1978) "How Broad Should the Marketing Concept Be? *Journal of Marketing,* January 1978, pp.101-103.

[5] Tucker, W. T. (1974) "Future Directions in Marketing Theory", *Journal of Marketing,* Vol. 38, No. 2, April 1974, p.31.

market and the stock market will not be considered parts of marketing.

Cowell [1] maintains, however, that marketing has relevance for all organisations, whether they are profit or non-profit organisations and whether they provide products or services. He states:-

> "... marketing is first and foremost an attitude of mind and also a way of organising the enterprise. Marketing covers a range of activities. Once it is recognised how central the customer is to the enterprise then the activities necessary to ensure the servicing of customer needs will emerge as a matter of course. Such activities will vary from organisation to organisation but will typically include:-
>
> - identification of customers, their needs and wants, and the various market groups and segments that exist;
>
> - the creation, production, and delivery of products and services which meet those identified needs and wants, and which are consistent with the enterprise's view of the customer needs it has decided to serve and to meet;
>
> - pricing the products and services;
>
> - communicating with the market place about what products and services are available.

Thus according to Cowell, marketing is an attitude of mind, a way of organising the enterprise, and a range of activities which necessitates the employment of tools and techniques in the process of identifying, anticipating, and satisfying customer requirements profitably.

Hence, some scholars believe that the best way to

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[1] Cowell, D. W. (1980) "The Marketing of Services" *Managerial Finance,* Vol. 5, No. 3, pp.223-231.

understand the nature and purpose of marketing is to examine the functions of marketing in moving goods and services from production to consumption.

In answering the question: What is marketing? Berry and Donnelly [1] state:-

> "Marketing may be viewed from three interrelated perspectives, all of which are pertinent to its ultimate definition. Specifically, marketing may be conceived as:-
>
> 1. a philosophy of the organisation;
> 2. a societal institution in rapid evolution;
> 3. a process in the organisation for regulating market demand.

As a process, marketing is very important to society, for marketing has been given the task of delivering the standard of living demanded by society. Consumers have many needs and desires which marketing must satisfy if our free enterprise system is to survive. Usually, the marketing theorist considers needs, desires and motives to be synonymous and defines them as drives for which an individual seeks satisfaction [2]

Sir Frederic Seebohm [3], addressing the Cambridge Seminar in 1971 on the topic of the marketing of bank services began with this simple definition: marketing is:-

> "... the creation and delivery of customer-satisfying services at a profit."

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[1] Berry, L. L. and Donnelly, J. H., Jr. (1975) *Marketing for Bankers,* New York: American Institute of Bankers, p.2.

[2] Stanton, William J. (1967) *Fundamentals of Marketing,* 2nd edition, New York: McGraw Hill, p.100.

[3] Seebohm, Sir Frederic (1971) "The Marketing Programme" *The Marketing of Bank Services,* Cambridge Seminar, 1971, Kent: Stanhope Press.

While, in his definition, Misselbrook [1] stresses the significance of marketing as an organisational function thus:-

> "In its first and most important meaning 'marketing' is the motive force which determines whether a corporation is active or moribund, whether it lives or dies. In its second meaning, it comprises special skills and ingenuity in market and product assessment, advertising selling and distribution... marketing springs from a perceptive and imaginative analysis of the essential characteristics of the business, its products and services, in relation to the present and future needs of its existing and potential customers."

In defining "marketing", most academicians and practitioners alike include both goods and services. The basic definition as set forth by the 1948 Definitions Committee of the American Marketing Association [2] is:-

> "... all the business activities involved in the flow of goods and services from producers to consumers".

Even the expanded definition of marketing which has followed the development of the marketing concept (to be considered in more detail in a later section of this Chapter), the idea of including both goods and services is still there. Thus Phelps and Westing state [3]:-

> "... the new image or modern concept of marketing is one which starts with an interpretation of consumers' needs and desires both quantitatively and qualitatively, follows through with all the business activities involved in the flow of goods and services from producers to consumers and ends with those services necessary to aid the consumer in getting the expected utility from the products he has purchased."

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[1] Misselbrook, B. D. (1969) "What is Marketing?" *Journal of Institute of Bankers*, December 1969, p.389.

[2] "Report of the Definitions Committee" *Journal of Marketing* XIII, No. 2, October 1948, p.209.

[3] Phelps, M. and Westing, J. H. (1960) *Marketing Management* Revised edition, Homewood, Illinois: R. D. Irwin, Inc. pp.2-3.

These definitions are helpful, for, from the literature reviewed we can now conclude that marketing is more than selling, focuses on the customer, concerns facilitating exchange, is both an attitude of mind and a way of organising the enterprise and covers a range of activities which ultimately aim at bringing consumer satisfaction of both goods and services.

The list of definitions and expositions on the scope of marketing is however by no means exhaustive, but serves merely as an example of the fact that marketing does not have a universally accepted definition or scope.

While many marketers include services in their definitions, few have endeavoured to distinguish the similarities and differences of service marketing and product marketing. Section 3.3 of this Chapter reviews the available literature regarding this distinction.

3.3 Product and Service Marketing: Similarities and Differences

So far, the words "product" and "service" have been used with no attempt to distinguish between them. Yet a growing amount of discussion and literature centres on the debate concerning whether the marketing of products is similar to or different from the marketing of services. It is the object of this section of the Chapter to explore the literature relating to the nature of the marketing of products and services generally and the problems and pecularities of marketing of financial services specifically.

A first but difficult step in distinguishing between the marketing of products and services is clearly to define the terms "products" and "services".

In general, marketing scholars agree on a definition of products. A product is normally defined as a physical commodity composed of tangible attributes which the buyer purchases to satisfy specific wants or needs. However, the problem of properly defining and classifying services has been perplexing marketing scholars for some time. Indeed, the failure to agree on a workable definition of services appears to be one reason for the confusion surrounding the marketing of services.

Thus, Cates [1] has observed:-

> "Service is an extraordinarily wide, diverse, and ambiguous concept. Each separate industry... is so separate in outlook and internally so diversified that generalisation is impossible."

A brief analysis of some definitions will demonstrate that the first difficulty encountered in the field of the marketing of services is definitional.

Marketing scholars have taken one of two approaches when defining services. One approach which Judd [2] calls "definitions by listing", is represented by that of the Definitions Committee of the American Marketing Association [3]

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[1] Cates, D. C. (1961) "Service Industries: Clarification for Investors". *Commercial and Financial Chronicle,* CXIV November 1961, p.2238.

[2] Judd, Robert C. (1964) "Case for Redefining Services", *Journal of Marketing* XXVII, January 1964, pp.58-59.

[3] Alexander, R. S. (1960) Chairman, Committee on Definitions American Marketing Association, *Marketing Definitions: A Glossary of Marketing Terms,* Chicago: American Marketing Asn.

Services are:-

> "Activities, benefits, or satisfactions which are offered for sale, or are provided in connection with the sale of goods. Examples are amusements, hotel services, electric services, transportation, the services of barber shops and beauty shops, repair and maintenance services, the work of credit rating bureaus..."

The difficulty with this definition, however, is that it is too broad, for arguably products could be construed to offer "benefits and satisfactions" as well as services. Indeed, such lists suffer from two important drawbacks says Cowell [1]:-

> "The first is that they become outdated as new and original types of services appear. The second is that they do not adequately describe the essential nature of what constitutes a 'service'. They are descriptive rather than analytical."

Judd, who was specifically concerned with the definitional and classificatory problem of services noted similar drawbacks to the "definition by listing" approach and offers the following definition:-

He defines a service as:-

> "... that object of a market transaction where what is involved is other than the transfer of ownership and title, if any, of a tangible commodity."

Thus, Judd accepts intangibility as the differentiating factor.

This introduces us to another approach which is the taxonomic, where services are classified according to unique characteristics they are thought to possess. This is now

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[1] Cowell, D. W. (1980) "The Marketing of Services", *Managerial Finance,* Vol. 5, No. 3, p.227.

a widely accepted approach. Initially popularised by McDowell [1] and Parker [2], it aids the development of a framework within which services may be categorised. Some distinctive characteristics put forward are:-

"tangibility - services are intangible and cannot be touched, tasted, felt, etc.;

perishability - services are perishable and cannot be separated from the person providing them;

heterogeniety - services present problems of standardisation;

fluctuation - services tend to suffer fluctuations of demand which present particular problems because stocks cannot be held."

While there has been disagreement among marketers regarding the other characteristics, intangibility is one of the most widely agreed characteristics of a service. A product is commonly used to mean a tangible object or thing whereas a service appears to be synonymous with a process or an act.

Another feature of the literature is where authors have attempted to develop listings of perceived similarities and differences between products and services on functional lines. For example Judd. [3]

Such schemes suggest, for example, that:-

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[1] McDowell, W. J. (1953) "The Marketing of Consumer Services" *Unpublished Ph.D. Dissertation, University of Iowa,* p.10.

[2] Parker, D. D. (1966) *The Marketing of Consumer Services,* Seattle: University of Washington Press, p.3.

[3] Judd, R. C.(1968) "Similarities and Differences in Product and Service Retailing", *Journal of Retailing,* 43, Winter, pp.1-9.

services cannot be stocked;

channels of distribution, where they exist are short;

services lack patent protection;

standards cannot be precise in the service sector because of the absence of mass production and that it is impossible to separate the consumer from the production process with services.

The need for a separate theoretical base or separate marketing approach for services as contrasted to goods has been completely rejected by both Eugene M. Johnson [1] and Judd [2]. Johnson's study, entitled "Are Goods and Services Different?: An Exercise in Marketing Theory" concluded that marketing concepts and procedures appear to have universal application, that is, they are appropriate for both goods and services. He found that buyers of goods and services are remarkably similar in their attitudes, needs, and buying behaviour and thus that both buyers of goods and services, view marketing in similar ways.

Judd, similarly concluded that while the extent of differences between product and service marketing cannot be dismissed as incidental, the extent of similarities is substantial.

In spite of these similarities, however, Rathmell [3]

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[1] Johnson, E. M. (1969) "Are Goods and Services Different?: An Exercise in Marketing Theory", *Unpublished Ph.D. Thesis* University of Washington.

[2] Judd, R. C. (1968) *op.cit.*, p.9.

[3] Rathmell, J. M. (1969) "What is Meant by Services", *Journal of Marketing*, 33, Jan., p.10.

points out, the marketing discipline has a strong "goods" orientation.

Going beyond the overall similarities that Johnson [1] found between goods and services, he also noted differences which may require modifications or extensions of marketing concepts and procedures in order to adapt them to the particular quirks of the service buyer. In general, he found that services are characterised by higher prices, less consistent quality, less reputable brands, and lower overall satisfaction. Also, many service industries are not considered as progressive as goods industries. Purchases of goods tend to represent a more pleasant buying experience than purchases of services; are characterised by limited personal involvement, are influenced by more advertising than service purchases and are bought with heavy reliance on brand names.

Conversely, purchases of services are: frequently a less pleasant buying experience, characterised by personal or intimate involvement; included by other persons more than are goods purchases and bought with greater consideration given to the particular seller.

A final differentiation between goods and services is that normally the purchaser of a good has only two choices - buy the product or forego satisfaction - while there is a third alternative for services - do it yourself. This complicates the service marketer's task, since not only must the buyer's

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[1] Johnson, E. (1969) *Service Marketing Management.*

normal reluctance to act be overcome, but his willingness to perform the service for himself must be also subdued.

Lack of data on the problems involved in marketing services and how service marketing differs from product marketing is emphasised by Baranoff and Donnelly, Jr. [1] However, Reekie [2] offers a reason why marketing has developed most fully in manufacturing industries. He states:-

> "... The answer can be found in the advent of mass production techniques. When products were no longer custom built and the firm catered for a market of thousands instead of dozens, it became essential to ascertain the market's needs and wants before investing large sums of capital in costly and relatively inflexible production lines. This deliberate emphasis on the marketing concept was unnecessary in the days of craftsman-client relationships when the customer himself took on the task of informing the producer what sort of product he wanted. In the mass market situation failure to tailor one's product to the market's needs can result in the loss of considerable capital investment and an inability to amend spontaneously any errors which have been made."

Reekie concludes that services may now be following goods from being custom built to being mass produced and hence applying mass marketing techniques.

Nevertheless, in an analysis of marketing activities in the service industries, George and Barksdale [3] concluded

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[1] Baranoff, Seymour and James H. Donnelly, Jr. (1970) "Selected Channels of Distribution for Services". In: *Handbook of Modern Marketing*, Victor P. Buell, ed., New York: McGraw Hill, p.43.

[2] Reekie, W. D. (1972) "Marketing in Banking", *The Bankers Magazine,* Vol. 214, p.57.

[3] George, William R., and Hiram C. Barksdale (1974) "Marketing Activities in the Service Industries". *Journal of Marketing,* Vol. 28, October 1974, p.69.

that although service industries have experienced unprecedented expansion in recent years:-

> "the marketing function appears to be less structured in service companies than in manufacturing firms ... fragmentation of marketing activities in service firms holds true for all components of the marketing mix."

Specifically, service firms appear to be:-

1. generally less likely to have marketing mix activities carried out in the marketing department;
2. less likely to perform analysis in the offering area;
3. more likely to handle their advertising internally rather than go to outside agencies;
4. less likely to have an overall sales plan;
5. less likely to develop sales training programmes;
6. less likely to use marketing research firms and marketing consultants, and
7. less likely to spend as much on marketing when expressed as a percentage of gross sales. [1]

Returning to another common characteristic of service firms both Johnson [2] and Cooke [3] note that most service industries are subject to some special form of government regulation. Cooke feels that regulation affects the marketing process in at least three significant ways:-

> (i) it typically reduces the range of competition; if competition remains, its intensity is typically increased;

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[1] George, William, R., and Hiram C. Barksdale (1974) *op.cit.*, p.65.

[2] Johnson, E., *op.cit.*, p.44.

[3] Cooke, B. (1968) *Analysing Markets for Services*, pp.2-4.

(ii) it reduces the marketers' array of options and introduces rigidity into the marketing process;

(iii) it introduces into the marketing decision process a new variable - the fact that the regulatory agency's decisions are controlling and that it is therefore necessary to predict those decisions.

Hardin [1] suggests some general characteristics of the average service company customer thus: the service customer tends to have a high degree of loyalty. He generally stays with the company over a lengthy period of time. Each customer represents significant income potential as he may spend large amounts of money with the service firm each year. Thus each additional customer has a significant profit potential, particularly when computed in marginal terms. Current customers represent additional profit potential as they can be sold other services offered by the same company.

Johnson [2] has studied the management aspects of small service firms in great depth. For him, the unique nature of a service with its intangibility, dominance of human inputs, etc. has resulted in several internal managerial weaknesses. He maintained that there are three areas in which management has failed. First, they do not have a complete marketing approach. That is, the acceptance of marketing as a major business activity has come slowly for many service firms - mainly as an adaptive measure. As a result, they have tended to be service oriented rather than customer oriented. Johnson

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[1] Hardin, D. K. (1970) "Marketing Research for Service Industries" in *Handbook of Modern Marketing*, ed. V. P. Buell, New York: McGraw Hill, pp.6-41.

[2] Johnson, E. M. (1969) *Service Marketing Management*, pp.91-94.

maintains that service firm managers must be willing to experiment and use all types of marketing tools in the promotion of services. Thus, service managers must market services just as completely as goods are marketed.

Second, they have failed either to recognise marketing problems or to act when they realised a problem existed. Third, there has been little co-ordination of the marketing efforts of the various groups within service firms. Greater effort must be exerted to integrate fully marketing with other business functions. Many service firms lack a major executive whose sole responsibility is marketing. Thus, marketing administration should be assigned to a top executive who is an integral member of the management team and an active participant in the company's corporate planning.

Addressing the subject of "marketing of financial services" Deryk Weyer [1], one of the first senior bankers in the U.K. to recognise the importance of marketing in the field of financial services, echoes much of Johnson's assertions. He states:-

> "Unlike most products, services... tend to have little visual appeal. This weakens the power of advertising and the other visual promotions. Financial services are less appealing to the senses and emotions than to reason, which is well known to be less powerful as a spur to human endeavour than appeals to warmth, security, love... Services are therefore less susceptible to impulse buying and there are many periods when demand for them is at a low level. All this reduces the part played in the mix of impulse stimulating promotions, such as advertising and mail drops, and puts personal selling and commendations at a premium.

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[1] Weyer, Deryk (1973) "The Marketing of Financial Services" *Journal of General Management*, Vol. 1, no. 1, pp.16-23.

> "Since the services (financial) are often so intangible, non-standard and technical in content compared with a basic consumer product, the emphasis in selling is not surprisingly on the seller's integrity and personal recommendation. The buyer has to have confidence in the seller's recommendations since there is no way he can clearly check by demonstration that the 'product' works."

He concludes:-

> "Undoubtedly, the concept of marketing in relation to financial services is valid, yet it is different in application to the marketing of more tangible products."

Ornstein [1] draws attention to the problems of the money industry which presents particular problems for the marketing of financial services as opposed to that of merchandise. He asserts that in the case of merchandise, the selling is mostly done by the product itself, whose benefits can be seen or demonstrated, whereas money products are intangible, and their benefits not visible. Their successful sale depends far more on the intelligence and integrity of the people who sell them. Problems of selling money are compounded by lack of a good retail distribution network whereas for most classes of merchandise, clearly defined retail outlets are available throughout the country. In promotion, the task is more complex than with most merchandise, because there are often at least three obstacles to overcome:-

(i) the whole concept of using money or saving money may have to be sold, because of the widespread lack of knowledge of the proper uses of money;

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[1] Ornstein, Edwin J. (1972) *The Marketing of Money*, London: Gower Press.

(ii) Each section of the industry has to sell its own type of money against other types. The unit trust competes with the building society, the second mortgage company with the clearing bank, the leasing company with the merchant bank. There is even competition between immediate money products and future money, which are a form of deferred spending.

(iii) Within each section, there are rival companies offering very similar products, and wanting to obtain a larger share of the available market. This competition becomes greater, more aggressive and more skilled every year.

In considering how marketing financial services differ from marketing consumer or industrial products and services McIver and Naylor [1] maintain that the fundamental consideration which must cover the attitude of bank managers to marketing and selling rests in what they term "fiduciary responsibility".

> "... bankers who persuade their customers to entrust personal or corporate funds to their care or to accept advice on investment or some management matters incur a heavier responsibility than the sellers of candyfloss."

For this reason:-

> "A responsible bank management has to say that marketing skills are important if the bank is to grow and prosper - increasingly important in an increasingly competitive environment - but that other aspects of their profession are equally important.

> "A corollary of this is that the qualities a bank must seek in its employees are not the same as those that cartoonists would lead us to believe

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[1] McIver, Colin and Geoffrey Naylor (1980). *Marketing Financial Services,* Cambridge: Institute of Bankers, pp.9-10.

belong to a typical salesman: uncaring aggression at any price. It is true that without sales no company can survive. But the bank manager, dealing with transactions which may fundamentally affect his customer's future, must be more receptive and aware of the possible consequences of a successful 'sale'. This does not necessarily mean that he will be a less effective salesman (though he may shudder at the notion of being called a salesman); but it does mean that his selling style and the marketing programme which is built around him will be different."

Management's task is made even more difficult in the banking field, since its central position in the economy means that:-

> "it is affected by almost every major development, economic, political or technological, anywhere in the world." [1]

Senior management, thus have major responsibilities to discharge. The main marketing techniques which can help in discharging banker's responsibilities are: market information and research, prediction, marketing plans, customer services development, development of sales and service outlets, humanising technology, persuasive communications and marketing and sales training.

Thus McIver and Naylor [2] concluded that though the marketing of financial services differs in several important particulars from marketing in other industries, the marketing techniques and ideas developed in other sectors can be usefully adapted to the increasingly competitive financial services markets.

Cowell [3] points out that from the marketing point of

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[1] McIver and Maylor, *op.cit.* pp.168-169.

[2] McIver, Colin and Geoffrey Naylor (1980) *op.cit.* pp.14-15.

[3] Cowell, D. W. (1980) *op.cit.* pp.229-230.

view there are some important characteristics of many financial services which may influence their marketing. Financial services are intangible, yet the consumer may be given something tangible to represent the service like a credit card or an insurance policy. The tangible item given to the customer may say something about the customer and his aspirations but essentially, financial services have little visual appeal. Since services are performed, their quality derives from their performance, not from their physical characteristics. A challenge facing the providers of financial services is to ensure the consistency and quality of the service being performed. Indeed, that some financial services are dependent upon the skills, knowledge and participation of the seller, emphasise the necessity of professional performance.

Since some types of financial services organisations cannot store their product to meet fluctuations in demand, they are often concerned with managing demand. Indeed, where demand for the services provided is excessive, a strategy of "demarketing" may be necessary where organisations actively discourage customers on a temporary or permanent basis. This is related to the essentiality versus postponability features of financial services, for some financial services are essential, while others are not essential and do not need to be bought. Their use or purchase may be inessential, or even where it becomes essential, may be delayed or postponed for some time.

Other characteristics of some financial services which are important to marketing are the managerial commitment required by the purchaser of services such as mortgages and life insurance. Other financial services carry risk factors from the purchaser's point of view (e.g. savings and investment accounts) and from the seller's point of view require emphasis upon safety, accessibility, and liquidity.

Thus, where intangibility is an important characteristic a great burden is placed upon the seller's promotional programme to describe the service. For example, the seller of services like life assurance and savings funds need to develop effective promotional strategies to reach their target markets adequately. Hence, direct (e.g. advertising) and indirect (e.g. word of mouth) methods of communication are required to sell the benefits of their services. Where fluctuating demand is an important feature of a financial service then product planning, pricing and promotional challenges will be necessary.

In his overview of financial services marketing, Wilson [1] mentions some of the factors which seriously affect the financial services market place, such as the political and economic. He argues:-

> "The market place is affected by political matters as much as by economic ones, and their impact is felt much more rapidly than in traditional consumer markets. A conspicuous illustration of this is the way in which interest rates can change overnight (following a change in the Bank of England's base rate), and this will create a need to revise marketing plans (e.g. in the case of credit card companies such as Access and Barclaycard this can affect their relative attractiveness to those seeking a source of credit)." (p.235)

Thus, the financial services sector is fraught with

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[1] Wilson, R. M. S. (1980) "An Overview of Financial Services Marketing", *Managerial Finance*, Vol. 5, No. 3, pp.231-256.

many problems not usually common to the product sector.

To conclude this section, it may be said that the literature reviewed has provided useful insights in the following directions:-

1. Knowledge and understanding of the nature of marketing of services is still developing. At the present time it is difficult to point exactly to what are the differences between the marketing of products and the marketing of services. It appears more useful to think in terms of their similarities.
2. The observed similarities between the buying processes for products and services suggest that marketing know-how utilised by product oriented industries can be adapted to service marketing. In fact, it appears that product marketing and service marketing are becoming more similar, rather than more dissimilar. Thus, such general concepts as the marketing mix are quite applicable to services. Furthermore, it is likely that specific marketing techniques and personnel are transferrable across industry lines. However, managerial skills and sophistication are required to adapt product marketing concepts to services.
3. Because of the variety of processes and activities embraced by the services industry, marketers need to select and adapt those schemes that are relevant to their particular service industry. To generalise across services may not be of value to marketers of services.
4. The sheer scale of the services sector has demanded that more attention be devoted to the area. Much of the work and attention is of recent origin and reflects the growing interest in applying marketing to a wide range of service

settings and activities.

5. A variety of frameworks have been proposed for considering service marketing. The major approaches however leads one to conclude that the differences between products and services might be more a matter of emphasis than of nature or kind. For some product marketing techniques, as stated earlier, are generalisable to service situations.
6. The field of financial service marketing is one that is intrinsically much more complex than is the case with the average product market. Economic and political factors, for example, have a greater impact upon the financial service market place than is the case in other consumer markets.
7. Although until recently, the financial sector has been said to be lacking in marketing orientation and firms have had a limited view of the marketing function, the changing environments in which they now find themselves has necessitated marketing expertise in many kinds of financial services markets. Indeed, through the adoption of and experimentation with marketing and marketing ideas the financial services sector has contributed more to its development in recent years than it has in the past.

The following section of this Chapter examines the literature related to the marketing concept and marketing management generally and specifically as it relates to the field of commercial banking.

