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

BY

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CHAPTER SEVEN

SITUATION ANALYSIS (I) OF FAISAL ISLAMIC BANK OF THE SUDAN

7.1 Introduction

In Chapters Five and Six, the general analysis of data relating to the acceptance, implementation, administration and perceived outcome of adoption of the marketing concept within groups of Islamic, British, Middle East Riba and Western banks was carried out. The analysis in the following three chapters have to do with reporting an analysis of primary data collected by the researcher in a field study which focused on one particular Islamic Bank, viz. Faisal Islamic Bank of the Sudan (often referred to in the study as FIBS).

The researcher was fortunate enough to be granted permission by the General Management of Faisal Islamic Bank of Sudan to undertake a case study of the Bank and was consequently supplied with all information requested. Furthermore, staff and management of FIBS kindly assisted the researcher in carrying out a 1,000 consumer survey of the Bank's customers. Obviously, it would have been a significant contribution to the present data available in this field had all Islamic banks presently in existence been studied in a similar manner, but the limitations of time and resources made this an impossible task. The fact that this was essentially an exploratory study meant that there was a desire to tentatively delineate possible similarities and differences - for such an exercise, an indepth study of

one Islamic Bank was assumed sufficient.

This Chapter therefore seeks to provide a background to an understanding of the operations of an Islamic Bank set within the typical social, legal, economic environment of a developing Middle Eastern country. By so doing, the writer hopes to reveal some trends about the present and future prospects of Faisal Islamic Bank of Sudan and how the marketing function can be adapted to achieve sound bank marketing strategies rather than just continually seeking a little more sales and profits each year.

The components of this FIBS situation analysis includes:-

- (a) External marketing environments which give a brief discussion of the economic, financial, legal, competitive and social factors affecting the operations of FIBS.
- (b) History and initial objectives of Faisal Islamic Bank of Sudan.
- (c) Historical trends and current market position of the Bank showing growth in the operations of the Bank between 1979 and 1981.

Normally, the data for situation analyses can be found in published secondary sources, but the writer felt the need for additional data and hence conducted a consumer survey of 1,000 FIBS customers pertaining to customer attitudes and behaviour in addition to an extensive interview with the General Manager of FIBS.

The study of a major Islamic bank, its goals, operations, and environment will provide a useful insight into the current position of FIBS, how it got there and where it appears to be heading. While the findings cannot be generalised, without further empirical investigation, they do however, provide useful insights of a number of common characteristics of other Islamic banks in the Arab world.

7.2 External Market Environment

According to Berry and Donnelly [1]:-

"Before any marketing effort is expended it is wise to understand the environment in which the effort is to be expended. This is the purpose of the situation analysis." (p.233)

The aim of this section is to describe briefly the significant economic, legal, competitive and social factors prevailing in the Sudan which are likely to have an impact on the operations of FIBS.

Before the Sudan attained political independence in 1956, its economy displayed all the characteristics of a colonial economy; its concentration on the production of cotton, its dependence on the U.K. and other advanced countries of Europe for its import requirements, the concentration of economic activity in certain parts of the economy to the neglect of others, the existence of an expatriate modern sector in co-existence with an indigenous poorly developed sector, and so on, exemplifies this. Since independence, the Sudanese economy has continued to bear a turbulent and restrictive character.

[1] *op.cit.* p.233.

Since 1980, the IMF through a series of stringent Stabilisation Programmes, has imposed certain financial restrictions on the Government which aim at curing the deficit in the balance of payments, cutting down the rate of inflation and promoting exports in order to strengthen the country's foreign currency situation. A ray of hope was nevertheless discernible in 1981 when the exports and imports of some basic products were denationalised, import licence procedures became less stringent and more commercial banks were given licences to operate.