3.4 The Marketing Concept and Marketing Management

Up to this point this Chapter has dealt primarily with backgrond material concerning the scope of marketing and the differences and similarities between product and service marketing. The purpose of this section is to review and discuss the literature related to the marketing concept and marketing management, in particular as it is applied to banks.

The marketing concept is not easily defined. Indeed, as J. R. McKitterick [1] points out:-

> "... to be asked to define the marketing concept can almost be accepted in the spirit of a challenge - because it is probably impossible - or if you have already tried and know it is impossible, then such a request can be passed off as spoken in jest - or more morbidly, considered as an insult." (p.72)

However, according to Cowell [2]:-

> "at the heart of what marketing is about lies the so-called 'marketing concept' which managers in most types of organisations can use as a general guide to their thinking and their actions."

In offering a distinction between the marketing concept and marketing management Kirk [3] also asserts:-

> "The marketing concept is a philosophy or attitude that accepts a customer-oriented way of doing business and is rooted in the profit concept instead of the volume. Marketing management

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[1] McKitterick, J. B. (1957) "What is the Marketing Management Concept?", in Frank M. Bass (ed.) *The Frontiers of Marketing Thought and Science*, Chicago: American Marketing Association.

[2] Cowell, D. W. (1980) "The Marketing of Services" *Managerial Finance,* Vol. 5, no. 3, p.223.

[3] Kirk, R. A. (1973) "Co-ordinating the Marketing Effort" *Burroughs Clearing House,* p.26.

is the 'how we do it' or translation of the philosophy into actual practice." (p.26)

Thus, the definition of the marketing concept depends upon whether it is used merely as a philosophy or if it is used in actual practice, in either case, if an organisation adopts the philosophy it must show evidence of its actual practice through its organisational structure and strategies implemented to achieve objectives.

If we consider the marketing concept as a philosophy, the literature suggests an emphasis on a way of thinking as much or more than on a set of activities. Thinking about the consumer appears to be at the heart of the marketing concept. According to Stanton [1], the marketing concept is a philosophy of business wherein it is recognised that anticipation, stimulation, and supplying of customer needs and wants are the primary aim of the firm and all other functions are secondary. Customer orientation, according to Borch [2] is a dual-core marketing job, that is, discovering needs and desires of customers, including those of which the customer is not aware and persuading the customer to purchase these goods or services.

For others, the marketing concept consists of customer orientation and profit orientation, and this is illustrated in King's [3] definition of the marketing concept thus:-

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[1] Stanton, William J. (1971) *Fundamentals of Marketing,* New York: McGraw Hill, p.9.

[2] Borch, Fred J. (1957) "The Marketing Concept as a Way of Business Life". In: *The Marketing Concept: Its Meaning to Management,* New York: American Management Association, p.5.

[3] King, Robert L. (1965) "The Marketing Concept", *Science in Marketing,* New York: George Schwartz (ed.) John Wiley, p.81.

"... a managerial philosophy concerned with the mobilisation, utilisation, and control of total corporate effort for the purpose of helping consumers solve selected problems in ways compatible with planned enhancement of the profit position of the firm."

Three basic elements are in fact discernible in this definition: managerial philosophy concerned with mobilisation, utilisation and control of the total corporate effort; customer and profit orientations.

The literature reviewed indeed, places most emphasis on customer orientation and profit orientation. However, it appears that in recent years a broader, more mature view of the marketing concept is emerging.

In this light, writers such as Couture [1], Kotler [2] and Berry and Donnelly [3] perceive the marketing concept as going through an evolutionary process. Indeed, they point out that although it is impossible to show clear-cut events illustrating the historical development of the marketing concept or to assign a specific date to a period or stage in the evolutionary process, different stages in the development of the marketing concept can be broadly identified.

Berry and Donnelly and Kotler for example, discuss five broad stages which they see as representing a different degree

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[1] Couture, G. V. (1972) The Marketing Concept: Its Implementation and Influence on the Organisational Structure of Canadian Chartered Banks. *Unpublished Ph.D. Thesis, University of Illinois.*

[2] Kotler, Philip (1973) "How to anticipate consumerism's coming threat to banking", *Banking,* Vol. LXV, No. 7, pp.14-17.

[3] Berry, L. L. and Donnelly, J. H. (1975) *Marketing for Bankers, op.cit.* pp.44-46.

of understanding, appreciation and implementation of the marketing concept. The first stage is referred to as the promotion stage during which bankers classify marketing as advetising or advertising and public relations, i.e. they think of marketing as equivalent to promotion. It is a stage which in fact is exemplified by the large amounts spent on advertising and the nature of bank advertising itself in the early 1960s.

The second stage identified, is that of the personalisation phase of banking wherein banks try to rectify their images as remote, impersonal institutions by training customer contact personnel to be customer-oriented and among other things modernizing the internal appearance of the banks to create a more inviting and friendly atmosphere for customers.

Banks then search for a new key to the marketing orientation and discover it is in the concept of innovation. For here they realise that effective customer contact alone is not enough and that the offering of innovative need-filling services is an additional important marketing aspect. As a result of banks reaching this stage we have seen the introduction of credit cards, alternate savings plans and other new services designed to meet the customer's evolving financial needs.

The realisation that market targets and sales resources can be handled in a better way leads to the fourth, and for most banks, present stage of bank marketing - the marketing systems stage. Instead of constantly seeking to achieve a little more sales and profits each year, banks begin to develop detailed marketing plans, establish sales and profit objectives and achieve the development of a marketing information system.

The fifth, and not necessarily the final stage, has been termed the societal marketing stage, wherein it is anticipated that the growing pressures of consumer and other social movements will increasingly catch up with banks and force them to lay greater stress on public affairs programmes, consumer financial counselling and education, careful monitoring by bank personnel of potential harmful effects of proposed new products, advertising and the like.

Berry and Donnelly indeed, believe that in the U.S. at least, there are many banks in all of the stages but that probably the majority are in the first three - promotion, personalisation and innovation, few have reached the latter two stages.

It is however, this researcher's view that Islamic banks are passing through a different evolutionary process as regards their understanding and implementation of the marketing concept, to that experienced by Western banks (or riba based banks) and this is so primarily because of the differences in the hierarchy of organisational objectives of Western and Islamic Banks. For example, whereas the four organisational objectives epitomized in the marketing concept of Western banks is suggested to be:-

1. customer orientation;
2. the scientific pursuit of profitable volume;
3. the integration of effort toward common goals, and
4. social responsibility in decision making [1],

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[1] Berry, L. L. and Donnelly, J. H. (1975) *op.cit.*, pp.4-8.

the researcher's view that Islamic banks have started with social responsibility in decision making and this is epitomized in their attitude or view of the marketing concept, and will pass through the other stages discernible in Western banking, is supported by the research data presented in later chapters of this thesis.

In short, the researcher believes, like Berry and Donnelly and others [1] [2], that in addition to customer and profit orientation, the marketing concept in the West must now encompass the obligation of the organisation to consider the effects of its decisions, actions and non-actions on the whole social system, i.e. social responsibility in decision making must be part of the marketing concept if it is to be an adequate philosophical guide for organisations in today's and tomorrow's environment.

However broad its orientation, the marketing concept must nevertheless become more than a rhetoric in the firm, it must be understood and believed in by top management for little chance for effective implementation of the marketing concept exists in firms headed by management who merely pay lip service to the marketing concept. Indeed, it must be an organisation-wide philosophy.

Acting in accordance with the marketing concept, the firm becomes more conscious of the interdepartmental implications

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[1] Berry, L. L. and Donnelly, J. H. (1975) *op.cit.*, pp.4-8.

[2] Kotler, P. (1973) *op.cit.*, pp.14-17.

of decisions and actions of individual departments, and the interaction of company personnel in establishing corporate and departmental objectives and policies. [1]

Indeed, for Couture, the marketing concept is considered as a philosophy of management, and the philosophy should serve as the basis of the management of a firm. It should govern the establishment of the objectives of the firm and it should be planned for when a business is established, since its success or failure depends on it to a certain degree.

Professor Couture subscribes to King's [2] definition of the marketing concept, and sees that this definition leads to the elaboration of a set of precepts or rules management should adhere to. These involve:-

1. Company-wide managerial awareness and appreciation of the consumers' role as it impinges upon the firm's existence.

2. Active company-wide managerial awareness and concern with interdepartmental implications of decisions and actions of an individual department.

3. Active company-wide managerial concern with innovation of products and services designed to solve selected consumers' problems.

4. General managerial concern with the effect of new products and services introduction on the firm's profit position, both present and future, and recognition of the potential

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[1] Couture, G. V. (1972) *op.cit.*, pp.30-40.

[2] King, Robert L. (1965) *op.cit.*, pp.85-86.

rewards which may accrue from new product planning, including profits and profit stability.

5. General managerial appreciation of the role of marketing intelligence and other fact-finding and reporting units within, and adjacent to, the firm in translating the general statements of profitable market potential, targets and action.

6. Company-wide managerial effort based on participation and interaction of company officers in establishing corporate and departmental objectives which are understood by, and acceptable to, these officers, and which are consistent with the enhancement of the firm's profit position.

7. Formal short- and long-range planning of corporate goals, strategies and tactics, resulting in defined and co-ordinated effort of the firm's functional areas.

8. Creation, expansion, termination or restructuring of any corporate functions as deemed necessary in mobilising, utilising and controlling total corporate effort toward the solution of selected consumer's problems in ways compatible with enhancing the firm's profit position.

The central theme of the proposition is that there exists a "sensitivity" monitor between market demand and market offering which serve as a basis of managerial action. The proposition emphasises the importance of marketing research as a tool in decision making and stresses the need for scientific marketing planning and marketing strategies.

However, as King [1] points out, the biggest problem associated with marketing management is the planning it entails. Virtually all executives give lip service to planning because the logic behind it is irrefutable. However, absence of adequate planning is a common weakness of banking. For King, there are four basic reasons why marketing planning is a must for commercial banks. They are:-

1. competition in the future will be management against management more often than service against service;

2. planning leads to orderly progress - leading to the knowledge of how, when, why, where and who will perform what activity for best results within the desired time;

3. planning is the most effective method known for determining the best utilisation and coordination of the firm's resources;

4. planning means determining goals, incentives and measurements; thus providing both the way and the means to attain desired goals and of evaluating progress toward these goals.

According to McIver and Naylor [2] however, planning can be valuable or futile, depending on the nature of the plan

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[1] King, J. O. (1971) "An Analysis of the Current Marketing Activities of Commercial Banks and Savings and Loan Associations", *Unpublished Ph.D. Thesis*, Mississippi State University, p.28.

[2] McIver, C. and Geoffrey Naylor (1980) *The Marketing of Financial Services*, p.46.

and the planning procedures, and on the way the plan is integrated into the process of management.

Therefore, within the guidelines of a strategy or plan designed to meet corporate objectives, marketing management must organise, manage and integrate the basic marketing tools. This is the marketing concept in action.

The tools are usually referred to in the literature as the marketing mix and it is to a consideration of the literature regarding each separate component of the marketing mix that we now turn.

3.5 The Marketing Mix

This section reviews the specific literature on the marketing mix of financial services generally and of bank services in particular and is broken down into the marketing mix components of service offering, pricing, distribution, promotion and marketing research.

First, however, it will be useful to look at how various writers view the marketing mix.

Couture [1] points out:-

> "One cannot talk of the application of the marketing concept without knowing what marketing operations are performed and who performs them. The thing to look for would be the division of operations in accordance with the well-known concept of the 'marketing mix'. Marketing, as a functional area of the firm, assumes responsibility for the

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[1] Couture, G. Y. (1972) "The Marketing Concept: Its Implementation and Influence on the Organisational Structure of the Canadian Chartered Banks." *Unpublished Ph.D. Thesis,* University of Illinois.

> performance of operations having to do with products or services, pricing, distribution and advertising. Of course, marketing research should be the operation governing any decision taken with reference to the elements of the 'marketing mix'. (p.90)

McIver and Naylor [1] assert that the marketing mix is a set of tools and techniques which the marketing specialist should master and which the general manager should understand and utilise in furthering his marketing objectives. They state:-

> "It is important... to think from the outset in terms of the 'marketing mix', the balanced blend of marketing ingredients best calculated to achieve a defined marketing objective as economically as possible. There is no standard all-purpose mix or even a 'right' mix for a given situation... The most important of marketing skills is not exhaustive knowledge of a single marketing technique but the ability to devise a cost-effective mix for a given situation with the touch of originality which distinguishes one organisation from its competitors."

The ingredients of the marketing mix depend then upon company objectives. A proper balanced set of activities is most important. McIver and Naylor outline seven most important ingredients from which the marketing mix is usually compounded in the financial services market. They are:-

product/service design and packaging;

shop/branch design;

pricing;

selling;

marketing communication;

public relations, and

merchandising.

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[1] McIver, C. and Geoffrey Naylor (1980) *op.cit.*, pp.65-66.

Berry and Donnelly [1] also see the marketing mix as a "blending" or "mixing" of product, distribution, promotion and pricing strategies, the effective blending or coordination of which is vital to successful marketing management. Similarly, Cowell [2] sees the marketing mix as consisting of four basic variables: product, price, promotion and place. In clarifying what each entails he states:-

> "Product refers to the conception, design, development and servicing of products and services. Price refers to decisions like the nature of demand, of competition, of customer reaction to alternative prices, of the influence of legal restrictions and conventions in the industry, of setting prices for the first time, and reacting to competition's prices. Promotion is concerned with methods of communicating with the target market and involves particularly personal selling, advertising, sales promotions, publicity and public relations. Place is concerned with the distribution of a product or service and is concerned with all the problems, functions and institutions involved in getting the product or service to the target market."(p.225)

It is marketing management's major task to blend together these elements of the marketing mix in such a way as to fulfil the needs of selected target markets. However, it is worth noting that the blending process is affected by many uncontrollable variables which influence both the marketing manager's opportunities for action and discretion of action. These uncontrollable variables include the resources and objectives of the enterprise, the political, legal, social, cultural and economic environment and the actions of competitors.

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[1] Berry, L. L. and Donnelly, J. H. (1975) *op.cit.*, p.42.

[2] Cowell, D. W. (1980) "Marketing of Services". *Managerial Finance*, Vol. 5, No. 3, pp.223-231.

Before considering each component of the marketing mix is is also necessary to point out, as Seebohm did [1], that each decision taken under the various headings will affect the decision of other areas whilst they are being mixed together, thus decisions must be evaluated continually if the total marketing programme is to succeed.

Product Strategy

The importance of product strategy to banks and other organisations relates to the basic reality that it is the product for which the market trades its monetary resources. Indeed, the product can be thought of as a pivotal element in the marketing mix in the sense that it represents the vehicle around which the other elements revolve. [2]

Any discussion of marketing of bank services should include the specific classification of retail and commercial bank products. Weyer [3] has suggested that individuals or corporate bodies have certain needs in relation to the money commodity. These needs which are met by those offering financial services include: advice, deposits and savings, loans, leasing, investment, insurance, payments and debt settlement, factoring. However, the institutions which offer the various services are not segregated into distinct groups, and the banks, finance companies, insurance

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[1] Seebohm, Sir Frederick (1971) "The Marketing Programme" in *The Marketing of Bank Services*, Cambridge Seminar, Cambridge: Cambridge Institute of Bankers.

[2] Berry and Donnelly (1975) *op.cit.*, p.93.

[3] Weyer, Deryk (1973) *op.cit.*, pp.16-23.

companies and others overlap in competing to offer financial services.

The financial services provided today to the corporate customer and the individual household customer are very different from what they were even ten years ago. In the personal sector, for example, the market has broadened immensely from what was the situation at the end of the Second World War. Payment methods, borrowing methods, investment methods, and insurance methods have all changed in response to wider financial knowledge, the growth of disposable income, and cultural changes (particularly the wider acceptance of consumer credit). Moreover, such changes continue and have produced a need for a marketing expertise in many kinds of financial services markets.

Indeed, there can be no doubt that the increase in bank account holding generally and the continued march of technology and automation, as well as the competition for the markets traditionally thought of as belonging to the banks, have dictated the need for changes in philosophy and created an urgent need for the development of new services to meet the demands of the changing environment.

Cox [1] considers service development and appraisal an important ingredient of the marketing mix. This includes investigations into new services, coupled with appraisal of the relevance and profitability and overall viability of well-established services. He argues that having made

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[1] Cox, Brian (1975) "Managing the Marketing Mix", *The Bankers' Magazine*, No. 1571, Vol. CCXIX, August, pp.28-30.

investigations into the needs of customers, banks should also consider offering services of the untraditional kind, for often:-

> "... there are untapped sources of new business where as a long-term policy, there could well be good reasons for undertaking special research and, in due course, perhaps even developing special products and other services which would be of special interest to groups of people who apparently have been, or may appear to have been, neglected." (p.29)

Reekie [1] also argues that the marketing oriented firm:-

> "must look beyond the hardware to what the consumer really wants."

In banking because there is no hardware to confuse the issue, it is arguably easier to identify what the consumer really wants. Banks are in the business of marketing cash security (not travellers' cheques or safe deposits); cash accessibility (not cheque books or credit cards); monetary transfers (not the Giro System); and time, to enable other wants to be satisfied without waiting until tomorrow when savings are higher (not loans). Thus, bank marketing should identify the wants and then emphasise that it is these needs which the bank can meet. Only then should the instruments or services whereby they can be satisfied be detailed. Failure to think in this way can result in a highly sophisticated product range, but one which no one wants.

Once established however, Wasem [2] suggests, that too often banks are reluctant to eliminate services which are

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[1] Reekie, W. D. (1972) "Marketing in Banking II" *The Banker Magazine,* Vol. 214, pp.97-99.

[2] Wasem, George (1976) "Over the Hill Services - Part I" *Bankers' Monthly Magazine,* March, pp.24-27.

unsuccessful and unprofitable. He maintains that the need for "weeding out" these services is equally important, sometimes even more so, as the creation of new services.

The reasons why new services or products actually fail in banking is considered by Berry and Hensel [1]. They state:-

> "Among the reasons some new bank products fail are that bank executives sometimes fail to:-
>
> 1. truly visualise new products from the perspective of the market;
> 2. engage in creative research for uncovering unfulfilled needs within various market segments;
> 3. effectively minimize the psychological discomfort associated with new products requiring substantive behavioural change of customers, and
> 4. clearly and graphically communicate the benefits of new products to the market segment toward which they are directed."

The basic point here is that the product marketer must do everything feasible to view the new product idea from the viewpoint of the buyer and not to be disproportionately biased in favour of his own experiences, values and needs. The marketer will need to research into real and important consumer needs instead of depending upon his intuitions as to what the market needs. The customer's view will be important here, but whereas they may not be able to articulate precisely what they need from a bank in terms of new products, given the proper atmosphere they may be able to discuss their financial management circumstances in such a way that a creative and innovative banker can begin to see new product opportunities for the bank.

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[1] Berry, L. and Hensel, J. S. (1973) "Why Do Some New Bank Products Fail?", *Bankers' Monthly*, July 15, pp.26-30.

To be able to do this, the customer must have access and effective communications channel within the bank. However, some would argue that this dialogue with the bank is impeded with the proliferation of mechanical aids now appearing in the financial services sector.

Wilson [1] points out that in banking, automation and mechanical aids to customer services at branches are now well established however:-

> "the personal service provided by our cashiers - our main contacts with customers - is still a valuable asset and a strong competitive weapon against the National Giro".

Computer account and "on-line" techniques are probably changing the nature of bank services to customers. The advent of computer systems removes many routines from the direct control of branch personnel. This has a number of advantages, such as the clarity and accuracy of statements of accounts, but there is the danger that relations with customers could become remote and also that the computer might be blamed by customers for bad services at branches.

The importance of personal selling in the financial services sector is indeed stressed by many writers [2] [3] [4], who

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[1] Wilson, M. T. (1969) "Bank Management in the 1970s", *Journal of Institute of Bankers,* Vol. 90, pp.80-92.

[2] Cooke, *op.cit.,* pp.2-51.

[3] McIver and Naylor (1980) *op.cit.,* p.69.

[4] Mapel, Eugene, B. (1970) "The Marketing of Services" In: *Handbook of Modern Marketing,* V. P. Buell (ed.) New York: McGraw Hill, pp.1-46.

see the putting together of a package of financial services and presenting it in such a way that it catches the interest of the customer segment at which it is aimed an important function of bank personnel.

Nevertheless, there appears to be untapped potential in banking for expanding the range of services throughout the coming years, but the researcher would agree with taking an approach to product or service offering which emphasises the quality rather than the quantity offered, and sees the possibility for a more organised attempt to "cross-sell" more services to existing customers.

Pricing

Under this heading comes the problem of making decisions on pricing of products/services for, making the product available at an acceptable price also facilitates the acceptance of that product.

That pricing is highly complex in financial services is argued by McIver and Naylor [1], but they also believe that is is very seldom "all important". Nevertheless:-

> "... pricing is near the heart of marketing strategy if for no other reason than its direct link to profitability. A scientific approach can be helpful but pricing always was, and remains, part of the art of marketing." (p.148)

In banking it is a complex matter for, how does one fix a standard tariff for a non-standard product, particularly

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[1] McIver, C. and Naylor, G. (1980) *Marketing Financial Services*, London: Institute of Bankers, pp.148-157.

when there are also problems of product interrelationship? McIver and Naylor also outline the problems involved in pricing a basic bank service and pricing a subsidiary service. They state:-

> "In the centrally fixed sector, the 'price' charged for personal current accounts is a particularly complex question. It is an area where the competition enjoined by the Bank of England's 1971 document on 'Competition and Credit Control' can be particularly conspicuous, since almost everybody who has dealings, either personal or commercial, with a bank will have a personal current account. For just that reason it can be argued that the current account can legitimately be regarded as a low margin or even loss leader service..." (p.154)

For pricing a subsidiary or new service, however, there will be little or no relevant historical data on which to go, thus, the pricing strategist can feel freer to tackle the question along orthodox marketing lines, by first establishing what the optimum marketing price should be and then working back to estimate affordable "production" and marketing cost figures.

Thus, in practice, cost must be considered, for prices too close to the cost of producing, administering and marketing a service will lead to low profits. However, the point that a company needs some high profit margin products, not only to provide funds for investment in the future but also to offset the products which, for whatever reason, have to be marketed at narrow margins, seems not to have been grasped by the various government bodies which have, from time to time, attempted to regulate prices.

Indeed, the pricing policies of financial institutions are becoming more closely watched and regulated by government officials and this adds to the difficulties of pricing practice in the financial services industry.

Reekie [1] nevertheless, maintains that the banker should have two basic objectives in view in price setting:-

> "First to attract as many customers as possible to the selected segments; second, to do this under the most profitable conditions. This does not necessarily mean that he should price according to the cost of servicing the customer... the object of pricing is *not to make the same absolute or percentage profit* on each transaction *but rather to make as much profit as possible,* within the constraints of continuing activity in the long run. This cannot be done unless the nature of the demand facing the bank in each segment is known and price fixed according to the segments' willingness to pay, given the price levels that rival institutions are charging."

This suggests that in connection with customer considerations, one must come to terms with price elasticity of demand. Demand for a product is considered elastic or inelastic based upon the extent to which customers react to price changes for the product. Simply, it means that if the customer does not respond to price changes, demand is inelastic, but if the customer does respond to price changes, demand is elastic.

Ford [2], for example, believes that the concept of price elasticity of demand is helpful insofar as the degree of elasticity can more or less be predicted for a product or service, and applies the concept to the U.S. banking scene in 1974 when despite rampant inflation, tight money and an interest rate

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[1] Reekie, W. D. (1972) "Bank Marketing II". *The Banker Magazine,* Vol. 24, pp.97-100.

[2] Ford, N. M. (1974) "Pricing Bank Services". Paper presented at Seventh Annual Marketing Research Conference of the Bank Marketing Association, May 1974.

exceeding 12 per cent, did not deter corporate demand for credit. Their insensitivity to high interest rates was reflected in their urgent need for funds and having no alternative source to turn to.

Thus, knowing the customer as well as knowing the cost of producing the product, is crucial to the objective of setting the right price.

Berry and Donnelly [1], also believe that price setting should encompass consideration of the customer, not just costs, because what is important to the customer is whether the product is worth the price asked, not whether the price asked covers a firm's costs or not. Ideally though, the price set will be one that covers costs, provides a reasonable profit margin, is sensible in the light of other competitors and helps persuade customers to buy at a level consistent with the firm's objectives.

Aside from cost, the prospective customer and competition however, another consideration in making specific price decisions includes the marketing mix. We know for example, that price strategy is but one element of the marketing mix which also includes product, distribution and promotion strategy. Given the essence of the marketing mix concept - an optimum blending or mixing of strategy elements - the price decision-maker must consider how specific price alternatives co-ordinate with other strategy elements of the marketing mix. [2]

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[1] Berry, L. L. and Donnelly, J. H. (1975) *Marketing for Bankers, op.cit.*, pp.173-188.

[2] See, for example, Oxenfeldt, A. R. (1960) "Multi-Stage Approach to Pricing" *Harvard Business Review*, July-August, pp.125-133.

To summarize then, one can say that in spite of the increased role of non-price factors in modern marketing, pricing still remains an important element of the marketing mix. Pricing decisions are made in connection with pricing new services or changing prices of existing services. In pricing a new service, the bank management generally have three general goals in mind: firstly, getting the service accepted; secondly, maintaining position with competitors and finally creating profits.

In the financial services industry, there is an increasing pressure to develop a sounder pricing and more sophisticated strategies than those currently being used because of the effects of inflation, higher costs of money and a changing corporate and retail customer. The criteria used in pricing decisions should include, costs, customers, competitors elements of the marketing mix and government.

Thus, a host of factors enter into final consumer or buyer price decisions and strategy. Furthermore, different price strategies reflect different objectives and therefore bank executives must clearly ascertain the objectives of every service price decision. Finally, while cost pricing is still the general rule, particularly with products, broadly it is on the decline with financial services as the relationship between banks and their customers is often very much more intimate and customers are often irritated by arbitrary price increases. At the other end of the scale however, customer loyalty makes the price of services to individuals a very much less dominant factor in their choice of bank. It appears clear that whether for corporate or private services, the banking industry will become far more sophisticated in the near future concerning how it prices its products than presently is the case.

Distribution

Berry and Donnelly, Jr. [1] state:-

> "Distribution strategy concerns itself with the necessary actions to make the product available at the time and location desired by the market target. The right product for a market segment provides reduced (or no) satisfaction unless it is available when and where the segment wants it."

When Judd [2] defined services as transactions where the object of the transaction is other than the transfer of ownership of a tangible commodity, he clearly implies that services will require channel decisions.

Baranoff and Donnelly, Jr. [3], consider several unique characteristics of services which will result in channel selection decisions substantially different from those made for the marketing of goods. These include: intangibility which may dictate direct channels of distribution because of the need for personal contact between the buyer and seller; inseparability, with simultaneous production and marketing, where the main concern of the marketer is usually the creation of time and place utility and thus the direct sale as the most feasible channel of

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[1] Berry, L. L. and J. H. Donnelly, Jr. (1975) *op.cit.*, pp.42-43.

[2] Judd, *op.cit.*, pp.6-7.

[3] Baranoff, S. and Donnelly, J. H. Jr. "Selecting Channels of Distribution for Services", in V. P. Buell (ed.) *Handbook of Modern Marketing*, New York: McGraw Hill, 1970, pp.4-50.

distribution; perishability and fluctuating demand which creates major problems for marketers since channels must be found that will make the service available for peak and slack periods.

Baranoff and Donnelly feel that the area of services probably offers more opportunities for imaginative and creative innovation with respect to distribution than does that of goods, and they suggest that newer and more efficient distribution channels for services are possible while still working within the constraints caused by the inherent characteristics of services.

McIver and Naylor [1] remind us that the financial services organisation is a retailer as well as producer of services, hence it is not easy to display a range of financial services in a way that encourages "shoppers" to come inside, and security requirements do not make this easier. Nonetheless, going as far as possible towards making the branch office as attractive to the target customer groups who want to do business with it is an important element in the marketing mix.

Weyer [2] too, states on this subject:-

> "It is through retail outlets that the main manifestation of a company's corporate image is seen, so design here is particularly important for marketing, and most of the retail financial institutions have moved their corporate designs away from the 'Portland stone security image'. Their difficulty is in finding a style attractive to all their varied customer groups." (p.23)

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[1] McIver, C. and Naylor, G. (1980) *op.cit.*, p.69.

[2] Weyer, D. V. (1973) "The Marketing of Financial Services" *Journal of General Management*, Vol. 1, No. 1, pp.16-23.

Another consideration for financial institutions is location of their outlets. Berry and Donnelly [1] stress the importance of bank location thus:-

> "Since bank services are generally not delivered to the buyer, the creation of time and place utility... is vital. Thus, the factor of location with respect to the potential market will usually weigh heavily in the channel selection decisions of bank marketers. For this reason, the location of new bank sites has also become an important bank management function in order to ensure that new bank offices are conveniently located." (p.130)

Convenience, ease of access, and quality are most often the motivating factor which enhances the service offering. That these factors are getting more attention from the marketing oriented financial institutions than in previous years is acknowledged by various writers. Indeed, it appears that more prudent managements are recognising that location decisions are so difficult and expensive that it is wise to delay any final decisions on the matter until rigorous analysis, aided by market research is carried out.

Fenwick and Savage [2], for example, describe a model developed via econometric methods to assist British bank management in establishing branch goals, evaluating performance and planning new locations. The model indicates that important variables for successful branch location decisions include the professional and commercial character of the location and

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[1] Berry and Donnelly (1975) *op.cit.*, p.130.

[2] Fenwick, P. D. I. and Savage, G. P. (1979) "Management Planning and Control in Multi-branch Banking", *Operational Research Society Journal*, Vol. 30, pp.105-111.

the number of competitors.

Of equal importance to a bank is the accessibility they offer in hours of business, but there have been criticisms that it is arguable that the clearing banks offer hours of accessibility unrelated to their markets. Weyer [1], for example, suggests that for the personal customer a bank is a money shop and a pattern of shop hours might be more appropriate.

Criticisms of overbranching have also been made against U.K. banks recently. These criticisms have been associated with the observation that the banks do not compete on the basis of prices, interest rates, or opening hours. The dimension of competition are therefore, limited to the range of services offered and to the convenience of branch locations. While a new service can be readily imitated by a competitor, a branch location cannot be replicated - competitors must find alternative sites, argue Pattison and Quelch. [2]

It might be argued that consumers differentiate among banks on the basis of convenience simply because competition does not exist along other dimensions. Given, the maturity and widespread acceptance of the banking concept, together with the fact that no dramatically new services appear foreseeable, it seems that the importance of convenience of branch location to work, to home, or to shopping areas, as a major factor in bank selection decisions will sustain itself, if

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[1] Weyer, D. V. (1973), *op.cit.*, p.23.

[2] Pattison, John and Quelch, John (1979) "Branch Bank Strategies" *The Bankers' Magazine*, No. 1618, Vol. CCXXIII, January, pp.21-23.

not increase.

Promotion

In today's society, if an organisation is to have any hope of gaining recognition for its identity, its qualities, its products and services, its worth as an employer and as a corporate citizen, it must communicate clearly, skilfully, and consistently. This does not mean that it has to shout loud in the marketplace by spending vast sums on promotion, but it does mean that it has to work hard at effective communication of well thought-out messages to a carefully defined audience. An effective communication means putting out messages that attract and hold attention, are comprehensible to the recipients, are retained by them, and compete successfully against all other messages being directed to the same audience.

According to Berry and Donelly [1], most bankers have found that marketing is much more than developing a good product and making it easily available to the customer. A potential buyer needs also to be informed of a product or service and persuaded of its merits. This entails communicating with their various publics about the bank and its various products or services. Indeed, for these writers, communication is the foundation of promotion. A promotion message thus:-

> "is the symbolisation of the features of the product in terms of customer needs and desires and has the two-fold purpose of communication and persuasion."

Once the organisation has formulated its message, certain

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[1] Berry and Donnelly (1975), *op.cit.*, p.138.

means are available to it to carry the message to the target market. These carriers of promotional messages are known as promotion media. Advertising is one such media. Beckman and Davidson [1] defined advertising as any paid form of non-personal presentation of goods, services, or ideas to a group by an identified sponsor. This definition calls attention to the fact that advertising is but a small segment of marketing. Yet, any advertising campaign should have one or more identifiable objectives, for only by comparing results with objectives can the effectiveness of the advertising be evaluated. Possible bank advertising objectives include the creation of a favourable public image, an aid in personal selling, and reaching inaccessible buyers. Once the bank is able to determine its desired advertising objectives it can proceed to the development of the actual advertising programme. In this area the bank may employ the services of an advertising agency, or it may rely totally on its own advertising department or may use the services of a trade association. [2]

The selection of the advertising media is very important because each medium has its own special strengths and weaknesses which must be understood if the advertising programme is to achieve its maximum effectiveness. The most commonly used advertising media are: radio, television, newspapers, magazines, direct mail and outdoor billboards.

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[1] Beckman, T. N. and Davidson, W. R. (1967) *Marketing* (8th Edition) New York: The Ronald Press Company, p.566.

[2] Berry, L. L. and Donnelly (1975) *op.cit.*, p.147.

According to Wilson [1], the increased use of sponsorship by financial services companies is a notable feature of recent years. He also points out that the London and Scottish clearing banks have gone to a great deal of trouble to promote their services in a series of Broadsheets in the national press.

According to Bushkirk [2], if advertising is to be effective, there are several principles of effective advertising which must be satisfied. They are: the advertising claim must be important to the potential customer; the claims must be believable; the advertisement must be made often if its message is to be remembered. However, Berry and Donnelly maintain that too often these general requirements are all that is expected by bank executives as they view their advertising efforts. Bank advertising must also be in good taste, should convey the breadth of bank services available, and should express a desire to be helpful. It should point out the uniqueness of that bank from other banks. If no obvious difference exists, then a difference should be created, and this difference should be meaningful to both the public and all bank personnel. Bank advertising should also be of a rational nature. It should provide consumers with a reason to buy by pointing out positive benefits from using the services that are being promoted.

McIver and Naylor [3] see promotion as part of a public

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[1] Wilson, M. (1980) "Financial Services Marketing" *Managerial Finance*, Vol. 5, No. 3, p.246.

[2] Bushkirk, R. H. (1966) *Principles of Marketing: The Management View*, New York: Holt, Rinehart and Winston, Inc.

[3] McIver and Naylor (1980) *op.cit.*, p.72.

relations exercise and say:-

> "An important part of the public relations function in banking is to inform target customer groups about the bank and to help to persuade them to use its services, through means other than paid advertising, direct mail and direct selling. Here the emphasis is on safeguarding and improving the relationship between the organisation and relevant environmental factors such as government and society at large." (p.72)

Reekie [1] believes that promotion in banking should stress the satisfaction to be derived from using a particular bank service. For example, he states:-

> "International acceptability coupled with security should be the theme in an advertisement for travellers' cheques, not the cheques themselves. Ease of payment, elimination of effort and simplicity in transferrability should be the theme in advertising Bank Giro, not the nature of the design of credit transfer forms." (p.99)

He sees timing as an important feature of successful promotion and forecasting a useful adjunct to promotion, as this can aid greatly in the timing decision.

Berry and Donnelly [2] point out that there are many other types of promotion activities which banks can and do use to augment advertising and personal selling. One of these is sales promotion. It is explicitly defined by the American Marketing Association [3] as:-

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[1] Reekie, W. D. (1972) "Marketing in Banking II" *The Bankers' Magazine*, Vol. 214, pp.97-100.

[2] Berry and Donnelly (1975) *Marketing for Bankers, op.cit.*, p.151.

[3] Alexander, Ralph S. (1960) *Marketing Definitions: A Glossary of Marketing Terms*, Chicago: The American Marketing Association, p.20.

"Those marketing activities, other than personal selling, advertising and publicity, that stimulate consumer purchasing and dealer effectiveness, such as displays, shows, and exhibition demonstrations, and various non-recurring selling efforts not in the ordinary routine."

Though a general and all-embracing term, Berry and Donnelly assert that the importance of sales promotion should not be underestimated in banking for:-

"it has the potential if properly used to move customers beyond the awareness and comprehension stage into the conviction and ordering stage."

Booklets, games, employee incentive programmes, vouchers, etc., are some of the more common forms of sales promotion mentioned.

Finally, it should be noted that some sales promotion techniques are classified as semi-price competition (premiums, etc.) rather than as non-price competition (booklets, seminars, etc.). These forms of sales promotion have the effect of giving the customer a lower price and the bank a way of engaging in a subtle form of price competition. [1]

The relative use of each of the different promotional tools is often referred to in the literature as the promotion mix. [2] [3] The amount of each promotion tool to be used in a bank depends on three basic factors: the role of promotion in the overall marketing mix of the bank, the nature of the product and the nature of the market. Thus, promotion is one

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[1] Berry, L. L. and Donnelly, J. H. (1975) *Marketing for Bankers, op.cit.*, p.151.

[2] Berry, L. L. and Donnelly (1975), *op.cit.*, p.152.

[3] Kotler, Philip (1976) *Marketing Management: Analysis, Planning and Control* (3rd Ed.) London: Prentice Hall.

of the four major elements of a bank's marketing mix, a fifth element of the mix to be considered in this literature review is that of marketing research.

Marketing Research

Marketing information and research can cover a whole range of activities both within a bank and from external sources. Marketing research for commercial banks could be defined as the systematic gathering, recording, and analysing of data about problems relating to the marketing of bank services. However, this definition is not meant to imply that marketing research is always able to obtain all the facts pertinent to a given problem. Even when this is possible, cost may often exceed the benefits to be derived, but it is the task of marketing research to assemble the critical facts necessary in order to permit wise executive decisions.

Indeed, although banks and other businesses are now able to produce vast quantities of information, a major problem that remains is the effective management of this information. Most banks have access to computers and other information handling equipment, but as Wasem [1] has suggested, all this information, once accumulated, is worthless without the reasoning and judgement of people. He sees marketing's inclination to lean almost completely on marketing research to provide basic information without the application of the marketing manager's creative mind, as one of marketing's limitations.

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[1] Wasem, George (1973) "Bank Marketing D.A." *Bankers' Monthly Magazine,* November, pp.20-25.

Berry and Donnelly [1] suggest the need for a marketing information system which will achieve the important aim of:-

> "getting a flow of valid and relevant market information at the right time and feeding it to the right decision-maker at the right time."

For them, a marketing information system does not concentrate on a specific problem but involves a continuous process. Marketing research, on the other hand, is a valuable part of the marketing information system - a servant of the marketing information system - which focuses on a particular marketing problem. However, many banks are said to have failed to recognise the importance of the idea of a marketing information system as well as the need for marketing research.

The bank's marketing information system will need three broad categories of market information to manage its marketing activities effectively:-

1. information about market forces which requires data on such things as customer profile, market profile and competitive profile;

2. information about the bank's market behaviour which includes identifying the needs and motivations of customers and the effectiveness of bank advertising; and

3. internal information which might include data on new current, savings and loan accounts opened each month; numbers of current, savings and loan accounts closed each month for

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[1] Berry, L. L. and Donnelly, J. H. (1975) *Marketing for Bankers, op.cit.*, pp.47-66.

both retail and commercial areas. [1]

According to Gary Scott [2], marketing research should be viewed as a direct means of reducing risks associated with managing the marketing mix and long-term marketing planning, for the need for marketing research is tied to uncertainty in an ever-changing environment and decision making process. He defines marketing research as a sequential process which identifies problems; designs ways to collect data relevant to the problems, analyses the data and derives answers to specific questions that will enhance the bank's market share; competitive advantage, growth and long-term profits.

Like Berry and Donnelly, McIver and Naylor [3] speak of marketing information which aids prudent lending, efficient investment and responsible financial advice, for out of the information, marketing ideas are formulated, incorporated in marketing plans and acted upon and evaluated over a period of time. Basic marketing information will answer such questions as how satisfied are users of each financial service being offered? What changes in the economic, legislative and social environments are likely to create new problems or opportunities with which the company can assist its customers? What are the

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[1] Berry, L. L. and Donnelly, J. H. (1975) *op.cit.*, p.57.

[2] Scott, Gary A. (1973) "The Basic Kinds of Research Needed To Get the Marketing Job Done", In: *New Perspectives in Bank Marketing Research,* Chicago: Bank Marketing Association, pp.8-19.

[3] McIver, C. and Naylor, G. (1980) *Marketing Financial Services, op.cit.,* pp.16-23.

characteristics of particular segments?

Most writers divide sources of marketing information into primary and secondary and list government and local authority statistics, trade associations, chambers of commerce or trade, financial and trade publications, trade directories, media research studies as the main secondary sources available to banks, while primary information sources include: personal enquiry, analysis of internal records, and market intelligence.

However, Weyer [1] is disappointed in the way some research has been utilised in the financial services sector. He states:-

> "In financial services, valid research techniques into market selection, market needs and customer attitudes are still undeveloped. It is possible and helpful for a clearing bank or finance company to analyse the socio-economic characteristics of existing and new personal customers and their relative growth and profitability. It is also worthwhile to research carefully into the best prospects for the siting of new branches in relation to growth, customer habits, service usage, etc. The problems of research however, are that research into personal customer's or potential customers' attitudes to various institutions and their services tend to be a little barren as a decision base, partly because all attitude research on potential users is, in a sense, hypothetical, and partly because services are so intangible and have so low an emotional impact that the potential user finds it difficult to make judgements about his preferences." (p.20)

While in corporate markets:-

> "... one is dealing with tailor-made services for non-standard customers; and such research as there is tends therefore to be personal and intuitive - non-objective. Analytical research tends to be disappointing as a basis for strategic decisions." (p.20).

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[1] Weyer, Dereyk V. (1973) "The Marketing of Financial Services". *Journal of General Management*, Vol. 1, No. 1, pp.16-23.

Wasem [1] argues that there are many differences between market research and marketing research. He states:-

> "Market research focuses only on the market. It makes the marketer a measurer... In effect, it is looking at the outside from the outside. Marketing research is relatively simple to do and is practically useless by itself, because it is confined solely to *quantitative* measures of a particular market. Marketing research is much wider in scope." (p.23)

Taylor [2], however, speaks of *market research* devoting too much time to improving public image for banks, and describes a variety of quite different activities pursued by market research. He sees the complete research function providing analysis and interpretation of a flow of relevant information about the market, so that all management and marketing decisions are made with a real knowledge and understanding of the facts. Market research thus, involves desk research, which analyses and uses existing sources of information and statistics. Indeed, banks are only just beginning to exploit a mass of data about their existing customers, via this type of activity. Survey research on the other hand, involves the collection of new information, by means of external sources such as specialist market research companies. This is however a relatively expensive business and there is an estimated £500,000 to £700,000 spent on this kind of market research in Britain each year. Survey research can study the ways in which companies choose between

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[1] Wasem, George (1972) "Maggie's Drawers - Part 2" *Bankers' Monthly Magazine*, pp.22-26.

[2] Taylor, Humphrey (1975) "The Function of Market Research" *Bankers' Magazine*, no. 1572, Vol. CCXIX, March, pp.29-30.

banks and identify opportunities for banks to get more business, for example, and in the retail market, a classic finding is the basic stability of the market with only a small minority of individuals moving their personal accounts except for convenience when they move house or change jobs. Retail marketing and market research has therefore tended to concentrate on those without bank accounts and on the development of new services such as credit and cheque cards, cashpoint systems and investment, credit and insurance fields. Again, in the retail market, surveys of the "moneyshop" phenomenon have been carried out to discover the number and type of people using their services, what they were using them for and why clearing bank customers using money shops did not go to their normal banks for these services. [1]

Thus, as Jelliffe [2] notes, research will help identify what customers or potential customers are really seeking from a bank, and not just how to sell what they have to offer. Indeed, Brian Cox [3] maintains that the marketing department would, for example, be expected to be concerned with competitive intelligence; with marketing operations research, with some parts data processing, and certainly with a knowledge of computerized model building and the use of models; with sales and advertising research and with analysis of users and potential

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[1] Taylor, H. (1975) *op.cit.*, pp.29-30.

[2] Jelliffe, C. G. (1973) "Special Report: Marketing" *Banking*, Vol. LXVI, No. 2, August 1973, pp.19-20.

[3] Cox, B. (1975) "Managing the Marketing Mix" *The Bankers' Magazine*, No. 1577, Vol. LLIX, August, pp.29-30.

users of bank's services.

Finally, to conclude this section of the Chapter on an optimistic note, Wilson [1] reports that more marketing research is being undertaken in commercial banking to identify unmet customer needs and to develop convenient services. In addition, marketing analysis is being employed to help in selecting branch locations and in pricing banks' services.

3.6 The Nature of Current Commercial Bank Marketing

The above literature review revealed that traditionally service company executives have not been marketing oriented. Bankers have considered themselves to be in a service industry and nowhere is it clearer that development of marketing and the adoption of the marketing concept has been slower than in banking. Indeed, it appears that marketing and the marketing concept has come to banking about a decade later than to other industries. In the past banks have not been customer oriented. As Robbins [2] points out:-

> "still there are many who would subscribe to Mark Twain's characterisation of a banker as a 'fellow who lends you his umbrella when the sun is shining and wants it back the minute it rains."

According to Holquist [3]:-

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[1] Wilson, M. S. (1980) "An Overview of Financial Services Marketing" *Managerial Finance,* Vol. 5, No. 3, pp.232-256.

[2] Robbins, H. Z. (1971) "A New Motto for Banking: Esse Quam Videri". *Bank Marketing Management*, Vol. III, No. 6, June, p.17.

[3] Holquist, R. O. (1974) "The Marketing Concept: Will it Work in Banking?" *Unpublished Ph.D. Thesis,* University of Nebraska, p.21.

> "Instead of attempting to discover and solve consumer wants and needs, bankers are likely to be product-oriented rather than consumer oriented."

Writing in 1974, he accuses the banking industry of being afflicted with "marketing myopia", which has hampered the development of bank marketing techniques.

However, like all other areas of commercial enterprise banking is passing through a period of rapid change. The challenge of intense competition in an increasingly affluent society has resulted in a re-appraisal of fundamental aims and a new look at some of the time-honoured banking activities. During the past decade, major developments have taken place in the international monetary system, and in particular the ending of the domestic clearing banks cartel in the U.K. has introduced a degree of competition which has turned many of the traditional banking principles on their heads. Indeed, the lifting of the restrictions has presented banks in the U.K. with the opportunity to develop services for which there is a clear need and for which they undoubtedly have the expertise upon which effective and profitable customer services may be built. [1]

The changes have brought healthy responses from the banking community, but nevertheless, it has been suggested that it has been a reactionary rather than an innovative response on the part of the banks. Indeed, it has been suggested that bankers have been seduced into the practice of consumer marketing. Many of the reasons given for an increase in consumerism in the banking industry are the same as those given for the overall

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[1] Blood, Peter (1975) "Bank Marketing", *The Bankers' Magazine*, No. 1370, Vol. CCXIX, January, pp.32-34.

growth of consumerism, for example, higher educational levels, greater competition, greater complexity of banking, and expectation of perfection. [1]

As a source of deposits and as a destination for lending, the personal customer has not been long cherished by the majority of commercial banks.

Bowen [2] maintains:-

> "Until recently, banks have been transaction rather than customer oriented. Under banking's transaction, the needs of the bank have taken priority over customer needs as well as over opportunities to be found in the market place. When I say until recently, I do not mean to imply that any great change has swept this transaction philosophy out of banking. We all know this isn't the case. However, I do think some chinks are beginning to show in the once solid armor of the transaction way of thinking. Possibly these chinks led to our being here today to discuss banking and the marketing concept."

Blood [3] asks however:-

> "Is the new attitude merely an impulsive reaction to increased competition or does it have its basis in a sound appraisal of company objectives with a view to achieving specific profit targets? There is an inherent danger of imagining that marketing is a convenient 'in' word which will tide over temporary problems when business is difficult. But the real message of marketing is long-term, carefully planned strategical thinking based on customer needs."

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[1] Wasem, George (1972) "Adam and Eve and Other Stories", *Bankers' Monthly Magazine,* Vol. LXXXIX, No. 3, March, p.22.

[2] Bowen, Robert C. (1964) "Marketing Looks at Banking and the Marketing Concept". *The Marketing Concept in Action,* Chicago: American Marketing Association, p.905.

[3] Blood, Peter (1975), *op.cit.,* p.32.

According to Eric Shankleman [1]:-

"in banking, *formal* marketing only really started in 1968."