However, since 1981 the economic scene in the Sudan has been adversely affected by both external and internal factors. Externally, the economic arena was influenced substantially by the efforts of the industrial countries to correct the deficits in their balance of payments. This was primarily done through import restrictions whilst the prices of their exports have been pushed up not to mention the huge increases in the price of oil. The rate of economic growth showed a declining trend in most parts of the world, particularly among industrial countries. This slow growth rate also reflected adversely on the economies of developing countries such as the Sudan. Most developing countries registered a growth rate of less than two per cent while the sluggish growth in international trade coupled with inflationary tendencies led to an estimated deficit of about L.S. 227.2 millions on the Sudanese current account at the end of 1980.

Internally, the Sudanese economy has received massive injections of capital as a consequence of various development

plan expenditures. Nevertheless, the increased import prices coupled with the excessive demand generated by the huge amounts of money resulted in an internal and external disequilibria in the economy, manifested by deteriorating production and increasing balance of payments deficits.

The Six Year Plan for Economic and Social Development (1977/78-1982/83) (S.Y.P.) estimated that of the total public investment during this period, 53 per cent (L.S. 835 millions) would be financed from foreign sources, i.e. by loans and grants, while the remaining 47 per cent (L.S. 735 millions) would be covered by domestic resources. Of this, 61 per cent (L.S. 450 millions) was planned to be financed from public savings, while the remaining 39 per cent, L.S. 285 millions, would be financed through borrowing from the banking system. The Six Year Plan, according to the Sudan Central Bank, however, has been confronted with many difficulties resulting from both internal and external factors. [1]

Firstly, at the domestic level, the Plan's policy assumptions regarding public savings were not realised because of the large increase in the recurrent public expenditure. Indeed, in the first two years of the Plan, expenditure rose by 28.4 per cent and 29.8 per cent respectively. This large increase in expenditure was partly attributable to the wage and salary increase to public sector employees in 1977-78, and the settlement of the Southern question in 1972, created new financial commitments

[1] Sudan Bank Annual Report, 1981.

which had to be met from the central government's resources, etc.

Secondly, failure to realise planned public savings has led to the increased borrowing from the banking system on the part of the Government. This constituted a breach of the government's pledge to the IMF to eliminate gradually the dependence of the public sector on the banking system. Net banking claims on the public sector were L.S. 517 millions at the beginning of the SYP rising to L.S. 962 millions in 1980 - an increase of L.S. 455 millions against the ceiling of L.S. 285 for the whole period of the SYP. This increased deficit financing added to the inflationary pressures in the economy.

Thirdly, the inflow of foreign resources was below the Plan estimates. Furthermore, the declining volume of exports worsened an already adverse balance of payments situation, causing delays in importing supplies of fuel, spare parts, machinery and materials needed for development of the infrastructure.

Fourthly, the implementation of the Plan was faced with the bottlenecks of the underdeveloped infrastructure; transport, storage facilities, irrigation and power all proved to be inadequate.

Finally, the local administrative and manpower constraints resulting from the continual flow of emigration of skilled and semi-skilled manpower to Saudi Arabia and the Gulf States aggravated the development problems.

The overall situation is typical of many less developed African and Arab economies. Indeed, the typical economic syndrome which has resulted in continuous foreign exchange crises and inflation in developing countries such as the Sudan can be characteristically summarised as follows:-

1. Central government has a poor and disorganised tax base.
2. The various expenditure requirements of the government far exceed their receipts, and increasingly so over time, because the taxation system is not designed to be income-elastic.
3. The consequent deficit in the budget is financed by borrowing from the Central Bank.
4. Uncontrolled Central Bank borrowing leads to enormous increases in the monetary base and consequently in the money supply.
5. Large increases in the money supply directed through state banking system to government corporations or highly secured transactions are inflationary.
6. Increases in the money supply cheapen credit and permit the banking system to maintain low nominal interest rates on deposits except where confidence in the value of money is undermined by its inflationary consequences.
7. Inflation and low nominal rates of interest imply a negative real yield on money and financial assets and lead to a preference by surplus units to utilise funds for their own use rather than invest in the financial system. This in

turn implies a continuance of informal credit markets and money-lending activities at extortionist interest rates. In addition, it encourages hoarding.