Prior to that, marketing for the banks mainly meant advertising and various complementary activities under the heading of "business development". Since 1968 however, banks have attempted to embrace the whole range of marketing activities in a much more systematic manner. Market planning and targeting have since received much more emphasis. Their aims have been to seek out those customers likely to become increasingly prosperous, and identify and meet their needs by a mixture of amongst other methods, innovation and service improvement, service accessibility and personal representation. He concludes with certainty that the role played by marketing research has been the most significant development in the marketing of bank services over the past ten years.

The implication of being marketing minded necessitates a particular marketing approach for banks:-

1. Definition of corporate goals which among other things will set targets for the company regarding its total image.

2. Selection of groups of customers - a target market.

3. Construction of a product/service offering using the bank's particular skills and resources.

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[1] Shankleman, Eric (1979) "The Clearing Banks' Slow Struggle to be corporate marketers", *Industrial Marketing Digest*, pp.156-162.

4. Presentation of the service to the target market in such a way as to be perceived to be advantageous and different from all competitor's offerings.

5. Monitoring the results in terms of the pre-set objectives and taking corrective action where necessary.

In order to satisfy customers' needs, a bank must be sensitive to the environment and adapt to any relevant changes in it. Marketing skills, probably embodied in a central department, have a valuable contribution to make in this area. To quote McIver and Naylor [1]:-

> "For banking more than most industries, the changing fortunes of the *economy* and government efforts to control it are a major environmental factor. They have precipitated such marketing policy initiatives as development overseas and diversification into financial services other than mainstream banking.
>
> "Increasing *competition* from other banking and quasi-banking institutions is yet another factor requiring more professional and aggressive marketing action on the part of the banks.
>
> "*Social responsibility* is an aspect of market development planning and operations which looms very large. Even if managements were disposed to overlook it in the interest of single-minded profit maximisation, they would be prevented by consumerism, the ecological movement and social legislation.
>
> "Finally, *technological change* places just as heavy a burden on marketing as on production department. In banking the computer and its derivatives have revolutionised the mechanics of the industry. Marketing has to ensure that mechanisation does not dehumanise what is, in large measure, a personal service industry."

In these areas marketing's special contribution is likely to include:-

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[1] McIver and Naylor (1980), *op.cit.*, pp.30-31.

1. gathering information about the changing environment and predicting the effect of relevant changes on the demands which the organisation should satisfy;

2. planning and co-ordinating the marketing aspects of the changes in organisation, production range or distributive methods that should follow;

3. helping by the marketing techniques of communication and persuasion, to accelerate necessary changes in the attitudes and behaviour of customers, distributors *and* employees;

4. using pre-testing techniques such as market models and test markets to assess the viability of new projects, before the commitment of major funds;

5. recognising and describing the different needs of different segments of markets served and how they are evolving.

How well any bank persuades members of the market to patronize it rather than any other relates to how well it meets the changing needs of the market relative to the competition.

Berry and Donelly [1] state:-

"Faced with the fundamental necessity for initiating controllable change to adapt to the potential opportunity or threat of uncontrollable change, banks' marketing practices have been characterised by substantial innovation in recent times. For instance, many banks have responded to liberalizing branching restrictions, intensifying competition for retail business, and an increasingly convenience-minded consumer by making major commitments to branch

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[1] Berry, L. L. and J. H. Donnelly, Jr. (1975) *Marketing for Bankers,* New York: American Institute of Bankers, pp.28-29.

office expansion, drive-in windows, and longer hours, among other conveniences... Banking, in short, is no longer the sleepy industry whose leaders practised such mottos as 'Never do something the first time', or 'Everything has to be done a first time - but not now'."

That commercial banking is becoming increasingly marketing oriented is also confirmed by Wilson. [1] He points out that more marketing research is being undertaken by banks to identify consumer needs and to develop convenient services, whilst more advertising is being used to appeal to mass markets. He suggests however, that the role of confidence imposes a major constraint on the use of aggressive marketing methods.

In his article "Marketing in Banking" Reekie [2] poses the question: Can modern marketing knowledge used so successfully by other industries, be applied to banking? and concludes in the affirmative. An important aspect of bank's marketing orientation requires that they learn about the markets in which they operate. Market segmentation facilitates the collection of such information.

> "Segmentation involves identifying customer groups which are fairly homogeneous in themselves but which are different from other customer types. The purpose of segmentation is to determine differences between customers which are of relevance to the marketing decision maker... The more characteristics the market is segmented by, the more precise is the manager's knowledge of his customer."

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[1] Wilson, R. M. S. (1980) "An Overview of Financial Services Marketing", *Managerial Finance,* Vol. 5, No. 3, p.238.

[2] Reekie, W. D. (1972) "Marketing in Banking" *The Bankers' Magazine,* Vol. 2, No. 4, p.59.

The marketing manager will thus, ask such questions as how big is the segment in volume terms? Is it worth pursuing or should the bank look elsewhere, where profits might be more readily available? Who are the clients and customers in the segments? For example, what sociological and demographic features do private individuals have? What do clients use our services for?

Clearly, the answers to many of these questions can only be provided by market research. However, Anderson, Cox and Fulcher [1] point out:-

> "Where the banking community has accepted marketing practices, marketing research aimed at delineating market targets for programming purposes is often focused on consumer demographic and sociopsychological characteristics rather than on the criteria used by customers in making bank selection decisions. Hence, product/service packages and promotional programs are frequently misdirected toward consumer characteristics that may in no way relate to those critical factors that determine bank selection."

The most significant insight revealed by this study was that for a sizeable proportion of the market served by commercial banks, banking services appear to be viewed essentially as convenience. To the extent that bank selection decisions are made on the basis of conscious deliberation, convenience appears to be the most dominant determinant of patronage for many customers. For a second sizeable segment of the commercial bank market, importance is attached to bank image and financial considerations rather than dimensions of convenience. Thus,

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[1] Anderson, W. T., Jr., Eli P. Cox, and David G. Fulcher (1976) "Bank Selection Decisions and Market Segmentation", *Journal of Marketing,* Vol. 40, pp.40-45.

the study authors recommend that bank promotional programmes should focus on the dual determinants of bank patronage.

The application of segmentation principles in bank marketing research was also illustrated by Fitts and Mason [1]. They conclude however that further research on refining the ability to segment markets effectively is necessary.

Weyer [2] asserts however, that segmentation trends are discernible in bank marketing:-

> "The clearing banks are widening their segments, tackling users of a wider range of services. They are biting into the consumer credit industry and into merchant banking. They are widening their international activities." (p.20)

This has not always been the case however. According to Robertson and Bellenger [3]:-

> "many banks have for years designed their promotional efforts to aim at only the very broadest mass markets."

Only recently have banks become aware of the increases possible in productivity and resulting economies of using marketing segmentation when appealing to new customers or promoting banking services to present customers. They conclude:-

> "The bank that effectively segments its market, understanding the unique desires and characteristics of each segment, can devise strategies that best

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[1] Fitts, R. L. and J. B. Mason (1977) "Marketing Segmentation Research: An Application on Bank Services", *Omega, The International Journal of Management Science,* Vol.5, No. 2, pp.207-213.

[2] Weyer, D. V. (1973) "The Marketing of Financial Services" *Journal of General Management,* Vol. 1, No. 1, pp.16-23.

[3] Robertson, Dan H., and Bellenger, D. N. (1977) "Identifying Bank Market Segments", *Journal of Bank Research,* Vol. 7, pp.276-298.

fit its selected target markets. The approach is likely to provide it with a competitive advantage which can lead to increased patronage and profitability." (p.283)

According to Sir Frederick Seebohm [1], as applied to banking services, marketing may be described as:-

(i) identifying present and future markets for services;

(ii) selecting which markets to serve and identifying customer needs within them;

(iii) setting long- and short-term goals for the progress of existing and new services;

(iv) managing the services so as to persuade customers to use them at a profit, and controlling success in so doing.

All of which constitute the foundation for a bank marketing strategy.

According to Berry and Donnelly [2], the marketing process for banks involve planning which necessitates the drawing up of a situation analysis, management participating in the setting of priority organisational objectives, selecting the market target (market segment) to be pursued by the organisation and designing the marketing mix - a special blending of product, distribution, promotion and pricing strategies (referred to earlier in this Chapter), to attract the market target's patronage.

The selection of the market target and the design of the marketing mix to attract it can be thought of as the

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[1] Seebohm, Sir Frederick (1971) "The Marketing Programme", in *The Marketing of Bank Services*, Cambridge Seminar, 1971, pp.14-27.

[2] Berry, L. L. and Donnelly, James, H., Jr. (1975), *op.cit.*, p.33.

planning of a marketing strategy. Typically the bank simultaneously pursues a number of market targets and a number of marketing mixes, but the marketing plan is not a one time event, but a dynamic process which once implemented, is subject to modification due to unforeseen circumstances.

Once the important needs of potential market segments are identified, logical marketing mixes to satisfy these needs are much easier to design. As Berry and Donnelly indicate the marketing mix is "a blending" or "mixing" of product, pricing, distribution and promotion activities, which requires a creative endeavour on the part of management.

The objectives of a bank marketing department can be summarised as follows: First, it should aid the chief executive officer in identifying and defining customer needs that the bank is to serve, and assist in establishing specific marketing objectives. Second, the marketing department should help establish programmes aimed at persuading customers to use bank services. This is accomplished through such means as advertising and promotion, direct sales, and the marketing training of all personnel who come in contact with actual and potential bank customers. Third, the marketing department of a commercial bank should be concerned with the development and use of administrative controls and measures as to keep the bank's marketing programme on target. [1]

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[1] Barton, T. H. (1965) "How to Make Marketing Work in Your Bank", *Banking*, September 1965, p.65.

There is no doubt, however, that commercial banking has only relatively recently reached the market place. However, it is perfectly clear that the industry has come a long way. The journey has been plagued by such obstacles as management indifference, a limited variety of services to sell, public distrust and a failure to recognise that their various publics represent potential customers on an enormous scale. [1]

McIver and Naylor [2] maintain that the banking industry presents a particularly complex problem for marketing organisations since they are both vertically integrated and exposed to competition at every level. They have to: attract deposits by competitive marketing methods in the face of competition from other financial institutions such as building societies, trustee savings banks, insurance companies and others; build good quality lending; expand internationally (in competition with financial services institutions in the countries concerned; fight off competition from foreign banks invading the home market; develop new banking services and packages; market the products of specialist divisions and subsidiaries (finance house, insurance brokers, merchant banks, trust companies, etc.); build up the local businesses of branches and regional offices; decide the best location for new branches or outlets. The marketing department will have the skills or access to the skills, necessary to deal with all these problems. But

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[1] Cooley, J. L. (1965) "Banking Goes to Market", *Banking,* August, 1965, p.43.

[2] McIver, Colin, and Naylor, Geoffrey (1980), *op.cit.,* p.43.

above all, the marketing manager must have the flair and breadth of view to co-ordinate the elements into a single cohesive whole.

Though many banks have recently accepted the marketing concept and developed marketing techniques, there are still a number who have yet to recognise the concept as a sound and legitimate way to operate their affairs. Even among those who have adopted the concept and developed marketing techniques, there are those who are more successful in achieving their marketing objectives than others.

As Wasem [1] points out, there are many reasons for bank marketing failures. He asserts that the first failure is a failure to sell. Mainly due to the inexperience and unwillingness of bank staff to familiarize themselves with the services or consumer marketing, many banks have admitted a need to give their staff more and better training in sales and more knowledge of the banks' services. However:-

> "Marketers are filled with hope that things can be improved with training, incentive plans and other stimulants. In our opinion, it will take more than that, because it goes deeper than that. It may be reducing things to arrogant simplicity, but the fact is that bank people in general have a very unfavourable attitude toward selling. Its considered degrading and demeaning, despite the fact that success of our banks and the existence of our jobs depend, willing or unwilling, on selling." (p.11)

Wasem suggests that to overcome this, management should stress organising the bank itself to serve its customers by

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[1] Wasem, George M. (1972a) "Maggie's Drawers" *Bankers' Monthly Magazine,* 15 October, pp.10-13.

taking care of their financial needs and then have management show them how to do it.

A second failure he pinpoints is the failure to recognise failure, or bank management's introspection. For example, management must recognise when to discontinue offering a service. He comments:-

> "A few banks do admit defeat and jettison services that aren't making money. A tyre and rubber company calls it 'inward expansion'... They replace a loser when a product they think has a future and a better profit margin. Most banks don't cull their losers. Instead they keep pumping all the pedals... Marketers hate to see any service get axed especially if it is old and respected." (p.22)

In a follow-up article, Wasem [1] reviews four other important errors in bank marketing. They are failures in research, in strategy, in coordination and in communication. He asserts that faulty and incomplete research is the most common cause for the failure of banking services, while decentralised organisation of marketing and unco-ordinated organisational planning also cause marketing failure:-

> "In the situation above of fragmented responsibility, we have several departments acting independently. It isn't that they're doing things the wrong way. The reason for failure is that the things they're doing are inconsistent. They're doing too many different things in too many different ways... To get a customer or a prospect to buy a service involves a lot more than merely telling them about it. It requires a carefully planned and fully convergent marketing package, whose messages result in telling the story consistently." (p.23)

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[1] Wasem, George, M. (1973) "Bank Marketing D.A." *Bankers' Monthly Magazine,* November 15, pp.20-24.

Wasem [1] took another look at the limitations of marketing in banking in 1973 and noted three major problems. In some cases management were pushing the marketing concept and looking upon it as a panacea without fully understanding what was involved. It must be realised that a bank is composed of parts and marketing orientation may not be the best approach for all departments and all employees. Wasem, a champion of the marketing faith, points out:-

> "If marketing continues to insist that it has a superior position in the bank, which it doesn't, and that it will call the corporate tune, which it won't, it will make little or no progress toward its full potential." (p.24)

> "... The fact, of course, is that marketing by itself changes things very little. It's only one spoke in a very large bank wheel. The wheel won't roll unless all the spokes turn and in the same direction." (p.24)

Thus, in concluding this section, the researcher takes a similar position to that of Wasem in saying that marketing in banking has the prime purpose of contributing to the bank's overall aims. It will do this best by:-

> "a consistent number of important incremental marketing advances achieved in full co-ordination with the other functional divisions." [2]

While management may not always agree with them, they should give insight into marketing ideas. It is nevertheless, important that management be unwilling to accept marketing ideas without question.

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[1] Wasem, George M. (1972b) "Maggie's Drawers - Part 2" *Bankers' Monthly Magazine,* November 15, pp.22-26.

[2] Wasem, George (1973) "Bank Marketing DA" *Bankers' Monthly Magazine,* Vol. 9, No. 11, pp.20-24.

This seems a useful suggestion to make to any recently established banking institution and especially one in which marketing appears to be in its early stages of evolution. It is a suggestion the writer has constantly borne in mind whilst considering the rationale of Islamic banking and its inherent marketing implications. Since, however, to the researcher's knowledge, there is no literature which specifically addresses the subject of marketing or the marketing concept as applied to Islamic bank services, the reader is referred to the researcher's own offerings on the matter in the following Chapters of this thesis.

CHAPTER FOUR

RESEARCH DESIGN AND METHODOLOGY

4.1 Study Objectives

The study objectives may be summarised as follows:-

(i) to ascertain the significance of group differences regarding attitudes to the marketing concept, organisation of marketing activity, activities involving the components of the marketing mix, and perceived outcome of adoption of the marketing concept;

(ii) to determine the relationship between particular consumer variables, and

(iii) to extract sets of most salient variables which could establish a model for the marketing of Islamic bank services.

4.2 Overall Research Strategy and Procedures

The principal concerns throughout the research were to investigate the extent to which the marketing concept has been adopted in Islamic and Western banks and to ascertain the major areas of differences between Islamic and Middle Eastern banks operating on dissimilar ideologies although within the same cultural environments as well as between Islamic and Western or European banks, and further to consider similarities between groups in terms of certain organisational and attitudinal variables.

As will be seen in the discussion of the literature pertaining to the marketing of bank services, any evaluations of these kinds involve the following:-

(a) assessment of type of bank;

(b) measures regarding marketing organisation;

(c) measures regarding marketing administration;

(d) measures regarding the application of the marketing mix;

(e) indicators of attitudes toward the various facets of the marketing concept;

(f) indicators of "outcome" of adoption of marketing concept;

(g) measures of bank services, consumer values, beliefs and behaviour.

The basic strategy of the research therefore involves a bi-cultural comparative evaluation of the marketing of bank services. The basic hypothesis says that banks operating on Islamic principles, evaluate and choose alternatives dependent upon variables such as economic values, religion, value orientations and the like. The model is also applied to individuals and is studied via the use of a case study of one particular Islamic bank. In looking at the consumer, the researcher is concerned with his values, his perception of alternatives, his response to mass communication, and with variables describing his demographic/socio-economic characteristics.

To carry out this study, the following procedures were utilised:-

(i) administrative communications and interviews with bank executives, university academics, prominent protagonists of Islamic banking in Egypt, Saudi Arabia and Sudan;

(ii) selection of samples;

(iii) selection of variables/questions;

(iv) preliminary study;

(v) fieldwork;

(vi) main study and analysis of data.

Each will now be described in detail.

4.2.1 Administrative Communications and Interviews

In order to obtain essential information and organise the undertaking of a case study of an Islamic bank, the researcher wrote to and interviewed various individuals. These included top Islamic bank executives in Egypt and Sudan, professors of banking at King Abdul Aziz University, Jeddah, and other academics at the Centre for Economic Research, King Abdul Aziz University, Jeddah, Arab Middle East, Western bank executives and the Islamic Supervisory Board for Islamic Banks.

4.2.2 Selection of Samples

The method of selecting the samples was quite specific. The two factors which were regarded as of significance in the study were the type of banks and the place of their operation. In respect of both these factors, the overall bank sample was defined as banks operating on Islamic and Western principles, situated in both Islamic and Western countries. Customers of Faisal Islamic Bank of Sudan were chosen as the basis of the Consumer Survey, as this Bank represented one of the first and most successful Islamic commercial banks incorporated in the Sudan by His Royal Highness Prince Mohammed Al Saud. Established as a public rather than a private bank, and operating on the Islamic concept of profit-sharing, Faisal Islamic Bank of Sudan thus, seemed an obvious choice to the researcher who is himself a Sudanese.

In consumer areas, many successful efforts have been made to collect information about individual buying behaviour and personal financial transactions. While case studies have been made in the business fields, less effort appears to have been devoted to the study of non-Western business practices and the underlying sociological, psychological, philosophical, religious and economic factors by use of representative samples.

4.2.3 Selection of Variables/Questions

From an extensive review of the literature, it was assumed that the following variables/questions assessing:-

(a) the adoption or otherwise of the marketing concept;

(b) the organisation of marketing activities;

(c) the integration and co-ordination of marketing activities within the marketing department and with other departments within banks;

(d) the performance of the scope of activities involving the components of the marketing mix;

(e) outcome of the adoption of the marketing concept,

would be of importance in order to achieve the main objectives of the study as outlined above. As a further aid to this comparative approach, bank services available to consumers of a particular Islamic bank, the perceptions, values and attitudes of such consumers as well as their demographic and socio-economic characteristics would also be necessary. Accordingly, questions were selected for inclusion on a questionnaire directed:-

(a) to top executives of five Islamic banks, the five British Clearing banks, five Middle East Riba banks (i.e. banks situated in Islamic countries though operating on non-Islamic interest-yielding principles), and five Western banks situated in the U.S., Canada, France, Germany and Australia, chosen at random, which would yield reliable and valid information on the above aspects of the study;

(b) consumer survey of 1,000 customers of Faisal Islamic Bank of Sudan (FIBS).

As stated above, the first research question concerned the differential attitudes of bank personnel toward the marketing concept. Thus, a ten-item Likert-type instrument was designed on similar lines to that adopted by Couture (1961) [1]. This aimed at measuring the extent to which bank officers were favourable to the marketing concept. The following is an example of the sort of questions they were asked to answer:-

The implementation of the marketing concept is equally important for banks selling services as for firms selling products.

Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
☐	☐	☐	☐	☐

[1] Couture, G. Y. (1961) "The Marketing Concept: Its Implementation and Influence on the Organisational Structure of the Canadian Chartered Banks," *Ph.D. Thesis*, University of Illinois.

Respondents were instructed to tick the box which reflected their opinion most accurately. Appendix A contains a copy of the questionnaire used.

The bank questionnaire was mailed to all Islamic top bank executives listed in the Middle East Financial Directory (1981) [1], who worked in commercial banks located in the Middle East as well as to their counterparts in Britain and other Western countries. After two mailings to Islamic banks, 83 per cent (5 out of 6) questionnaires sent elicited a reply, thus non-respondents were minimal here. The so-called "Big-Five" British clearing banks (Barclays, Lloyds, National Westminster, Midland, and Williams and Glyns) all replied (100 per cent response rate). To ensure a similar response rate from the Arab Middle East Western-style Riba banks, three questionnaires were sent to each of the following countries in which Islamic banks co-exist: Sudan, Egypt, Bahrain, Dubai, Jordan, Kuwait, of which 15 (83.3 per cent) replied and, from which one from each of the countries in which Islamic banks were also operating was chosen randomly. Similarly, three questionnaires were sent to Canadian, French, German, American and Australian bank executives of which 15 were also returned (75 per cent) and 5 were again, randomly chosen.

As indicated from a review of the literature, the application of the marketing concept is primarily a function of attitudes of the top personnel in any institution toward

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[1] Middle East Economic Digest (1981) *Middle East Financial Directory,* London: Middle East Economic Digest Ltd.

a set of values. These values were operationally defined as:-

consumer orientation - the recognition of, and corporate effort directed toward the solution of consumer problems, and needs. Hence, a recognition that the consumer has a significant role to play in the organisation's existence, growth and stability;

profit orientation - corporate concern with the effect of new service introduction and activities on its profit position;

social responsibility - company-wide concern with the implications of their actions or non-actions on the growth and stability of the general community;

status of the marketing department - company-wide concern with the inter-departmental implications of actions and decisions of an individual department; and

managerial appreciation of the importance of the marketing concept.

Two questions were designed to measure each dimension and were randomly distributed throughout the questionnaire shown in Appendix A. The following are examples of questions used to measure each value:-

Customer orientation

1. Bank decisions, including marketing decisions, must be customer oriented.
2. Market research is used here to identify consumer needs and buying habits.

Profit orientation

1. Bank decisions, including marketing decisions, must be profit oriented.
2. Market research is used here to identify profitable market potentials.

Social responsibility

1. Social responsibility should be part of the training of bank personnel.
2. Bank decisions, actions and non-actions are closely related to the growth and stability of society.

Status of the marketing department

1. Decisions made by the marketing department have an influence on decisions of all other departments.
2. All bank departments should not make any major decisions without consulting the marketing department.

Appreciation of the importance of the marketing concept

1. The implementation of the marketing concept is equally important for banks selling services as for firms selling products.
2. The marketing concept has now been adopted by most bankers.

The second concern of this study was with the existence of marketing departments within the different banks and the performance of marketing operations, the underlying assumption being, that where banks were carrying out formal marketing operations, this also would be indicative of a positive attitude toward the marketing concept. Thus, items were included on the questionnaire which asked:-

1. In your institution how is marketing activity organised - if at all? (please tick all that apply):-

   (a) No formal marketing activity

   (b) A centralised marketing department at Head Office

   (c) Marketing departments at regional levels

   (d) Each branch involved in its own marketing

   (e) Marketing activity combined with other functions

   (f) Other (please specify) ....

2. What is the title of the individual responsible for marketing activity in your bank? (tick)

   (a) not applicable

   (b) deputy/general manager

   (c) public relations/advertising manager

   (d) no formal title

   (e) other title (please specify) ....

3. To whom does the top marketing executive report?

   Here it was assumed that if the marketing executive reported to the man with highest status in the organisation (Chief Executive Officer), then the greater his influence on the planning and control of business operations.

A further indicator of the importance of the marketing department and the individual responsible for the activities of that department would be the membership of the marketing executive on various organisational committees, hence the following question included on the questionnaire:-

Is your top marketing executive a member of the following:-

(a) Executive Committee

(b) New Service Planning Committee

(c) General Management Committee

(d) Other Committee(s)

(please specify).

According to Couture (1961) [1], the first means by which the marketing concept expresses an appreciable influence on the firm's organisational structure is the integration of all marketing operations under the responsibility of the marketing department and the co-ordination of marketing activities with activities of other departments. Question 15 of the questionnaire designed for this study asked for this information:-

> Through which channels are the following activities performed within your bank? (i.e. integration and co-ordination.)

to which respondents could choose from the following:-

> Not performed,
>
> Interdepartmental Staff,
>
> Marketing Committee,
>
> Headquarter Staff,
>
> Informal Relations,
>
> Periodic Meetings,
>
> Special Committee,
>
> Line Authority, and
>
> Other (specify).

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[1] Couture, *op.cit.*, p.30.

The final questionnaire item sought to ascertain what marketing operations are performed and who performs them, i.e. the division of operations in accordance with the well-known concept of the "marketing mix". Thus, the assumption of responsibility for the performance of operations having to do with services, pricing, distribution and advertising were considered necessary sources of information. Two items relating to each dimension of the "marketing mix" were included and Bank personnel were asked to indicate who performed activities relating to:-

Services

1. Recommending which new services to offer.
2. Deciding which services to eliminate.

Pricing

1. Deciding whether or not to pretest different pricing strategies.
2. Collecting information on competitors' prices.

Distribution (operations such as selecting new sites, type of services to be offered)

1. Selecting potential locations for new branches.
2. Deciding on services to be offered in a branch.

Communication (all operations dealing with advertising, promotion and relations with customers and general public)

1. Allocating advertising budgets.
2. Developing sales plans.

Research and Development (all operations pertaining to marketing research, economic research and business development)

1. Studying Customer needs and buying habits.
2. Forecasting economic and industrial growth.

Respondents were asked to indicate by ticking all of the following that applied:-

Not performed,

Marketing function,

Chief Executive,

Service committee,

Departmental heads,

Economic and research department,

Outside help, and

Other (specify)

As stated earlier, a further aim of the study was to consider the bank services available to consumers of a particular Islamic bank, perceptions, values and attitudes of such consumers and their demographic and socio-economic characteristics. The latter two aspects of the study were considered important as in the researcher's view, the conceptual scheme of the study justified viewing bank services marketing as partly a segmentation problem. Since segmentation basically seeks to construct categories of people, its success will depend upon how much the marketer knows about consumers and their behaviour. Contributions from sociology, psychology, economics, and other disciplines must therefore be relied upon for assistance. In including such variables in this study, the primary goal has been to influence the decision-making behaviour of marketing management within the organisations studied, for in making decisions regarding what kinds of sales appeals should be made to what kinds of customers, and presented by what kinds of media, organisations are forced, to consider the segmented nature of their market.

The literature reflects numerous bases for defining market segments as targets for promotion, of which demographic and socioeconomic characteristics, occasionally together with attitudinal and/or personality traits are included. Appendix B contains a copy of the consumer survey questionnaire designed for this study.

4.2.4 Preliminary Study

The objectives of the pilot study on Islamic and Western banks can be summarised as:-

(a) to construct the final form of the questionnaires;

(b) to note the response rate and time taken for return of mail questionnaires;

(c) to gain experience of any problems likely to arise in the administration of the main study, and

(d) to estimate the time required for the collection of data for the main study.

Thus, all research questionnaires were developed over a fairly extensive period of time, during which several knowledgeable and experienced individuals were consulted for advice and suggestions. For example, Geoffrey Naylor, one of the top executives at Williams and Glyns Bank, London, and the co-author of *The Marketing of Bank Services* (1980) [1] was visited by the writer for advice on the improvement of the bank questionnaire, after recommending amendments he then kindly advised the writer to also consult the Marketing Research Manager of Lloyds Bank Headquarters in London who in turn kindly helped redraft the questionnaire. As a result of such consultation and the carrying out of the actual pilot study, several alterations were made for the final Questionnaire as shown in Appendix A.

Thus, a period of informal discussions and enquiry with various bank personnel and academics with considerable experience within the banking and marketing fields, both in the U.K. and abroad was invaluable both in respect of pointing up areas of pursuance in the main study and in suggesting the sorts of research methods to be used. It was also useful as an indicator of the attitudes and receptivity of bank personnel to the study.

4.2.5 Field Work

The researcher also undertook a six-month field study in Sudan, Saudi Arabia and Egypt in order to collect data for the main study, commencing November, 1981. During this period he was allowed to undertake a comprehensive case study of Faisal Islamic Bank of Sudan, and a consumer survey of 1,000 customers of that Bank. Although 1,000 questionnaires were distributed, 623 (62.3 per cent) were returned, of which 575 were usable. Bearing in mind that the case study was undertaken in a developing

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[1] McIver, C. and Naylor, G. (1980) *Marketing Financial Services,* London: Institute of Bankers.

country in which there is an underdeveloped and unreliable postal service, illiteracy and other hindrances to speedy and reliable information collection, this response rate was extremely encouraging.

The writer also visited all departments of the Bank whilst undertaking informal discussions and interviews with heads of department. As a rule, banks which allow outside investigators into their establishments are rare, however, there was no lack of co-operation either on the part of customers or bank personnel of Faisal Islamic Bank of Sudan. Although interviews and study of bank literature yielded essential background information regarding the operations of the Bank, the main body of the information collected related to the customers. Each customer was issued with a questionnaire translated into Arabic. To ensure that questions were answered as frankly as possible, respondents were assured of complete confidentiality of their replies and questionnaires filled in anonymously. The reader should note that these are individual consumer depositors.

Also during the field-trip, structured and semi-structured interviews took place with top Islamic and Middle Eastern Riba bank executives. Academic protagonists of Islamic Bank Associations were also met and interviewed for example, from the Islamic Centre for Research in Economic Studies, King Abdul Aziz University, Saudi Arabia and additional information on Islamic banking collected from the Association of Islamic banks, Egypt and Saudi Arabia.

The researcher also attended two conferences related directly to the study topic. The first was a three-day conference on Islamic Banking (9-11th June, 1981) which took place in Geneva, the other was a three-day conference on Banking in the Middle East, held in London in July 1981, attended by over 150 bank managers and representatives from various countries. Again, commercial banking in the Middle East was the main topic of discussion, together with the challenge that Islamic banking could present the Western banking system.

4.3 Variables and their Measurement

A brief outline of the information necessary to the main part of the study has already been given above. The four main areas - attitudes to marketing concept, organisation of marketing administration, activities involving the components of the marketing mix and perceived contribution of the adoption of the marketing concept to bank performance, produced a total of 16 measures for the main study, whilst information ascertained via a consumer survey produced a total of 23 questions.

Here, the main aim was to ascertain the underlying reasons which influenced customers of this Bank in their choice of an Islamic bank, to consider customer perception of the Bank's image, and associations between socioeconomic (occupational status) and demographic (age of consumer) characteristics and patronage reasons.

The bank is viewed as an organism which interfaces with the population with the purpose of creating a consumer reaction. The degree of favourable customer reaction to the bank will depend upon the competitiveness of the bank's communications. Thus, the study also considered the media channels through which the Bank's customers came to hear of its services and the consumer's perceptions of which media best informs them regarding such services. It was also assumed that the population of the Bank was not homogeneous and that it would comprise: Customers of the bank - by varying degrees of loyalty, and customers of other banks, also by varying degrees of loyalty. Of course, these are not the only groups the Bank will interface with, for there are also non-customers of the Bank who have experienced the need for an account and are therefore in the market and those who have not felt the need for an account to date and therefore, as yet, are not in the market for it or any other Bank's services. In trying to influence all groups and take an increasing market share, it is important that the broad aims and objectives of the Bank are known to consumers. The success or otherwise of achieving this are also therefore considered in the study. The study is also concerned with the consumer's mental processes after he has felt the need to have an account with a Bank. In making the decision which bank to open an account with he obviously goes through a choice process in which perceptions, motivation, stored knowledge and attitudes are aroused. A further consideration of this part of the study, therefore, was to uncover the reasons which initially triggered off an interest in this Islamic bank.

There have been several reviews of the different problems of measurement associated with studies of organisational and consumer behaviour. Stevens (1959) [1] and Coombs (1960) [2] discuss the relationship between the type of measurement and the kind of summary statistics that can be applied. Lucas and Britt (1963) [3] and Robinson et al (1968) [4] all discuss methods applicable to studies of consumers' responses to mass communication. Togerson (1958) [5] provides a review of problems related to scale construction and Freeman (1962) [6] discusses different approaches to the measurement of values and beliefs. Perloff (1968) [7] also reviews methods applied in studies of consumer behaviour.

Whilst these and several similar studies were consulted in order to gain an insight into the possible measurement techniques, the researcher essentially, finally designed his own. Indeed, the measurement of many of the variables crucial for the aims of this study suggest a need for future methodological developments. However, the following variables included in the study are described.

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[1] Coombs, C. H. (1960) "A Theory of DATA" *Psychological Review,* Vol. 67, 143-59.

[2] Stevens, S. S. (1959) "Measurement, Psychophysics and Utility", In: C. W. Churchman and P. Ratoosh (eds.) *Measurement, Definitions and Theory,* New York: Wiley and Sons.

[3] Lucas, D. B. and Britt, S. H. (1963) *Measuring Advertising Effectiveness,* McGraw-Hill Book Company.

[4] Robinson, P. J., Dalbey, H. M., et al (1968) *Advertising Measurement and Decision Making,* Marketing Science Institute, Boston: Allwyn and Bacon, Inc.

[5] Togerson, W. S. (1958) *Theory and Method of Scaling,* New York: John Wiley.

[6] Freeman, F. S. (1962) *Theory and Practice of Psychological Testing,* New York: Holt, Rinehart and Winston.

[7] Perloff, R. (1968) "Consumer Analysis", *Annual Review of Psychology,* Vol. 19.

(a) Attitudes to the Marketing Concept

It was hypothesised that there are no significant differences in attitudes toward the marketing concept. Nine items were assumed to measure, *a priori,* facets of the marketing concept, these were grouped under the headings of social responsibility, customer orientation, profit orientation, status of the marketing department, belief in the adoption of the marketing concept.

In order to determine whether or not the items were in fact tapping the dimensions of the marketing concept which they were designed to measure, the total set of items were factor analysed, using the total sample of twenty banks. Reliability of the variables according to Child (1970) [1] can be indicated from the communality (h^2) figures derived from factor analysis. Indeed, according to Child:-

> "... if the communality is too low, say in the region of .3 or less which gives a unique variance of .7 or more, it could well mean that the test is unreliable. One would be justified in eliminating that test in any re-analysis."

(b) Organisation of Marketing Activity

The set of items placed on the questionnaire taken as a whole was found to be capable of distinguishing between banks on this dimension. It was hypothesised that there would be no significant differences between types of banks in their organisation of marketing activity. Questionnaire items included title of the individual responsible for

[1] Child, D. (1970) *Essentials of Factor Analysis,* London: Holt, Rinehart and Winston, p.42.

marketing activity, marketing activity organised through centralised marketing department at Head Office, at regional levels, combined with other functions, no formal marketing activity, etc.

(c) Activities involving the Components of the Marketing Mix

As a test of the hypothesis that banks would not differ significantly regarding the performance and scope of activities involved in the components of the marketing mix, the following items were included on the questionnaire: integration of marketing activities within the marketing department, co-ordination of marketing activities. Who performs duties and decisions relating to services, pricing, research and development communications and distribution.

(d) Perceived Outcome of Adoption of the Marketing Concept

It was hypothesised that where the marketing concept had been implemented, banks would perceive a significant contribution in areas of organisational efficiency, planning and control, profitability and provision of better bank services. As a test of this hypothesis, one item was included on the questionnaire which asked respondents to indicate in which of these areas they thought the adoption of the marketing concept had made significant contributions in their banks.

4.4 Major Null Hypotheses

In order to achieve the main study objectives described above, the following null hypotheses were formulated and tested:-

1. The attitudes of Islamic bankers towards the marketing concept do not differ significantly from those found in "Western" banks.

2. The scope of activities involving the components of the marketing mix in Islamic banks does not differ significantly from those found in "Western" banks.

3. The organisation of marketing activities in Islamic banks does not differ significantly from those found in "Western" banks.

4. Where the marketing concept has been implemented, there are no significant differences between banks in their perception of areas in which the adoption of the concept has made most significant contributions.

5. Customers of FIBS buy the services of these banks for reasons other than the desire to conform to Islamic ethics or ideologies.

6. There are no significant relationships between socio-economic and demographic attributes of customers of FIBS and:-
   (a) types of accounts they hold with the Bank;
   (b) the image they hold of the bank;
   (c) ranked characteristics looked for when choosing between commercial banks;
   (d) types of accounts held with other banks.

4.5 Procedures Followed in Testing Hypotheses

Table 4.1 below gives the hypotheses, instruments and techniques followed in this study.

Hypotheses No.	Instruments	Statistical Techniques Followed
(1)	Bank Questionnaire Item	ANOVA F Ratio Factor Analysis
(2)	Bank Questionnaire Item	ANOVA F Ratio
(3)	Bank Questionnaire Item	ANOVA F Ratio
(4)	Bank Questionnaire Item	ANOVA F Ratio
(5)	FIB Consumer Survey	Factor Analysis
(6) (a) (b) (c) (d)	FIB Consumer Survey	Chi-Square

TABLE 4.1

4.6 Statistical Analysis

On consultation with research statisticians, the conclusion was drawn that the data could be processed via the application of bi-variate analysis of variance, chi-square, and factor analysis. The following is a description of the statistical techniques used in this study. Although each statistical method is discussed, an extensive treatment of each is not presented.

(a) One-way Analysis of Variance (ANOVA)

This statistical technique enables the user to test whether the means of subsamples into which the data are broken are significantly different from each other. The null hypothesis is typically that all means are equal. If means are not found to be significantly different, the null hypothesis cannot be rejected that the true sub-population means are equal and that the deviations which occur are the result of sampling error. If there are no variations between the groups the estimates of the population variance should agree. Analysis of variance thus involves making statistical inferences from samples to universes just as any sampling problem does. In one-way analysis of variance, a within group estimate and a between group estimate are computerised. Dividing these two estimates produces an F-ratio. A sufficiently large F ratio indicates that the variation within the groups is considerably less than between the groups, i.e. the groups differ.

(b) Chi-square Test

In addition to the substantive interpretation of cross-tabulation data, the marketing researcher is also interested in the questions of:-

(a) is the observed association between the variables in the cross tabulation statistically significant? and

(b) how strong is this association?

Chi-square analysis is the technique that is typically used in answering the first question. The second question is answered by the computation of some type of agreement index such as contingency coefficient.

Chi-square analysis can be used when the data consists of counts or frequencies with which each category of a tabulation or cross tabulation appears. Thus, chi-square is a useful technique for achieving the following objectives:-

1. Determining the significance of sample deviations from assumed theoretical distribution; that is, finding out whether certain models fit the data.
2. Determining the significance of observed association in cross tabulations involving two or more variables.

The procedure involved in chi-square analysis is basically quite simple. The observed frequency data is compared with another set of "data" based on a set of theoretical frequencies. These theoretical frequencies may result from application of some specific model of the phenomenon being investigated - objective 1 above. Or we might use the special model that the frequency of occurrence of two or more characteristics is mutually independent - objective 2 above. As an example of this second use, we may hypothesise that the presence of characteristic A (e.g. a consumer's purchase of a specific service) is unrelated to characteristic B (the consumer's occupational status). We thus compute a measure (chi-square) of the variation between actual and theoretical frequencies, under the null hypothesis that the models fit the fact. If the measure of variation is "high" we reject the null hypothesis at some specified level. If the measure is "low" we accept the null hypothesis that the model's output is in agreement with the actual frequencies. This method of statistical analysis is frequently used in marketing research. For example, observations may be cross-classified, as for example, when we are interested in testing whether occupational status is associated with brand loyalty.

(c) Factor Analysis

This statistical technique is one of a number of multivariate analyses.

Sheth (1970) [1] has defined factor analysis as:-

> "... basically a method of reducing a set of data into a more compact form... the user of factor analysis focuses on the set of variables for which information has been collected and poses the question: can the information be summarised in a smaller number of new variables?... In this case the statistical problem is to reduce the dimension of the problem from 50 variables (say) to two variables with minimal loss of information. Factor analysis was designed to accomplish this goal."

Although several factor analytic methods with a broad range of applications exist [2], the principle - factor approach

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[1] Sheth, J. N. (1970) "Multivariate Analysis" in *Marketing of Advertising Research,* February 1970, Vol. 10, No. 1 pp.29-39.

[2] Harman, H. H. (1967) *Modern Factor Analysis,* Chicago: University of Chicago Press, p.108.

(sometimes referred to as the method of principal components or principal axes) - is the most widely used today. [1] This method appears especially appropriate for the present study, in that one of the aims of the analysis is to isolate and identify those attributes of a bank which are involved in determining the implementation of the marketing concept, the image and types of accounts held by customers of a particular bank. The factor analysis problem is thus, concerned with finding a fewer number of "common factors" which account for "most" of the variation (percentage variance) among, for example, the marketing concept attitude variables.

The classical factor analysis model is designed to reproduce the observed correlations of original variables. In order to show how factor analysis achieves the purpose of reproducing the observed correlations of original variables, the concepts of factor pattern and factor structure require elaboration. To factor analyse at the most general level, means to express a variable as a linear combination of independent variables, either defined or inferred. The factor pattern contains the regression weights of the common factors and therefore tells us the composition of a variable in terms of hypothetical factors.

Principal components method represents only one technique for extracting factors. Basically, principal components analyses the total variance. The eigenvalues associated with each component represent the amount of total variance accounted for by the factor. Therefore, the importance of a component may be evaluated

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[1] Nunnally, J. C. *Psychometric Theory,* (1967) New York: McGraw Hill Book Company, p.315.

by examining the proportion of the total variance accounted for.

While a factor analysis programme groups factors, it does not provide titles for these grouped factors. The analyst must infer the meaning of the relationships and attach the appropriate titles. Four steps are involved in this process:-

(i) obtaining the meaningful loadings for each factor;

(ii) ordering these loadings in descending magnitude for each factor;

(iii) examining the nature of the statements or variables for each factor, and

(iv) titling the extracted factors so that each factor represents the statements with meaningful loadings.

Another problem presented by the analysis is when to stop factoring. When a large set of variables is factored, the analysis extracts the largest combinations of variables which explain the greatest amount of total variance in the set. As the analysis progresses in a stepwise fashion, smaller and smaller numbers of variables load heavily on the succeeding factors, and a smaller and smaller amount of total variance is explained by the succeeding factors. When the analysis is carried to an extreme, then, the factors become less meaningful and less important. On the other hand, if very few factors are extracted, several variables tend to load on these factors and a meaningful interpretation is likewise difficult to achieve. Thus, when should the analyst stop factoring? Four stopping criteria have been suggested:-

1. If the analyst knows how many factors are present, he can stop the analysis at that point.

2. When the analyst knows how much variance the factors can explain, he can stop the analysis when this criterion is reached.

3. When the factors have explained a "large" amount of variance, say 75 per cent, if the next factor adds only a small percentage of total variance, say less than five per cent, it may be discarded and the analyst can stop factoring.

4. When loadings for a factor (the eigenvalue for that factor) becomes less than 1.00 the analysis should be stopped; i.e., only factors with eigenvalues of 1.00 or greater are extracted. [1]

For the purposes of this study, the researcher chose the last criteria. Although tests of significance for the number of factors have been developed for the case of the maximum-likelihood estimates of the factor loadings [2], the availability of computer programmes employing this technique is limited. [3] One reason appears to be that significant factors do not guarantee interpretable factors. However, the SPSS [4]

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[1] Child, D. (1970) *The Essentials of Factor Analysis,* Holt, Rinehart and Winston: London.

[2] H. H. Harman, *Modern Factor Analysis,* p.219 (1967) University of Chicago Press.

[3] *ibid.*

[4] Nie, N. H., Hull, C. H., Jenkins, J. G., Steinbrenner, K., and Bent, D. H. (1975) *SPSS: Statistical Package for the Social Sciences,* McGraw Hill: New York.

subprogramme FACTOR automatically deletes all factors with an associated eigenvalue of less than 1.0, and in the present research, the fourth criterion to stop factoring is therefore used. This is usually referred to as Kaiser's [1] criterion for the number of factors to be extracted.

Criteria for the Significance of Factor Loadings

Factors are interpreted in terms of the variables which load significantly on that factor. Consequently, a cut-off point must be derived with which to compare factor loadings. Some researchers ignore the issue of whether a factor loading is significant and either refer to "high" or "low" loadings [2], or choose an arbitrary cut-off point, such as ± .30, providing the sample size is not too small (at least 50). Child (1970), however, suggests a second method. In deriving the factor loadings it is evident that they are in effect, correlation coefficients. For the purposes of specifying an acceptable level of significance, the loadings can be treated in a similar fashion to correlation coefficients. Child (1970) thus, presents a table of significance levels for Pearson Product-Moment Correlation Coefficients for different sample sizes at the 5 and 1 per cent levels of significance. Cut-off points for factor loadings are similarly adopted in this study. Thus, adopting the 1 per cent level of significance a sample size of 5 would require a correlation value of ± .875 whilst a sample size of 20 ± .538.

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[1] H. F. Kaiser (1958) "The Varimax Criterion for Analytic Rotation in Factor Analysis", *Psychometrika*, 23: 187-200.

[2] Child, D. (1970) *The Essentials of Factor Analysis*, Holt, Rinehart and Winston: London.

Criteria for Rotation of Factors

Although, in a statistical sense, unrotated factors are as good as any rotation on them,

> "the major reason for rotating factors is to obtain a more interpretable solution." [1]

The varimax method of rotation enhances the interpretability of a given factor by maximising the variance of the loadings on that factor; i.e. the factor is rotated until the loadings tend toward unity and zero. [2] If the decision is made to rotate at all, all factors derived in the initial solution should be rotated.

The primary purposes of rotation are to simplify interpretation and to obtain some theoretically meaningful factors and if possible, the simplest factor structure. To achieve such a simple structure, Thurstone tried to establish some rules of thumb, which have been summarised by Harman (1967, p.98) thus:-

1. Each row of the factor matrix should have at least one zero.
2. If there are m common factors, each column of the factor matrix should have at least m zeros.
3. For every pair of columns of the factor matrix, there should be several variables whose entries vanish in one column but not in the other.
4. For every pair of columns of the factor matrix, a large proportion of the variables should have vanishing entries in both columns when there are four or more factors.

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[1] Nunnally, *Psychometric Theory*, p.328.

[2] Harman, *Modern Factor Analysis*, p.305.

5. For every pair of columns of the factor matrix, there should be a small number of variables with non-vanishing entries in both columns.

The Varimax method of rotation was designed to closely approximate simple structure and is the most widely used.

Applications in Marketing

Factor analysis has been applied to a number of studies in marketing. Most applications have sought to reduce a large number of variables into a smaller set of new variables for inclusion in subsequent regression or discriminant analysis. Some have also sought to identify underlying dimensions of consumer preferences for a particular product. Massy [1] identifies four ways in which the application of factor analysis can be useful in interpreting marketing data:-

"1. Separation and analysis of distinct dimensions that are latent in a larger set of variables.

2. Separation and analysis of distinctly different groups of people which exist in a larger population.

3. Identification of certain likely variables for subsequent regression or discriminant analysis, from among a much larger set of potential independent variables.

4. Summarization of the common parts of a set of explanatory variables into a smaller number of new variables which can be used in regression or discriminant analysis."

Massy also cites the work of Stoetzel [2] (1960) as an

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[1] Massy, W. F. "What is Factor Analysis", In: Aaker, D.A. *Multivariate Analysis in Marketing' Theory and Application,* p.241 (1972).

[2] Stoetzel, J. A. "Factor Analysis of the Liquor Preferences of French Consumers, *Journal of Advertising Research,* Vol. 1, No. 2, December 1960.

example of the application of R-type factor analysis to the study of consumers' preference for different varieties of liquors.

Massy, Frank, and Lodahl [1], factor analysed eleven socioeconomic variables (using the principal-factor method and varimax rotation) and used five factor scores in later regressions on various purchasing characteristics.

4.7 Summary

This Chapter has been concerned with a description of the research design and methodology. The study objectives were stated, overall research strategy and procedures outlined; null hypotheses were stated and the statistical procedures followed in their testing described.

The concluding part of this Chapter dealt with three types of statistical procedures which were utilised in this study and indicated other marketing research studies which had applied similar techniques.