8. The result in thin money and capital markets make it imperative to seek foreign capital, which is again unproductively deployed in inefficient financial systems and creates an unserviceable debt burden. This leads to the continual need for aid and grants to keep the economy afloat.
9. Inflation itself leads to weak currency and the monetary authorities consequently impose controls and foreign exchange restrictions which have even more distortive effects on the banking system and the capital markets of the country. [1]

What are the implications of these features on the financial structure of Sudan? In short, they imply what has been called "financial repression" (see McKinnon [2] and Shaw [3]).

Although since the Second half of this century, the development of modern commercial banking in Sudan and the Middle East generally, has been slow but steady, since the spread and progress of banking depends to a large extent on the pace of economic growth and the degree of monetization of the economy, the area

[1] Kassem, Omar *The Present State of the Arab Financial Markets*.

[2] McKinnon, Ronald I. (1973) *Money and Capital in Economic Development*, Washington: The Brookings Institution.

[3] Shaw, Edward S. (1973) *Financial Deepening in Economic Development*, London: Oxford University Press.

has been very underdeveloped.

As already pointed out in Chapter One, average income per capita is very meagre (300 dollars p.a.) and internal communications very difficult. Therefore, the possibilities for savings and their mobility from one place to another are limited. Underdevelopment and incomplete monetization of the economy has no doubt affected the growth of most Middle Eastern countries, but even now, i.e. after the discovery of oil, other causes are still contributing to this situation. To name but a few: illiteracy, instability and religious attitudes.

Although there has been an appreciable progress since the end of the Second World War in the resources, business and number of commercial banks in Sudan, yet the growth of the banking habit has been slow as the citizens continue to show a marked preference for currency instead of bank deposits. This preference is shown by the ratio of demand deposits to the money supply. At the end of 1969 this ratio for the Sudan was 37 per cent as compared, for example, with France, where it was 54 per cent.

A further indicator of the financial depth of the economy is shown by the ratio of money to the national income. Thus in Table 7.1 we see that the lower M_2/Y , the less developed is the banking system of the economy in question. Due to the incorrect data for GNP (Y) however, it is more useful to look at the ratio of currency to the total money supply. Most deficit Arab countries like the Sudan have a high C_p/M_2 ratio indicating a "repressed" financial system. This ratio together

YEAR	Ratio of Money To National Income (M_2/Y)	Ratio of Currency To Money Supply (Cp/M_2)	Ratio of Time Deposits To Money Supply (Dt/M_2)
1971	0.1715	0.5351	0.1175
1972	0.1902	0.4751	0.1300
1973	0.2192	0.4719	0.1429
1974	0.2076	0.4590	0.1506
1975	0.1981	0.4294	0.1594
1976	0.2074	0.4147	0.1677
1977	0.2465	0.3861	0.1779

Source: IMF International Financial Statistics.

TABLE 7.1

INDICATORS OF THE FINANCIAL DEPTH OF THE SUDANESE ECONOMY

1971-1977

with the ratio of time deposits to money (Dt/M_2) are good joint indicators.

The conclusion derived from all this, is that money is held by the public chiefly for transactions purposes and not as an investment or "store of wealth". Commerical banks appear to be providing the facilities to the public in currency exchange and trade finance, but not to be doing much in the way of acting as a channel for the investment of surplus funds into productive sectors. Those individuals endowed with entrepreneurial talents and technological skills are not generally the same individuals with the surplus resources to invest. From the point of view of the developmental process this is stultifying for if economic growth is to take place it is important that there are channels through which the resources of surplus units are transmitted to those in greatest need of those resources. Indeed, as Gurley and Shaw [1] have shown, in the absence of such channels economic growth fails to reach feasible rates as savings either remain sterile or are misallocated.

It is evident from the foregone that the chief instruments of the economic development process are financial institutions. Banks function at the heart of this financial body and give life to the whole economic activity in a given community. The efficiency of their operations in the process of development is measured by their ability to pool and employ savings.