It was concluded that this methodology was a valid way of testing the research hypotheses.

[1] Frank, Massy and Ladahl, *Purchasing Behaviour and Personal Attributes*, pp.15-24.

CHAPTER FIVE

RESEARCH FINDINGS AND RESULTS I

ANALYSIS OF ATTITUDES TOWARD THE MARKETING CONCEPT

This Chapter presents the results of the research relating to the comparative study of the marketing of bank services, utilising the statistical methodology and presentation formats which were described in Chapter Four.

The reader will recall that in order to make some assessments on the issues of the marketing orientation and implementation of the marketing function by different groups of banks, a comparative study based on a survey of Islamic, British, Middle East "Riba", and Western banks was made. This survey questioned these banks concerning their attitudes on the marketing concept, the organisation and structure of their marketing effort and the marketing functions or activities which they perform. It was anticipated that in these areas, Islamic banks would be no less marketing oriented than the other three groups of banks, generally described in parts of the study as "Western" banks.

This section of the study provides information on the attitudes of bankers towards the marketing concept and specifically takes into consideration, the differences in the extent to which the marketing concept has been understood and implemented by a sample of Islamic, British, Arab Middle East "Riba" and Western bankers. Descriptive statistics, analysis of variance results and factor analysis results pertaining to attitudes toward the marketing concept are therefore here presented. A total of 20 banks formed the sample and the results of the data collected in the areas outlined in the preceding Chapter are now presented under the relevant headings.

5.1 Overall Descriptive Results

Table 5.1 overleaf, presents frequency distributions by type of bank, in addition each frequency is shown as a percentage of total observations. Table 5.2 presents the means and standard deviations by type of bank on the same attitudinal variables. Note that discussion of both Tables is limited since they are presented primarily as a convenience to the reader. Subsequent Tables summarise the variables in a more analytical manner and hence, discussion is postponed until they are presented.

As revealed in Table 5.1, 80% of Islamic bank respondents strongly agreed with the marketing concept attitude stated in statement 1 (MCO1). At every level of agreement for this statement the frequency of response is very similar between groups of banks. A similar percentage (80%) of Islamic bankers strongly agreed that bank decisions, actions and non-actions are closely related to the growth and stability of society, while the level of agreement among British and Middle East "Riba" bankers was similar in that 40 per cent (2 out of 5) from each group agreed in any way. Islamic and Western banks (80% agreement) only differed in their strength of agreement.

Variable and Variable Statement	Type of Bank	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
Bank and marketing decisions must be customer oriented (MCO1)	Islamic	0	0	0	1 20%	4 80%
	British	0	0	0	2 40%	3 60%
	ME Riba	0	0	0	1 20%	3 60%
	Western	0	0	0	3 60%	2 40%
Bank decisions, actions and non-actions are closely related to the growth and stability of society (MCO2)	Islamic	0	0	0	1 20%	4 80%
	British	0	0	3 60%	1 20%	1 20%
	ME Riba	0	2 40%	1 20%	1 20%	1 20%
	Western	0	0	1 20%	4 80%	0
Market research is used here to identify profitable market potentials (MCO3)	Islamic	0	0	2 40%	3 60%	0
	British	0	0	0	3 60%	2 40%
	ME Riba	0	0	0	2 40%	3 60%
	Western	0	0	0	4 80%	1 20%

TABLE 5.1: ATTITUDINAL VARIABLE VALUES AND RATES OF OCCURENCE BY TYPE OF BANK

Variable and Variable Statement	Type of Bank	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
The Implementation of the marketing concept is equally important for banks selling services as for firms selling products (MC04)	Islamic	0	0	1 20%	3 60%	1 20%
	British	0	0	0	1 20%	4 80%
	ME Riba	0	0	0	0	5 100%
	Western	0	0	0	2 40%	3 60%
Decisions made by the marketing department have an influence on decisions of all other departments (MC05)	Islamic	0	0	0	4 80%	1 20%
	British	0	0	0	4 80%	1 20%
	ME Riba	0	0	2 40%	3 60%	0
	Western	0	0	0	5 100%	0
Social Responsibility should be part of the training of bank personnel (MC06)	Islamic	0	0	0	2 40%	3 60%
	British	0	0	1 20%	3 60%	1 20%
	ME Riba	0	0	0	4 80%	1 20%
	Western	0	0	1 20%	4 80%	0

TABLE 5.1 (continued)

Variable and Variable Statement	Type of Bank	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
The marketing concept has now been adopted by most bankers (MC07)	Islamic	0	0	2 40%	3 60%	0
	British	1 20%	1 20%	0	2 40%	1 20%
	ME Riba	0	1 20%	2 40%	1 20%	1 20%
	Western	0	0	0	4 80%	1 20%
All Bank departments should not make any major decisions without consulting the marketing department (MC08)	Islamic	0	0	2 40%	3 60%	0
	British	0	2 40%	1 20%	1 20%	1 20%
	ME Riba	0	0	1 20%	2 40%	2 40%
	Western	0	1 20%	1 20%	3 60%	0
Market research is used here to identify consumer needs and buying habits (MC09)	Islamic	0	1 20%	4 80%	0	0
	British	0	0	0	3 60%	2 40%
	ME Riba	0	0	0	3 60%	2 60%
	Western	0	0	0	4 80%	1 20%

<u>TABLE 5.1</u> (continued)

Variable and Variable Label	Islamic N = 5		British N = 5		ME Riba N = 5		Western N = 5	
	x	sd	x	sd	x	sd	x	sd
Bank and marketing decisions must be customer oriented	4.80	0.45	4.60	0.55	4.75	0.50	4.40	0.55
Bank decisions, actions and non-actions closely related to growth and stability of society	4.80	0.45	3.60	0.89	3.20	1.30	3.80	0.45
Marketing research used here to identify profitable market potentials	3.60	0.55	4.40	0.55	4.60	0.55	4.20	0.45
Implementation of marketing research is as important for banks selling services as for firms selling products	4.00	0.71	4.80	0.45	5.00	0.00	4.60	0.55

TABLE 5.2: MEANS AND STANDARD DEVIATIONS (Transformed) BY TYPE OF BANK (ATTITUDINAL VARIABLES)

Variable and Variable Label	Islamic N = 5		British N = 5		ME Riba N = 5		Western N = 5	
	x	sd	x	sd	x	sd	x	sd
Decisions of the marketing department influence decisions of all other departments	4.20	0.45	4.20	0.45	3.60	0.55	4.00	0.00
Social responsibility should be part of the training of bank personnel	4.60	0.55	4.00	0.70	4.20	0.45	3.80	0.45
Marketing concept now adopted by most bankers	3.60	0.55	3.20	1.64	3.40	1.14	4.20	0.45
Bank departments shouldn't make major decisions without consulting marketing dept.	3.60	0.55	3.20	1.30	4.20	0.84	3.40	0.89
Marketing research used here to identify customer needs and buying habits	2.80	0.45	4.40	0.55	4.40	0.55	4.20	0.45

TABLE 5.2 (continued)

Banks appeared similar in their use of marketing research (MCO3) to identify profitable market potentials except that 40 per cent of Islamic bankers indicated some uncertainty here while none of the other groups did so. A similar divergence is discernible when we look at responses to the fourth statement (MCO4) - the marketing concept is equally valid for companies selling products and companies selling services. Examination of the following two statements (MCO5 and MCO6) reflecting status of the marketing department and social responsibility, indicate similar patterns of agreement among the groups, the only divergence is in the uncertain category where Middle East Riba, British and Western banks are represented. The belief that the marketing concept had now been adopted by most bankers also brought forth some uncertainty and disagreement among groups of bankers. While no Islamic banker disagreed 40 per cent were uncertain, but British and Middle East Riba bankers disagreed to some extent. Only Western bankers showed total consensus on this statement (80 per cent agree, 20 per cent strongly agree). Disagreement and uncertainty also featured in the respondents' answers to statements reflecting status of the marketing department (MCO8) and the use of market research to identify consumer needs and buying habits (MCO9), for while 60 per cent of Islamic bankers were in agreement to the first statement (MCO8) 40 per cent of the same group were uncertain, and 40 per cent British and 20 per cent Western bankers disagreed. Finally, Islamic bankers were unique in their uncertainty and disagreement regarding the use of market research to identify consumer needs and buying habits (80 per cent uncertain, 20 per cent disagree) while all other groups agreed.

From the above descriptive results alone, it can be seen that while overall agreement is evident concerning the use of the marketing concept for customer oriented aims and the importance of the implementation of the marketing concept for bankers, the main areas of disagreement and uncertainty relate to social responsibility, universality of the adoption of the concept and status of the marketing department within banks. Thus, it can be tentatively concluded that all groups exhibited a similar positive attitude toward the marketing concept. Since all groups view the marketing in a similar manner, any variation between the four responding groups in later questions is assumed not to be attributed to differences in acceptance of the concept but to its applicability in achieving particular aims. However, in order to ascertain whether or not this belief could be empirically proven the researcher went on to test the null hypothesis that groups of banks did not differ significantly in their attitude to the marketing concept.

5.2 Analysis of Variance Results - Customer Orientation

Null hypothesis (1) stated that: The attitudes of Islamic bankers towards the marketing concept do not differ significantly from those found in Western banks.

Analysis of Variance results for each variable relating to the attitudes of each type of bank toward the marketing concept are presented as follows:-

Type of Bank	Mean	SD	Source	SS	MS	DF	F	Sig.
Islamic (N = 5)	4.80	.45	between	.471	.157	3	.596	NS
British (N = 5)	4.60	.55	within	3.950	.263	15		
Middle East Riba (N = 4)	4.75	.50						
Western (N = 5)	4.40	.55						

MCO1 - Bank and Marketing Decisions Must Be Customer Oriented

Type of Bank	Mean	SD	Source	SS	MS	DF	F	Sig.
Islamic (N = 5)	2.80	.45	between	8.95	2.98	3	11.93	**
British (N = 5)	4.40	.55						
Middle East Riba (N = 5)	4.40	.55	within	4.00		16		
Western (N = 5)	4.20	.45						

MCO9 - Market Research Used Here to Identify Consumer Needs and Buying Habits

NS - not significant
* - significant at .05
** - significant at .01

TABLE 5.3: CUSTOMER ORIENTATION

5.3 Analysis of Variance Results - Profit Orientation

Type of Bank		Mean	SD	Source	SS	MS	DF	F	sig.
Islamic	(N = 5)	4.80	.45	between	.471	.157	3	.596	NS
British	(N = 5)	4.60	.55						
Middle East Riba	(N = 4)	4.75	.50						
Western	(N = 5)	4.40	.55	within	3.950	.263	15		

MCO1 - Bank and Marketing Decisions Must Be Profit Oriented

Type of Bank		Mean	SD	Source	SS	MS	DF	F	sig.
Islamic	(N = 5)	3.60	.55	between	2.80	.933	3	3.394	*
British	(N = 5)	4.40	.55						
Middle East	(N = 5)	4.60	.55						
Western	(N = 5)	4.20	.45	within	4.40	.275	16		

MCO3 - Market Research Used Here to Identify Profitable Market Potentials

NS - Not significant
* - significant at .05 level
** - significant at .01 level

TABLE 5.4: PROFIT ORIENTATION

5.4 Analysis of Variance Results - Social Responsibility

Type of Bank		Mean	SD	Source	SS	MS	DF	F	sig.
Islamic	(N = 5)	4.80	.45	between	6.95	2.32	3	3.195	NS
British	(N = 5)	3.60	.89						
Middle East Riba	(N = 5)	3.20	1.30						
Western	(N = 5)	3.80	.45	within	11.60	.725	16		

MCO2 - Bank Decisions, Actions and Non-Actions are Closely Related to the Growth and Stability of Society

Type of Bank		Mean	SD	Source	SS	MS	DF	F	sig.
Islamic	(N = 5)	4.60	.55	between	1.75	.583	3	1.944	NS
British	(N = 5)	4.00	.71						
Middle East	(N = 5)	4.20	.45						
Western	(N = 5)	3.80	.45	within	4.80	.300	16		

MCO6 - Social Responsibility Should be Part of the Training of Bank Personnel

NS - not significant
* - significant at .05 level
** - significant at .01 level

TABLE 5.5: SOCIAL RESPONSIBILITY

5.5 Analysis of Variance Results - Adoption of the Marketing Concept

Type of Bank		Mean	SD	Source	SS	MS	DF	F	Sig.
Islamic	(N = 5)	4.00	.71	between	2.80	.933	3	3.733	*
British	(N = 5)	4.80	.45						
Middle East	(N = 5)	5.00	.00						
Western	(N = 5)	4.60	.55	within	4.00	.250	16		

MCO4 - The Implementation of the Marketing Concept is Equally Important for Banks Selling Services as For Firms Selling Products

Type of Bank		Mean	SD	Source	SS	MS	DF	F	Sig.
Islamic	(N = 5)	3.60	.55	between	2.80	.933	3	.83	NS
British	(N = 5)	3.20	1.64						
Middle East	(N = 5)	3.40	1.14						
Western	(N = 5)	4.20	.45	within	18.00	1.125	16		

The Marketing Concept has Now Been Adopted by Most Bankers

NS - not significant
* - significant at .05% level
** - significant at .01% level

TABLE 5.6: ADOPTION OF MARKETING CONCEPT

5.6 Analysis of Variance Results - Status of the Marketing Department

Type of Bank		Mean	SD	Source	SS	MS	DF	F	Sig.
Islamic	(N = 5)	4.20	0.45	between	1.20	0.40	3	2.29	NS
British	(N = 5)	4.20	0.45						
Middle East	(N = 5)	3.60	0.55						
Western	(N = 5)	4.00	0.00	within	2.80	0.17	16		

Decisions Made By the Marketing Department Influence Decisions of All Other Departments

Type of Bank		Mean	SD	Source	SS	MS	DF	F	Sig.
Islamic	(N = 5)	3.60	0.55	between	2.80	0.93	3	1.07	NS
British	(N = 5)	3.20	1.30						
Middle East	(N = 5)	4.20	0.84						
Western	(N = 5)	3.40	0.89	within	14.00	0.87	16		

All Bank Departments Should Not Make Major Decisions Without Consulting The Marketing Department

NS - not significant
* - significant at .05% level
** - significant at .01% level

TABLE 5.7: STATUS OF THE MARKETING DEPARTMENT

Tables 5.3 to 5.7 above present the results of univariate analysis of variance undertaken as an initial test of the hypothesis that Islamic and Western banks would not differ in their attitudes towards the marketing concept. The results indicate that there are significant differences between groups of banks on:-

(a) the belief that the implementation of the marketing concept is equally important for banks ($p < .05$);

(b) the use of market research to identify profitable market potential ($p < .05$), and

(c) the use of market research to identify consumer needs and buying habits ($p < .01$).

Thus, Null Hypothesis (1) cannot be accepted. Although no significant values for F were obtained for certain areas of attitude toward the marketing concept, the F value of 11.93 with 3 and 16 degrees of freedom denotes a very significant difference between the banks regarding the use of market research to identify customer needs and buying habits in favour of British, Middle Eastern Riba and Western banks. The F values of 3.39 and 3.73 respectively were significant at the 5% level denoting a significant difference between banks in respect of the use of marketing research to identify profitable market potentials and the belief that the implementation of the marketing concept is equally important for banks selling services as for firms selling products, again the results tend to be in favour of British, Middle Eastern Riba and Western banks.

No significant differences were found between banks in respect of the two statements measuring social responsibility, or status of the marketing department.

5.7 Summary of Univariate Analysis of Variance

The univariate technique of analysis of variance with the F ratio test of significance indicates that the strength of variance between the type of bank and their attitude toward the marketing concept varies on three aspects only. A significant difference exists for two of the nine aspects at the 0.05 level of significance typically adopted in comparable studies and for one aspect at the 0.01 level of significance. The three characteristics are: belief in the adoption of the marketing concept; customer and profit orientations.

5.8 Factor Analysis Results

This section of the Chapter seeks to identify sets of attitudinal variables which are associated with institutional characteristics, the characteristic being the type of bank. Thus the following analysis illustrates the application of factorial analysis in the search for descriptive meanings of test scores derived from the four groups of banks. This was carried out in two stages. The first stage dealt with analysis of each group of banks separately, and the second with an evaluation of factor similarities and differences across groups on the set of attitudinal variables outlined above.

A principal components factor analysis followed by a Varimax rotation was run on the four groups correlation matrices as shown in Tables 5.8 and 5.9 shown on the following pages. The first analysis was carried out on the Islamic sample.

Variable	Factor		
	1	2	3
MC01	.96385	.15998	.20991
MC02	.96385	.15998	.20991
MC03	-.47140	-.45245	.63619
MC04	.19227	.88231	.26897
MC05	-.96385	-.15998	.20991
MC06	.67389	-.66513	.31587
MC07	-.62317	.58611	.4196
MC08	.73476	.20964	-.56044
MC09	.96385	.15998	.20991
Eigenvalue	5.35953	1.91540	1.24020
% total variance	59.6%	21.3%	13.8%
Cumulative per cent of total variance	59.6%	80.8%	94.6%

TABLE 5.8

FACTOR MATRIX BEFORE ROTATION (ISLAMIC BANKS)

Variable	Factor 1	Factor 2	Factor 3
MC01	.96269 [1]	-.10121	-.24830
MC02	.96269	-.10121	-.24830
MC03	-.18718	-.07693	-.88922 **[1]
MC04	.09743	.93566 **	-.05311
MC05	-.96269 **[2]	.10121	.24830
MC06	.62955	.72507	.27616
MC07	-.25679	.84686 *[2]	.34895
MC08	.41327	.20443	-.82784 *[2]
MC09	.96269 **[1]	-.10121	-.24830

* The boxes around loadings on each factor indicate the variables that have the highest loadings on the factor. These variables thus form a cluster that defines the factor.

TABLE 5.9*

FACTOR MATRIX AFTER ROTATION (ISLAMIC BANKS)

Three factors were extracted using the criterion that components with eigenvalues greater than or equal to 1.00 would be retained. This criterion ensures that only components accounting for at least the amount of the total variance of a single variable will be treated as significant. Factor 1 accounts for 59.6 per cent of total variance, Factor 2 for 21.3 per cent and Factor 3 explains an additional 13.8 per cent. After rotation, these figures did not change, thus the principal factor method was able to summarise the attitudinal variables in fewer dimensions without loss of significant amounts of information - only .4 per cent of the variance was left unexplained. However, the final results of the factor analysis on the Islamic sample, the varimax rotated factor matrix, is presented in Table 5.9.

Factor 1 loaded significantly on five variables - namely both customer orientation statements (MC01 and MC09), negatively on the statement relating to the influence of the marketing department on decisions of all other departments (MC05) and positively on both aspects of social responsibility (MC02 and MC06). This factor was interpreted as a general customer and social orientation value factor. The factor accounted for 59.6% of total variance.

Factor 2 loaded significantly on two variables: MC04 - belief that the implementation of the marketing concept is equally important for banks selling services as for firms selling products; and MC07 - belief that the marketing concept has now been adopted by most bankers. This factor was interpreted as indicating a positive attitude toward the marketing concept. This factor accounted for 21.3 per cent of total variance.

Factor 3 loaded significantly on another two variables: MC03 - marketing research used here to identify profitable market potentials and MC08 - all bank departments should not make major decisions without consulting the marketing department. Since both variables had high negative loadings on this factor, the underlying dimension was assessed as being related to uncertainty about the applicability of the marketing concept to achieve the profit motive. 13.8 per cent of total variance was accounted for by this third factor.

Tables 5.10 and 5.11 present the results of factor analysis on the British bank sample. Accounting for 42.4% of total variance:-

Factor 1 loaded significantly on two attitudinal variables: MC03 - market research used here to identify profitable market potential and MC09 - market research used here to identify consumer needs and buying habits. This factor was interpreted as a general customer and profit orientation factor.

Factor 2 loaded significantly on two variables: MC04 - the implementation of the marketing concept is equally important for banks selling services as for firms selling products and MC01 - bank and marketing decisions must be customer oriented. Ths factor was interpreted as a positive/customer oriented factor. 29.5 per cent of total variance was explained by this factor.

Factor 3 loaded significantly on two variables: MC07 - the marketing concept has been adopted by most bankers and MC02 -

Variable	Factor		
	1	2	3
MCO1	.42480	.82719	-.02120
MC02	.84572	.35319	.39060
MC03	.79248	-.53200	-.23127
MC04	.59262	.41158	-.69226
MC05	-.10749	.80649	.01508
MC06	.94368	.22865	-.19556
MC07	.33396	.33780	.87914
MC08	.54450	-.54026	.64052
MC09	.79358	-.53200	-.23127
Eigenvalue	3.81266	2.65298	1.96081
% of total variance	42.4%	29.5%	21.8%
Cumulative per cent of total variance	42.4%	71.8%	93.6%

TABLE 5.10

FACTOR MATRIX BEFORE ROTATION (BRITISH BANKS)

Variable	Factor		
	1	2	3
MC01	-.31560	$\boxed{.81979}$ 2	.30714
MC02	.23730	.58940	$\boxed{.76736}$ 2
MC03	$\boxed{.95310}$ 1	.23413	.03625
MC04	.21305	$\boxed{.93235}$ 1	-.29181
MC05	-.66085	.46194	.10997
MC06	.49381	$\boxed{.81636}$ 3	.26599
MC07	.17533	.05611	$\boxed{.98216}$ 1
MC08	.64368	-.29535	.70410
MC09	$\boxed{.95310}$ 1	.23413	.03625

* The boxes around loadings on each factor indicate the variables that have the highest loadings on the factor. These variables thus form a cluster that defines the factor.

TABLE 5.11*

FACTOR MATRIX AFTER ROTATION (BRITISH BANKS) bank decisions, actions and non-actions are closely related to the growth and stability of society. This was interpreted as a positive attitude/socially responsible factor. A further 21.8 per cent of total variance was accounted for by this factor.

Again, after rotation, the per cent of total variance explained by each factor did not shift and the cumulative per cent, of course, remained constant. Since the cumulative per cent of total variance is quite large (93.6%) the three factor solution has undoubtedly summarised the variables with minimal loss of information.

Tables 5.12 and 5.13 present the results of factor analysis on Middle East Riba banks. It will, however, be noted that here, only two factors were extracted and only five of the orginal nine variables were included in the analysis. The reduced number of variables included in the analysis is explained by the fact that correlation coefficients for four variables could not be computed. As the first step in factor analysis involves the calculation of appropriate measures of association for a set of relevant variables, it was assumed that these four variables were irrelevant attitudinal dimensions for this particular sample of banks. Whilst in the case of Islamic and British banks, three factors were extracted, here only two factors, accounting for a total of 86.8% of variance were extracted, which again indicates that the variables included in the analysis are summarised by the two factors with little loss of information - only 13.2% of variance unexplained.

Variable	Factor	
	1	2
MC01	.79857	.20764
MC02	94946	.10160
MC03	.83162	.54715
MC05	-.38881	.87318
MC06	.78155	-.48341
Eigenvalue	2.9927	1.34892
% of total variance	59.9%	27.0%
Cumulative % of total variance	59.9%	86.9%

TABLE 5.12

FACTOR MATRIX BEFORE ROTATION

(MIDDLE EAST RIBA BANKS)

Variable	Factor 1		Factor 2	
MC01	.80470	3	.18244	
MC02	.89001	2	.34595	
MC03	.99003	1	-.10394	
MC05	.05579		-.95420	1
MC06	.47211		.78843	2

* The boxes around loadings on each factor indicate the variables that have the highest loadings on the factor. These variables thus form a cluster that defines the factor.

TABLE 5.13*

FACTOR MATRIX AFTER VARIMAX ROTATION

(MIDDLE EAST RIBA BANKS)

Factor 1 loaded significantly on three variables. In order of highest loadings these were: MC03 - market research used here to identify profitable market potentials; MC02 - bank decisions, actions and non-actions are closely related to the growth and stability of society and MC01 - bank and marketing decisions must be customer oriented. This factor was interpreted as a general profit and customer oriented factor, in the case of Middle East Riba banks. The factor explained 59.9 per cent of total variance.

Factor 2 loaded significantly on two variables. In order of highest loadings these were: MC05 (negative loading) - decisions made by the marketing department influence decisions of all other departments and MC06 - social responsibility should be part of the training of bank personnel. In view of the high negative loading of the first variable on this factor, this was interpreted as indicative of adoption of the marketing concept aimed at socially responsible aims, and accounted for 27 per cent of total variance.

Finally, in completing the first stage of this analysis the five Western banks' correlation matrix was factor analysed. Tables 5.14 and 5.15 below set out the results. Whilst three factors were again extracted as in the case of Islamic, and British bank samples, one variable is omitted from the analysis of this sample for the same reasons as outlined above.

In the case of the Western bank sample the three extracted factors accounted for a total of 90.4 per cent of variance leaving only .6 per cent unexplained.

Variables	Factor		
	1	2	3
MC01	.78978	.22139	.34748
MC02	.77002	.44856	-.43907
MC03	.03621	.85635	.11091
MC04	.76021	.47781	.43803
MC06	.76826	-.49616	-.17621
MC07	.77002	.44856	.43907
MC08	.22308	.38471	.88744
MC09	.76826	-.49616	.17621
Eigenvalue	3.61902	2.05340	1.56012
% of total variance	45.2%	27.7%	19.5%
Cumulative per cent of variance	45.2%	70.9%	90.4%

TABLE 5.14

FACTOR MATRIX BEFORE ROTATION

(WESTERN BANK SAMPLE)

Variables	Factor		
	1	2	3
MC01	.84518 [2]	.21618	.18010
MC02	.18034	.97612 [1]	-.03979
MC03	.44963	.42280	.60500
MC04	.47806	.56140	.67408
MC06	-.91469 [1]	-.12477	.12338
MC07	.18034	-.97612 [2]	.03979
MC08	-.05217	.35094	.92706 [1]
MC09	.91469 [1]	.12476	.12338

* The boxes around loadings on each factor indicate the variables that have the highest loadings on the factor. These variables thus form a cluster that defines the factor.

TABLE 5.15*

FACTOR MATRIX AFTER VARIMAX ROTATION

(WESTERN BANK SAMPLE)

Factor 1 loaded significantly on three variables: MC09 - market research is used here to identify consumer needs and buying habits; MC06 - social responsibility should be part of the training of bank personnel and MC01 - bank and marketing decisions must be customer oriented, thus the factor was interpreted as a positive customer oriented bank marketing factor and accounted for 45.2 per cent of total variance.

Factor 2 loaded significantly on two variables. These were MC02 - bank decisions, actions and non-actions are closely related to the growth and stability of society and MC07 - the marketing concept has now been adopted by most bankers (negative loading). This was interpreted as representing a marketing concept attitudinal factor, directed at socially responsible goals.

As argued by several investigators [1] [2], if factors are to serve as useful theoretical constructs, it becomes important to establish the extent to which we may speak of the "same" factors as existing across conditions of change. Conditions of change may denote different groups of persons, institutions, variables or occasions.

Thus the purpose of this second stage of the analysis was to detect similarities and differences in terms of factors for the four groups of banks. That is, to abstract both factors unique to the groups and common across bank groups. Due to the

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[1] Cattell, R. B. (1969) "Comparing Factor Trait and State Scores Across Ages and Cultures", *Journal of Gerontology*, 24: 348-60.

[2] Royce, J. R. (1963) "Factors as Theoretical Constructs", *American Psychologist*, 18: 522-528.

constraints of time, resources and the availability of the appropriate computer programme, the procedure was based upon a subjective evaluation of factor loadings.

In this study then, a subjective evaluation of the factor loadings of Islamic, British, Middle East Riba and Western banks revealed strong factor similarities between British, Middle East Riba and Western Banks. Although a general customer and profit orientation factor emerged for all four groups, the most important variables on the first factor for Islamic banks was the extent to which they believed that bank and marketing decisions must be customer oriented, the use of market research to identify consumer needs and buying habits and bank decisions actions and non-actions are closely related to the growth and stability of society. The fact that these three variables had the same very high loadings on the factor indicates that Islamic bankers do have a favourable attitude toward the marketing concept but see this primarily as a means of achieving socially responsible and customer oriented aims, whilst the positive attitudes toward the marketing concept discernible on the part of British, Middle East Riba and Western bankers tend to be directed toward customer and profit oriented aims, with (particularly in the case of the Middle East "Riba" banks) social responsibility taking a third position in the hierarchy of priorities. That there should be a difference in emphasis is not surprising since within the Islamic economic framework generally policies aimed at social solidarity figure more highly than those aimed at individuals. Hence, when considering the adoption of the marketing concept as an operating philosophy for their type of bank, the response of Islamic and "Western" bankers showed some variation.

5.9 Summary of Factor Analysis Results

The results of analysis of attitudinal variables measured in this study and presented in Tables 5.8 to 5.15 are quite significant in a number of respects. First, they measure several separate dimensions of the acceptance of the marketing concept.

Factors were interpreted mainly on the basis of factor contents and in defining a factor, variables with loadings of .75 or over on the rotated Varimax axis were considered significant at the .05 level. Separate analyses of each group of banks indicated that differences in group or bank attitudes to the marketing concept can best be described in terms of the aims of a marketing-oriented philosophy of the banks studied. The analysis on each bank sample yielded three components for Islamic, British and Western banks and two for the Middle East "Riba" banks. The factors were reported in order of importance in accounting for the total as well as the common variance. Collectively, the three factors extracted for British, Islamic and Western banks accounted for 93.6, 94.6 and 90.4 per cent of total variance respectively, whilst for Middle East Riba banks, the two factors extracted accounted for 86.9 per cent of total variance. Subjective interpretations of possible underlying processes influencing sample responses were made. For Islamic banks, Factor 1 showed high positive loadings on variables relating to social responsibility and customer orientation. The factor therefore seemed to be related to a positive attitude toward the marketing concept in its application to socially responsible and customer oriented principles, and was subjectively interpreted as such.

Similarly, for the British, Western and Middle Eastern "Riba" banks, Factor 1 appears to be the underlying common dimension for customer orientation and profit orientation. For these banks, the use of market research to identify profitable market potential and customer needs and buying habits lead to an interpretation of the factor as a positive attitude toward the marketing concept directed toward identifying customer needs and wants and the fulfilment of the profit motive.

It is concluded that the rotated factors seem plausible and meaningful in terms of the structure and grouping of the variables. Note however, that the total variances summarised by the factors remained invariant in rotations.

5.10 Summary of Overall Findings - Attitude Toward the Marketing Concept

Though all groups of banks are aware of the marketing concept and feel it equally applicable to banks selling services as to firms selling products, lacking adoption criteria, they appear uncertain that the concept has been adopted universally. Most important, the groups differ significantly as to the applicability of the marketing concept to particular goals. Respondents in Islamic banks appear to perceive the influence of the marketing concept to be greatest in the achievement of socially oriented aims, whilst "Western" bankers appear to have a favourable attitude toward the concept in its application to achievement of identifying individual customer needs and wants and profitable markets.

Results therefore suggest that Hypothesis (1) should be rejected, namely attitudes of Islamic bankers towards the marketing concept do not differ significantly from those found in Western banks.

CHAPTER SIX

RESEARCH FINDINGS AND RESULTS II

ANALYSIS OF MARKETING ACTIVITIES, ORGANISATION, ADMINISTRATION AND EFFECTS OF CONCEPT ADOPTION ON PERFORMANCE

6.1 Banks' Marketing Activities and Who Performs Them

Null hypothesis (2) stated:-

The scope of activities involving the marketing mix in Islamic banks does not differ significantly from those found in "Western" banks.

According to Professor Courture [1]:-

"One cannot talk of the application of the marketing concept without knowing what marketing operations are performed and who performs them. The thing to look for would be the division of operations in accordance with the well-known concept of the "marketing mix". Marketing as a functional area of the firm, assumes responsibility for the performance of operations having to do with products or services, pricing, distribution and advertising... of course, marketing research should be the operation governing any decision taken with reference to the elements of the "marketing mix".

Thus, the marketing mix was assumed to provide a framework for evaluating the scope of marketing activities performed by the four groups of banks. Selected activities for each component of the mix were considered by the respondents who were then asked to indicate whether each activity was performed

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[1] Courture, Y. (1972), *op.cit.*, pp.90-91.

by marketing, chief executive, service committee, departmental heads, economic and research department, outside the bank, other, or not performed at all. Descriptive statistics, and analysis of variance results are presented below.

ACTIVITY	Recommending New Services to Offer				Deciding Services To Eliminate			
TYPE OF BANK	*Is	Br	ME	WE	IS	Br	ME	WE
Not Performed	0	0	0	0	0	0	0	0
Marketing Function	0	3	1	4	0	2	1	4
Chief Executive Function	0	3	2	2	0	3	2	4
Service Committee Function	2	1	2	4	5	2	3	4
Departmental Heads	0	1	2	5	0	0	0	3
Econ. and Research Department	3	1	2	1	0	2	0	1
Outside Help	0	0	2	1	0	0	1	0
Other	0	1	0	0	0	0	0	0

* Is = Islamic Bank; Br = British Bank; ME = Middle East Riba; WE = Western Bank.

TABLE 6.1

WHO PERFORMS SERVICE OPERATIONS?

ACTIVITY	Deciding Whether To Pretest Prices				Collecting Information On Competitors Prices			
TYPE OF BANK	*Is	Br	ME	WE	Is	Br	ME	WE
Not Performed	0	0	0	0	0	0	0	0
Marketing Function	0	2	1	4	0	2	1	4
Chief Executive	0	3	2	3	0	2	1	1
Service Committee	5	0	1	2	5	0	2	3
Departmental Heads	0	1	1	3	0	1	2	3
Econ. & Research Department	0	0	1	1	0	2	1	1
Outside Help	0	0	1	0	0	1	1	0
Other	0	0	0	0	0	0	0	0

* Is = Islamic Bank; Br = British Bank; ME = Middle East Riba; WE = Western Bank.

TABLE 6.2

WHO PERFORMS PRICING OPERATIONS?

ACTIVITY	Developing Sales Plans				Allocating Advertising Budgets			
TYPE OF BANK	*Is	Br	ME	WE	Is	Br	ME	WE
Not Performed	0	0	0	0	0	1	0	0
Marketing Function	1	2	1	5	0	3	1	5
Chief Executive	0	3	1	2	0	1	4	5
Service Committee	3	0	2	1	4	1	2	0
Departmental Heads	1	2	1	2	0	0	0	0
Econ. & Research	0	0	0	2	0	1	1	1
Outside Help	0	0	0	0	1	0	1	0
Other	0	1	1	0	0	0	0	0

* Is = Islamic Bank; Br = British Bank; ME = Middle East Riba; WE = Western Bank.

TABLE 6.3

WHO PERFORMS COMMUNICATIONS OPERATIONS?

ACTIVITY	Selecting Potential Locations For New Branches				Deciding on Services to Be Offered			
TYPE OF BANK	*Is	Br	ME	WE	Is	Br	ME	WE
Not Performed	0	0	0	0	1	0	0	0
Marketing Function	0	2	1	4	0	2	1	4
Chief Executive	0	1	3	5	0	4	3	3
Service Committee	4	2	1	1	3	3	3	1
Departmental Heads	0	1	1	1	0	1	1	3
Econ. & Research	0	1	1	1	0	2	1	0
Outside Help	0	0	1	0	1	0	1	0
Other	0	1	0	0	1	1	0	0

* Is = Islamic Bank; Br = British Bank; ME = Middle East Riba; WE = Western Bank.

TABLE 6.4

WHO PERFORMS DISTRIBUTION OPERATIONS?

ACTIVITY	Studying Customer Needs and Buying Habits				Forecasting Economic and Industrial Growth			
TYPE OF BANK	*Is	Br	ME	WE	Is	Br	ME	WE
Not Performed	0	0	1	0	0	0	0	0
Marketing Function	2	3	1	5	0	1	1	1
Chief Executive	0	2	1	1	0	1	1	0
Service Committee	1	0	2	2	3	1	1	0
Departmental Head	0	0	2	4	1	0	0	2
Econ. & Research	0	1	2	1	0	1	1	4
Outside Help	1	0	1	0	0	2	1	0
Other	1	0	0	0	1	0	2	0

* Is = Islamic Bank; Br = British Bank; ME = Middle East Riba; WE = Western Bank.

TABLE 6.5

WHO PERFORMS RESEARCH AND DEVELOPMENT OPERATIONS?

Analysis of Variance Results

The following tables present results showing a significant difference between the four groups of banks on the performance of the above activities relating to the "marketing mix". Note that the critical values of F at the 0.05 level and 0.01 level are 3.24 and 5.29 respectively with 3 and 16 degrees of freedom.

(a) Recommendation of New Services to Offer Performed By Departmental Heads							
Type of Bank	Mean	SD	Source	SS	MS	DF	F
Islamic	1.00	0.00	between	4.15	1.38	3	3.25*
British	1.20	0.45					
ME Riba	2.00	1.22					
Western	2.00	0.00	within	6.80	0.42	16	

(b) Deciding Services to Eliminate Marketing Function							
Type of Bank	Mean	SD	Source	SS	MS	DF	F
Islamic	1.00	0.00	between	1.75	0.58	3	3.33*
British	1.40	0.55					
ME Riba	1.20	0.45					
Western	1.80	0.45	within	2.80	0.18	16	

(c) Deciding Services to Eliminate Departmental Head Function							
Type of Bank	Mean	SD	Source	SS	MS	DF	F
Islamic	1.00	0.00	between	1.35	0.45	3	6.00**
British	1.00	0.00					
ME Riba	1.00	0.00					
Western	1.60	0.55	within	1.20	0.06	16	

* significant at 0.05 level
** significant at 0.01 level

TABLE 6.6

SIGNIFICANT DIFFERENCES BETWEEN GROUPS RE PERFORMANCE OF SERVICE OPERATIONS

Table 6.6 presents the F ratios and their significance in relation to differences between groups of banks on the performance of activities related to "service mix". The results show that Groups differ significantly here, in that British, Western and Middle Eastern banks tend to assign responsibilities relating to the recommendation of new services to offer and the elimination of services to marketing departments and departmental heads. One can therefore deduce that marketing principles therefore matter far more for "Western" banks in the performance of these operations, than for Islamic banks.

Table 6.7 presents analysis of variance results showing significant differences between groups of banks on the performance of activities related to "pricing mix". Again, the results show that the groups differ significantly in the performance of pretesting price strategies and collecting information on competitors prices. Western, British and Middle East Riba banks tend to allocate responsibility to the marketing department on these matters whilst Islamic banks tend to consider the Service Committee's contribution even more eminent in the performance of pricing operations.

Table 6.8 demonstrates that there are significant differences between the four groups of banks regarding the operations concerned with communications, as tested by the analysis of variance F ratio.

Indeed, the results indicate that not all banks perform these activities in a way compatible with the application of the "marketing mix". As anticipated, this is particularly

TYPE OF BANK	MEAN	SD	SOURCE	SS	MS	DF	F
(a) Marketing Function Deciding Whether or Not to Pretest Different Pricing Strategies							
Islamic	1.00	0.00	between	1.75	0.58	3	3.33*
British	1.40	0.55					
ME Riba	1.20	0.45					
Western	1.80	0.45	within	2.80	0.18	16	
(b) Service Committee Function - Pretesting Different Pricing Strategies							
Islamic	2.00	0.00	between	2.80	0.93	3	7.47**
British	2.00	0.00					
ME Riba	1.20	0.45					
Western	1.40	0.55	within	2.00	0.12	16	
(c) Marketing Function - Collecting Information on Competitors Prices							
Islamic	1.00	0.00	between	1.75	0.58	3	3.33*
British	1.40	0.55					
ME Riba	1.20	0.45					
Western	1.80	0.45	within	2.80	0.27	16	
(d) Service Committee Function - Collecting Information On Competitors Prices							
Islamic	2.00	0.00	between	2.60	0.87	3	5.78**
British	1.00	0.00					
ME Riba	1.40	0.55					
Western	1.60	0.55	within	2.40	0.15	16	

* significant at 0.05 level ** significant at 0.01 level

TABLE 6.7

SIGNIFICANT DIFFERENCES BETWEEN BANKS RE PERFORMANCE OF PRICING OPERATIONS

TYPE OF BANK	MEAN	SD	SOURCE	SS	MS	DF	F
(a) Developing Sales Plans - Marketing Function							
Islamic	1.20	0.45	between	2.15	0.72	3	4.09*
British	1.40	0.55					
ME Riba	1.20	0.45					
Western	2.00	0.00	within	2.80	0.17	16	
(b) Allocating Advertising Budgets - Marketing Function							
Islamic	1.00	0.00	between	2.95	0.98	3	7.87**
British	1.60	0.55					
ME Riba	1.20	0.45					
Western	2.00	0.00	within	2.00	0.12	16	
(c) Allocating Advertising Budgets - Chief Executive Function							
Islamic	1.00	0.00	between	3.40	1.13	3	11.33**
British	1.20	0.45					
ME Riba	1.80	0.45					
Western	2.00	0.00	within	1.60	0.10	16	
(d) Allocating Advertising Budgets - Service Committee Function							
Islamic	1.80	0.45	between	1.75	0.58	3	3.33*
British	1.20	0.45					
ME Riba	1.40	0.55					
Western	1.00	0.00	within	2.80	0.17	16	

* significant at 0.05 level   ** significant at 0.01 level

TABLE 6.8

PERFORMANCE OF "COMMUNICATIONS" ACTIVITIES true of Islamic banks, wherein advertising and sales development activities appear to be the chief responsibilities of the Service Committee, whilst for Western, Middle East Riba and British banks, marketing and the chief executive account for the greater contribution in these areas.

Table 6.9 below also demonstrates significant differences between groups of banks in the performance of activities related to the "distribution mix". Operations such as the selecting of potential locations for new branches and the type of services to be offered in a branch are considered, for the purposes of this study, distribution operations and again, for Western, Middle East and British banks, marketing and the chief executive are considered to play a relatively important role in these operations, whilst for all Islamic banks, the Service Committee is the chief contributor in these areas.

Operations pertaining to marketing research, economic research and business development were considered essential to the implementation of the marketing concept and thus, the differential performance of these activities between the four groups of banks sampled, were included for consideration using the univariate analysis of variance F ratio as an initial test of hypothesis (2).

Table 6.10 presents the results which indicate that in the performance of activities relating to marketing research and economic research, British, Western and Middle Eastern banks tend to ascribe performance of these activities more to marketing, economic and research departments and departmental

TYPE OF BANK	MEAN	SD	SOURCE	SS	MS	DF	F
(a) Selecting Potential Locations for New Branches - Marketing Function							
Islamic	1.00	0.00	between	1.75	0.58	3	3.33*
British	1.40	0.55					
ME Riba	1.20	0.45					
Western	1.80	0.45	within	2.80	0.17	16	
(b) Selecting Potential Locations for New Branches - Chief Executive Function							
Islamic	1.00	0.00	between	2.95	0.98	3	7.87**
British	1.20	0.45					
ME Riba	1.60	0.55					
Western	2.00	0.00	within	2.00	0.12	16	
(c) Deciding Services to Offer - Marketing Function							
Islamic	1.00	0.00	between	1.75	0.58	3	3.33*
British	1.40	0.55					
ME Riba	1.20	0.45					
Western	1.80	0.45	within	2.80	0.18	16	

* significant at 0.05 level

** significant at 0.01 level

TABLE 6.9

PERFORMANCE OF "DISTRIBUTION" ACTIVITIES

TYPE OF BANK	MEAN	SD	SOURCE	SS	MS	DF	F
(a) Studying Customer Needs and Buying Habits - Departmental Head Function							
Islamic	1.00	0.00	between	2.20	0.73	3	5.87**
British	1.00	0.00					
ME Riba	1.40	0.55					
Western	1.80	0.45	within	2.00	0.13	16	
(b) Forecasting Economic and Industrial Growth - Economic and Research Department Function							
Islamic	1.00	0.00	between	1.80	0.60	3	4.00*
British	1.20	0.45					
ME Riba	1.20	0.45					
Western	1.80	0.45	within	2.40	0.15	16	

* significant at 0.05 level

** significant at 0.01 level

TABLE 6.10

PERFORMANCE OF RESEARCH AND DEVELOPMENT ACTIVITIES heads whilst Islamic banks favour the use of service committees and outside help. Marketing research therefore, contributes less in the seeking out of customer needs and buying habits for Islamic banks and far more in the case of Western banks.

Summary of Analysis of Variance Results

Analysis of variance of the marketing activities of the four groups of banks and who performs them indicates:-

(a) for British, Western and Middle Eastern Riba banks, formal bank marketing operations do exist;

(b) the same is true, though to a much lesser extent, for Islamic banks;

(c) there are significant differences between banks in the performance of activities compatible with the "marketing mix".

(d) British, Western and Middle Eastern banks assign responsibilities for the performance of activities relating to services, pricing, communications, distribution, research and development to a combination of individuals and departments, of which the marketing department plays a significant role.

(e) Indeed, for Western banks generally, marketing and marketing research are responsible for the evaluation of services to be offered and eliminated, pricing, forecasting of market-potential for new services and selecting of new locations for branches. Other contributors to these activities were chief executives and departmental heads.

(f) Islamic banks tended to rely more heavily upon the services of the service committee departmental heads, and outside help.

On the basis of the above univariate tests of significance, null hypothesis two is therefore rejected, and it is concluded that responsibilities have been assigned to the marketing departments of Western banks in a way compatible with the application of the concept of the "marketing mix". However the same cannot be said of Islamic banks, as they appear to have adopted a more informal ad hoc approach.

6.2 Organisation and Administration of Marketing

Hypothesis (3) stated:-

The organisation of marketing activities in Islamic banks does not differ significantly from those found in Western banks.

For the purposes of this study, it is assumed that evidence of the acceptance and application of the marketing concept will further be apparent in the organisational structure of banks. Hence, the third part of this study considers the evidence of existence of marketing departments within the four different types of bank, and a study of their marketing operations. Univariate analyses of data relating to differential planning and control of marketing efforts, title of top marketing executives, participation of marketing executives and integration and co-ordination of marketing activities with bank marketing departments and other departments are now presented under individual section titles.

6.2.1 Planning and Control of the Total Marketing Effort

In order that the researcher could determine whether a formal marketing department existed in banks sampled, respondents were asked to indicate whether and how marketing activities were organised in their banks. Descriptive statistics and analysis of variance results are now presented in Tables 6.11 and 6.12 below.

As the below frequency distributions show, although marketing activities are carried out at differing levels according to the type of bank under consideration, the function nevertheless exists in one form or another. One out of five Islamic banks reported that there was no formal marketing activity within their bank, whilst the majority of the others said that each branch was involved in its own marketing. All British banks had a centralised marketing department at Head Office whilst four out of five Middle East Riba and two out of five Western reported similar arrangements. The table below therefore suggests that British, Middle East Riba and Western banks tend to favour a combination of arrangements for their marketing activities ranging from a centralised department at head office, marketing activities arranged at branch level and regional levels as well as combined with other functions, whilst Islamic banks have an informal ad hoc approach to organisation, which may be assumed to be related to the comparable age and size of these banks.

Table 6.12 below presents the results of univariate analysis of variance undertaken as an initial test of the null hypothesis that Islamic and Western banks would not differ in their organisation of marketing activities. These results indicate that there is a very significant difference between banks in

Variable Name and Label	Type of Bank			
	Islamic	British	ME Riba	Western
No formal marketing activity (MARKORG 1)	1	0	0	0
Centralised Marketing Dept. at Head Office (MARKORG2)*	0	5	4	2
Marketing Departments at Regional Levels (MARKORG 3)	0	2	2	4
Each branch involved in its own marketing (MARKORG 4)	3	3	4	5
Marketing activity combined with other functions (MARKORG 5)	1	2	2	4
Other (MARKORG 6)	0	0	0	0

* X^2 = 11.92 with 3 degrees of freedom significance = .007.

TABLE 6.11

ORGANISATION OF MARKETING ACTIVITIES

BY TYPE OF BANK

Variable Label		SS	MS	Degrees of Freedom	F	Sig
MARKORG 1	between	0.15	0.05	3	1.00	NS
	within	0.80	0.05	16		
MARKORG 2	between	2.95	0.93	3	7.87	**
	within	2.00	0.12	16		
MARKORG 3	between	1.60	0.53	3	2.67	NS
	within	3.20	0.20	16		
MARKORG 4	between	0.55	0.18	3	0.92	NS
	within	3.20	0.20	16		
MARKORG 5	between	0.95	0.31	3	1.27	NS
	within	4.00	0.25	16		
MARKORG 6	No variance within groups - analysis of variance cancelled					

* Significant at 0.05 level of profitability

** significant at 0.01 level of probability

NS - not significant

TABLE 6.12

ANALYSIS OF VARIANCE RE ORGANISATION OF MARKETING ACTIVITIES that although formal and informal marketing activities existed within all types of banks, Islamic banks tend to favour organisation of marketing activities at branch levels and combined with the activities of other functions. British, Middle Eastern and Western banks, however, had formal, centralised marketing departments within their banks as well as at regional and branch levels.

6.2.2 Title of Top Marketing Executive

Table 6.13 below presents descriptive statistics regarding the title of the individual responsible for marketing activities in the different banks.

Variable	Type of Bank			
	Islamic	British	ME Riba	Western
Title of Top Marketing Executive:-				
1. Deputy General Manager	0	1	2	2
2. Public Relations/ Advertising Manager	0	0	2	0
3. No formal title	2	0	1	0
4. Other title	0	4	0	3
5. Not applicable	3	0	0	0

$X^2 = 28.1524$ with 12 degrees of freedom

significance = 0.0053 $p < 0.01$

TABLE 6.13

TITLE OF MARKETING EXECUTIVE

The above results show that there is an association between the type of bank and the title which they designate to their top marketing executive. Indeed, Islamic banks reported either that they had no top marketing executive or that marketing executives (2) had no formal title within their organisation. Middle East Riba and Western Banks designate their top marketing executive as Deputy General Managers (2) or Public Relations/ Advertising Managers (2) or gave them some other title.

Variable Label		SS	MS	Degrees of Freedom	F	Sig
Title	between	15.350	5.117	3	3.20	NS
	within	25.600	1.600	16		

TABLE 6.14

ANALYSIS OF VARIANCE

(Title of Top Marketing Executive)

Table 6.14 above presents the results of univariate analysis of variance undertaken as an initial test of the null hypothesis that Islamic and "Western" banks would not differ in their organisation of marketing activities. These results suggest that there are greater differences within groups regarding the title given to top marketing executives than between groups and hence the F ratio of 3.20 is not significant at the

0.05 level of probability. Note however, that the critical value of F at the 0.05 level is 3.24 and hence, the obtained ratio of 3.20 is just below the required value at which the null hypothesis could be rejected at this level of probability. The null hypothesis relating to this part of the analysis is therefore tentatively accepted; namely that the organisation of marketing activities in Islamic banks does not differ significantly from those found in Western banks.

6.2.3 Participation of Top Marketing Executive

For the purposes of this study, it was further assumed that acceptance of the marketing concept would also be reflected in the status of the marketing executive and the opportunities afforded him to influence decisions of the whole organisation. This would be reflected in respondents' answers to the question: Is your top marketing executive a member of the following committee(s)?

Table 6.15 sets out frequency distributions of respondents' answers to this question. The results below indicate that banks can be differentiated in terms of the participation of top marketing executives on various committees. Indeed, British, Middle Eastern and Western banks report that their top marketing executives are members of at least three committees - Executive, New Service and General Management Committees whilst Islamic banks tend not to afford him membership of any committee (3) or to general management and other committees.

Variable	Islamic	British	ME Riba	Western
<u>Top Marketing</u> <u>Executive Member of</u>:-				
1. Executive Committee	0	2	3	3
2. New Service Committee	0	2	2	4
3. General Management Committee	1	3	3	4
4. Other Committee	1	1	1	0
5. Member of No Committee	3	0	0	0

TABLE 6.15

PARTICIPATION OF TOP MARKETING EXECUTIVE BY TYPE OF BANK

Variable Label		SS	MS	Degrees of Freedom	F	Sig
Top Marketing Executive Member of:-						
Executive Committee (MEMBER 1)	between within	1.20 3.60	0.40 0.225	3 16	1.778	NS
New Service Committee (MEMBER 2)	between within	1.60 3.20	0.533 0.20	3 16	2.67	NS
General Management Committee (MEMBER 3)	between within	0.95 4.00	0.317 0.25	3 16	1.27	NS
Other Committee (MEMBER 4)	between within	0.20 1.60	0.07 0.10	3 16	0.67	NS
Member of No Committee (NMEMBER)	between within	4.40 4.40	1.47 0.28	3 16	5.34	**

TABLE 6.16

ANALYSIS OF VARIANCE RE PARTICIPATION OF TOP MARKETING EXECUTIVE

Table 6.16 above presents the results of univariate analysis of variance testing differences in the participation of top marketing executive by type of bank. Again, the results indicate that there is a very significant difference ($p < 0.01$) between groups of banks as to whether or not their top marketing executives are members of any committee within the organisation in favour of "Western" banks.

6.2.4 Does the Marketing Executive Report to the Chief General Manager?

A further indication of the rank held by the top marketing executive was taken to be whether he reported to the Chief General Manager of banks, for it was assumed here that marketing philosophy could better influence the planning and control of operations if the person responsible for its activities also had direct responsibilities to the top executive bodies. Thus, the answer to the question: Does the top marketing executive report to the Chief Executive Officer? promised to reveal additional necessary information regarding the status of marketing within groups of banks.

Table 6.17 gives descriptive details of the results.

Variable	Type of Bank			
	Islamic	British	ME Riba	Western
Top Marketing Executive Reports To:- (REPORT)				
1. Chief Executive Officer	0	3	4	4
2. Other Individual	5	2	1	1

X^2 = 16.51 with 6 degrees of freedom
Significance = 0.0113
$p \leq 0.05$.

TABLE 6.17

TO WHOM DOES THE TOP MARKETING EXECUTIVE REPORT?

As Table 6.17 shows, in 3 out of 5 British and 4 out of 5 Middle East Riba and Western banks, the top marketing executive reports to an individual who has high status within the bank.

Table 6.18 below presents analysis of variance results as a univariate test of significant differences between groups of banks regarding this aspect of the study.

Variable Label		SS	MS	Degrees of Freedom	F	Sig
REPORT	between	10.55	3.52	3	5.63	0.0079**
	within	10.00	0.62	16		

F significant at 0.01 level

TABLE 6.18

ANALYSIS OF VARIANCE RESULTS - TO WHOM TOP MARKETING EXECUTIVE REPORTS

The above results indicate further that there are greater differences between groups regarding the individual to whom the top marketing executive reports. The F ratio of 5.63 is therefore very significant at the 0.01 level ($p < 0.01$). This is therefore a further proof of group differences regarding null hypothesis (3) which stated that there would be no significant differences between groups of banks regarding the organisation and administration of marketing activities within banks.

6.2.5 Integration of Marketing Activities with Bank Marketing Department

The integration of marketing activities under the responsibility of the marketing department was an area of further interest to this study, as it was assumed that if the marketing concept were exercising an appreciable influence on the organisational structure of groups of banks, there would be considerable integration of marketing operations under the head of the marketing department. As a measure of this, respondents were asked to indicate through which channels are the integration of marketing activities within their marketing departments performed.

Table 6.19 gives descriptive details of the responses. It shows that in Islamic banks individuals report to the marketing head via periodic meetings and line authority only, whilst British, Middle Eastern and Western tend to effect integration along several channels including Marketing Committees, Headquarter Staff, Informal Relations, Special Committees, Periodic Meetings and Line Authority. It is therefore feasible to conclude that an integration of marketing operations has taken place to a greater extent in "Western" banks than in Islamic banks. It is interesting to note however, that integration of marketing operations in Middle East Riba banks is not achieved through a marketing committee.

Table 6.20 below presents analysis of variance results as an initial test of significant group differences regarding the integration of marketing activities within marketing departments.

Variable Label	Type of Bank			
	Islamic	British	ME Riba	Western
<u>Integration of Marketing Activities Through:-</u>				
1. Interdepartmental Staff (INTEGRA 1)	0	0	3	4
2. Marketing Committee (INTEGRA 2)	0	1	0	3
3. Headquarter Staff (INTEGRA 3)	0	1	2	2
4. Informal Relations (INTEGRA 4)	0	1	1	4
5. Periodic Meetings (INTEGRA 5)	4	5	3	5
6. Special Committee (INTEGRA 6)	0	0	0	3
7. Line of Authority (INTEGRA 7)	2	3	1	4
8. Other (INTEGRA 8)	0	1	0	0

<u>TABLE 6.19</u>

<u>INTEGRATION OF MARKETING ACTIVITIES</u>

Variable Label		SS	MS	Degrees of Freedom	F	Sig
INTEGRA 1	between	2.55	0.85	3	6.80	0.0036**
	within	2.00	0.12	16		
INTEGRA 2	between	1.20	0.40	3	3.20	0.0517*
	within	2.00	0.12	16		
INTEGRA 3	between	0.55	0.18	3	0.92	0.4551
	within	3.20	0.20	16		
INTEGRA 4	between	1.80	0.60	3	4.00	0.0266*
	within	2.40	0.15	16		
INTEGRA 5	between	0.55	0.18	3	1.46	0.2611
	within	2.00	0.12	16		
INTEGRA 6	between	1.35	0.45	3	6.00	0.0061**
	within	1.20	0.07	16		

TABLE 6.20

ANALYSIS OF VARIANCE RESULTS RE INTEGRATION OF MARKETING ACTIVITIES

The results indicate that there are significant differences between groups of banks regarding the integration of marketing activities. Specifically, differences exist at the 0.01 level of probability on the integration of marketing activities via interdepartmental staff and special committees in favour of

"Western banks" and at the 0.05 level regarding integration via Marketing committees and informal relations in favour of "Western banks" also.

6.2.6 Co-ordination of Marketing Activities with Activities Of Other Departments

Advocates of the marketing concept maintain that integration per se is not an adequate index of full implementation, they stress that the co-ordination of marketing activities with the activities of other departments must also exist if we are to speak of the acceptance and implementation of the marketing concept. This study therefore included consideration of the differences between banks in how co-ordination was achieved. Table 6.21 below sets out descriptive details of the results.

As Table 6.21 shows, co-ordination is accomplished in a limited fashion in Islamic banks, in that these types of banks only indicated that co-ordination took place via Special Committees and Line Authority. British, Middle Eastern Riba and Western banks were, however, similar in their responses, indicating that a combination of channels are utilised in achieving co-ordination of marketing activities with the activities of other departments. As in the case of integration, Marketing Committees, Headquarter Staff, Informal Relations, Periodic Meetings, Special Committees and Line Authority were specified as means through which marketing activities are integrated in these "Western" banks. It is interesting to note again however, that only British banks excluded the use of inter-

Variable Label	Type of Bank			
	Islamic	British	ME Riba	Western
Co-ordination of Marketing Activities with Activities of Other Departments via:-				
1. Interdepartmental Staff (COORD 1)*	0	0	2	5
2. Marketing Committee (COORD 2)	0	3	1	3
3. Headquarter Staff (COORD 3)	0	2	1	3
4. Informal Relations (COORD 4)**	0	4	0	4
5. Periodic Meetings (COORD 5)	0	3	1	3
6. Special Committee (COORD 6)	4	2	2	3
7. Line of Authority (COORD 7)	2	3	2	2
8. Other (COORD 8)	0	0	0	0

* $X^2 = 14.725$ 3df
** $X^2 = 13.33$ 3df

TABLE 6.21

CO-ORDINATION OF MARKETING ACTIVITIES WITH ACTIVITIES OF OTHER DEPARTMENTS departmental staff from their battery of co-ordination channels.

Table 6.22 now presents F ratio test results showing significant differences between groups of banks on the above mentioned co-ordination channels.

Variable Label		SS	MS	Degrees of Freedom	F	Sig
COORD 1	between within	3.35 1.20	1.12 0.07	3 16	14.89	0.0001**
COORD 2	between within	1.35 3.20	0.45 0.20	3 16	2.25	0.1219
COORD 3	between within	1.00 3.20	0.33 0.20	3 16	1.67	0.2140
COORD 4	between within	3.20 1.60	1.07 0.10	3 16	10.67	0.0004**
COORD 5	between within	1.35 3.20	0.45 0.20	3 16	2.25	0.1219
COORD 6	between within	0.55 4.40	0.18 0.27	3 16	0.67	0.5847
COORD 7	between within	0.15 4.80	0.05 0.30	3	0.17	0.9173
COORD 8	No variance within groups - analysis of variance cancelled.					

** F significant at 0.01 level.

TABLE 6.22

ANALYSIS OF VARIANCE RESULTS RE CO-ORDINATION OF MARKETING ACTIVITIES WITH ACTIVITIES OF OTHER DEPARTMENTS

As Table 6.22 indicates, a similar pattern to that of integration is discernible regarding co-ordination of marketing activities in that there are significant differences (p.0.01) between banks regarding the use of interdepartmental staff and informal relations as channels through which co-ordination of marketing activities with the activities of other departments took place. Indeed the use of these channels were excluded more frequently from the responses of Islamic and British banks than was the case for Middle East and Western banks.

Thus, on the basis of the above statistical test one can tentatively conclude that the co-ordination of marketing activities is distinctly limited in the case of Islamic banks.

6.2.7 Summary of Findings

The above univariate analysis of group differences relating to the organisation and administration of marketing indicate:-

1. Groups of banks are characterised by their formal and informal planning and control of the marketing effort. In that Islamic banks have informally implemented the marketing concept they favour organisation of marketing activities at branch levels and combined with the function of other activities. The planning and control of the total marketing effort within "Western" banks at a variety of levels suggest that marketing activities are formally organised and operated at a level which enables marketing departments to influence policy and decision making throughout the organisation.

2. The title and participation of the top marketing executives within banks vary according again, to the generalised type

of bank considered. Islamic banks invariably gave no formal title to the individual responsible for marketing activities whilst Western banks tended to afford this individual considerable status by designating the person Deputy General Manager, Public Relations/Advertising Manager or applied some other title to the job. "Western" bank marketing executives also participated considerably on organisational committees such as Executive committees, New Service Committees, General Management Committees and others, whilst there was virtually no such participation within Islamic banks.

3. Marketing executives within "Western" banks are able to exert some influence on organisational decision-making as they report to the Chief Executive Officer. Conversely, the same cannot be said of the individual responsible for marketing activities within Islamic banks as no respondents representing these banks indicated that he reported to the Chief Executive Officer.

4. Integration of marketing operations under the marketing department can be said to have taken place to a considerable degree within British, Middle East Riba and Western banks. Islamic banks on the other hand may be said to have carried out integration to a lesser degree. It is also interesting to note that Western and British banks are integrating marketing operations through marketing committees.

5. Other findings permit the conclusion that co-ordination of the banks' marketing and other operations exist to a

differential degree. Whilst all groups of banks appear to co-ordinate marketing activities with activities of other departments, the methods used to achieve this differ. Special Committees and Line of authority are the only means employed to achieve this type of co-ordination in Islamic banks, whilst committees and interdepartmental meetings are amongst a variety of approaches in "Western" banks.

6. On the basis of the above findings, Null Hypothesis (3) is rejected. Hence, the impact which banks' marketing orientation has on their structure and organisation differ considerably: from minimal in Islamic banks to considerable in "Western" banks.

6.3 The Effect of the Adoption of the Marketing Concept on Banks' Overall Performance

The final consideration of this part of the study was the extent to which banks' marketing orientation could be said to have an impact on their overall performance. Respondents were therefore asked to indicate the areas in which they perceived that the adoption of the marketing concept had made a significant contribution to their banks. This would constitute an effective measure of "outcome" of the adoption of the marketing concept. It was anticipated that where the marketing concept had been adopted and implemented, banks would perceive a significant contribution in areas of organisational efficiency, planning and control, profitability and provision of better bank services. Hence, null hypothesis (4) stated:-

Where the marketing concept has been implemented, there are no significant differences between banks in their perception of areas in which the adoption of the concept has made most significant contributions.

Table 6.23 sets out descriptive details of the results.

Variable	Type of Bank			
	Islamic	British	ME Riba	Western
Adoption of the Marketing Concept Has Made Significant Contribution In Following Areas:-				
Increasing Organisational Efficiency (CONTRIB 1)	2	2	1	4
Providing Better Planning and Control (CONTRIB 2)	2	5	1	4
Improving Overall Bank Profitability (CONTRIB 3)	5	4	3	4
Providing Better Bank Services (CONTRIB 4)	0	5	5	4
Improving the Bank's Competitive Position (CONTRIB 5)	0	5	4	5
Other (CONTRIB 6)	0	0	1	2

TABLE 6.23

CONTRIBUTION OF THE ADOPTION OF THE MARKETING CONCEPT BY TYPE OF BANK

6.3.1 Efficiency

Islamic and British banks are similar in that they perceive that (two out of five) adoption of the marketing concept has made significant contributions to increasing organisational efficiency. Middle East Riba banks are less convinced of the contribution in this area whilst four out of five Western banks replied that the adoption of the marketing concept had made a significant contribution to the organisational efficiency of their banks.

However, analysis of variance results below show that there are no significant differences between banks regarding their perception of the contribution made by the adoption of the marketing concept in this area.

Variable		SS	MS	Degrees of Freedom	F	sig
CONTRIB 1	between	1.60	0.53	3	1.065	0.3934^{NS}
(efficiency)	within	7.55	0.50	16		

NS = F insignificant.

TABLE 6.24

CONTRIBUTION TO EFFICIENCY

6.3.2 Overall Bank Profitability

Table 6.23 above also indicates that banks are also similar in their perceptions of the contribution of the adoption of the marketing concept in this area. All (five out of five) Islamic banks, four out of five British, three out of five

Middle East Riba and four out of five Western banks indicated that they believed that the adoption of the marketing concept made significant contributions to the overall profitability of their banks.

As a test of significant group differences Table 6.25 below shows that there are no significant differences between the groups as the F ratio of 1.905 is below the critical value required to conclude otherwise.

Variable		SS	MS	Degrees of Freedom	F	Sig
CONTRIB 3	between	1.00	0.33	3	1.905	0.1695^{NS}
(profitability)	within	2.80	0.17	16		

TABLE 6.25

CONTRIBUTION TO PROFITABILITY

6.3.3 Planning and Control

Here, table 6.23 indicated that Islamic and Middle Eastern Riba banks were similar in their response. Two out of five Islamic banks indicated that they believed that adoption of the marketing concept made significant contributions to their planning and control, whilst all British and four out of five Western banks indicated that the marketing concept had contributed to their banks in this way. However, as Table 6.26 below shows there are no significant differences between groups in their perceptions of marketing concept contributions here.

Variable		SS	MS	Degrees of Freedom	F	Sig
CONTRIB 2 (planning & control)	between	1.00	0.33	3	1.026	0.4075^{NS}
	within	5.20	0.32	16		

TABLE 6.26

PLANNING AND CONTROL

6.3.4 Provision of Bank Services

Although Table 6.23 above indicates that no Islamic bank believed that the adoption of the marketing concept had made significant contribution to the provision of better bank services, it shows that all British and Middle East Riba and four out of five Western banks believed in the contribution of the marketing concept in this direction.

Similar non-significant results of analysis of variance are shown in Table 6.27 below to that of the previous variables.

Variable		SS	MS	Degrees of Freedom	F	Sig
CONTRIB 4	between	1.20	0.40	3	1.60	0.228^{NS}
	within	4.00	0.25	16		

TABLE 6.27

PROVISION OF BETTER BANK SERVICES

6.3.5 Competition

Table 6.23 above shows that in considering the contribution made by the adoption of the marketing concept to improving banks' overall competitive position, all British and Western banks and four out of five Middle East Riba banks responded positively, whilst no Islamic bank perceived any significant contribution in this direction.

Analysis of variance results below also support the view that banks do not differ significantly on their perceptions of this variable.

Variable		SS	MS	Degrees of Freedom	F	sig
CONTRIB 5	between	1.80	0.60	3	2.40	0.1059^{NS}
	within	4.00	0.25	16		

TABLE 6.28

IMPROVING BANKS' COMPETITIVE POSITION

6.3.6 Other Contributions

As Table 6.23 indicates few banks believed that there were any other directions in which the marketing concept made significant contributions to their banks. Indeed, no Islamic or British banks responded positively in this direction and only one out of five Middle East Riba and two out of five Western banks indicated "other" contributions.

6.3.7 Summary of Findings

The above analyses of differential perceptions in the contribution of the adoption of the marketing concept indicate that:-

1. Whilst British, Middle East Riba and Western banks perceived that the adoption of the marketing concept had made significant contributions in many areas including increasing organisational efficiency, providing better planning and control, improving overall bank profitability, providing better bank services and improving the bank's competitive position, Islamic banks were more conservative in their view of the contributions that the adoption of the marketing concept made to their banks, in that they mainly believed contributions were in the direction of improving overall bank profitability, increasing organisational efficiency and providing better planning and control. Indeed, no Islamic bank believed that the adoption of the marketing concept contributed significantly to providing better bank services, or improving their competitive positions.

2. One-way analysis of variance suggests that there are no significant differences between groups of banks in their perception of the contributions of the marketing concept.

Null Hypothesis (4) which stated that where the marketing concept has been implemented, there would be no significant differences between banks in their perception of areas in which the adoption of the concept has made most significant contributions.

Before presenting an overall summary of this Chapter, it is useful to present a table summarising the findings relating to this part of the research. Table 6.29 presents this summary table.

6.4 Overall Summary - Chapters Five and Six

Chapters Five and Six have presented the results of univariate analyses of data obtained from a comparative study of Islamic and "Western" marketing of bank services.

Four hypotheses were tested regarding the significance of differences between the groups of banks on attitudes toward the marketing concept, performance of marketing activities, organisation and administration of marketing and effects of the adoption of the marketing concept on banks' overall performance.

As a result of univariate tests and factor analysis significant differences were found to exist regarding hypotheses 1, 2 and 3 and these hypotheses were consequently rejected. No significant differences were discernible on hypothesis 4 and this was therefore accepted.

Specifically, differences were evident between Islamic and "Western" banks on their attitudes toward the marketing concept only in the sense that the groups were applying the concept to achieve fundamentally different aims dictated by the values/philosophies on which their organisations were founded. Though all groups appeared to have adopted the marketing concept, differences existed on the extent to which Islamic and Western banks had formally implemented and organised marketing activities within their organisations. This difference is most evident where marketing responsibility and functions are not specially assigned in the case of Islamic banks. Although the centralised approach is the model type of organisation for British, Middle East Riba and Western bankers, it is certainly most prevalent in Middle East Riba and Western banks than in British banks. In all "Western" banks, persons heading the marketing effort in the centralised approach tend to have a marketing or related title, whereas marketing responsibilities by mainly untitled individuals are much more numerous in Islamic banks. When considering the activities which determine the overall offering of services to the customer - the marketing mix - significant differences also emerged with Islamic banks preferring a similar ad hoc informal approach to the performance of activities regarding services, pricing, communications, research and development and distribution. Marketing executives' influence as determined by membership in top level committees and by his responsibility in decision making in selected activities indicates additional differences between Islamic and Western banks. The only area in which it can confidently be said that there are no significant differences between the two groups of banks was in their perception of the contributions adoption of the marketing concept had made to their banks.

Hypothesis No.	Hypothesis Formulation	Instruments Used	Statistical Procedures Followed	Findings	Evaluation
(1)	Attitudes of Islamic bankers toward the marketing concept does not differ significantly to those of "Western" bankers	Bank Questionnaire	F ratio Factor Analysis	signif.diffs. $p < .05$ & $< .01$	REJECT
(2)	The scope of activities involving the components of the "marketing mix" do not differ significantly in Islamic & Western banks.	Bank Questionnaire	F ratio	signif. diffs. in who performs service, pricing, distribution, communications & research & dev. activities $p < .01$	REJECT
(3)	The organisation of marketing administration in Islamic banks do not differ significantly from those found in "Western" banks.	Bank Questionnaire	F ratio	signif. diffs. in title, participation, to whom marketing execs. report, integration. $p < .05$ and $.01$	REJECT

TABLE 6.29

MARKETING OF BANK SERVICES COMPARATIVE STUDY SUMMARY RESULTS

Hypothesis No.	Hypothesis Formulation	Instruments Used	Statistical Procedures Followed	Findings	Evaluation
(4)	No significant difference between groups of banks regarding their perception of areas in which adoption of marketing concept made most contribution to banks' overall performance.	Bank Questionnaire	F ratio	No signif. diffs. $p < .05$	ACCEPT

<u>TABLE 6.29</u> (continued)