[1] Gurley, John G. and Shaw, E. S. (1956) "Financial Intermediaries and the Saving-Investment Process, *Journal of Finance*, May.

Facing this problem, some governments have resorted to nationalising banking activities convinced that such a measure would help in diverting the flow of monetary activities towards the public interest. In May 1970, the Sudanese government nationalised the ownership of the banking system as well as other Sudanese and foreign enterprises. The objectives of this Nationalisation Act were to:-

- (a) develop and improve the banking facilities to the various sectors; particularly the traditional sector and the rural areas which desperately needed these banking facilities;
- (b) give the Bank of Sudan (established 1959) and the Government firm control over the monetary policy and to implement this policy quantitatively and qualitatively as part of a co-ordinated national economic policy designed to benefit the Sudanese people;
- (c) use the banking system as an instrument of control over capital investment and other units of public sector;
- (d) terminate foreign influence and control so as to reorganise the banking system on sound bases along socialist principles and to stop the drain on the economic surplus. [1]

At the end of 1970, the total number of commercial bank offices in the Sudan stood at 64. In 1979, the total number of branches, sub-branches and agencies of commercial banks rose to 125. However, the banks continued to be concentrated in the provincial

[1] *Bank of Sudan Annual Report, 1970, p.7.*

capitals and a few of the main towns. Indeed, this feature further concentrates credit in the large towns, and hampers the mobilisation of the savings of the smaller towns and countryside.

It is evident from the figures in Tables 7.2 and 7.3 that over the 25-year period 1956-81, there has been a substantial increase in the commercial banks' resources and volume of business in the Sudan.

Table 7.2 shows the growth in deposits of the Sudanese commercial banks between 1959 and 1973. It will be noted that the movements in deposits follow closely the fluctuations in exports, which in turn depend on an uncertain agricultural activity. Deposits have increased almost four times between that period. Since then, deposits of commercial banks have also taken an upward, though fluctuating trend, reflecting the expansion in agricultural and commercial activities.

Table 7.3 shows the three categories of commercial bank deposits, viz. current, deposit and savings accounts between 1975 and 1981. The remarkable increases in current accounts over the period is attributable to the rise in the credit facilities to the private sector that led to a sharp increase in supply of money of which demand deposits form a major component, whilst the increases in time deposits and savings accounts were partly due to the concerted savings campaigns launched by the commercial banks and the spread of the banking habit associated with the expansion of commercial bank services.

	Central Government Local and Boards**		Private Deposits (Ls.000)		Total (Ls. 000)		Index
		%		%		%	
Pre Central Bank							
1956	15,080	65.3	8,018	34.7	23,098	100	100
1957	7,605	44.2	9,612	55.8	17,217	100	75
1958	7,279	73.1	12,359	62.9	19,638	100	85
1959	8,165	35.6	14,775	64.4	22,940	100	99
Post Central Bank							
1960	13,606	44.7	16,865	55.3	30,471	100	132
1961	10,200	33.7	20,106	66.3	30,306	100	131
1962	12,054	33.8	23,608	66.2	53,662	100	154
1963	15,597	36.5	27,159	63.5	42,756	100	185
1964	2,542	8.2	28,319	91.8	30,861	100	134
1965	2,177	6.2	32,706	93.8	34,883	100	151
1966	1,294	3.4	36,281	96.6	37,575	100	162
1967	1,539	3.5	42,822	96.5	44,361	100	192
1968	1,539	3.5	42,822	96.5	44,361	100	192
1968	1,295	2.9	42,864	97.1	44,159	100	191
1969	1,399	2.8	48,485	97.2	49,884	100	216
Nationalisation							
1970	2,249	3.9	54,875	96.1	57,124	100	247
1971	3,332	5.4	58,360	94.6	61,692	100	267
1972	4,933	5.7	81,352	94.3	86,285	100	374
1973	4,272	4.0	101,538	96.0	105,810	100	458

Source: Bank of Sudan, "Annual Reports", 1960-1973; "Economic Surveys", Ministry of Finance and Economics, Khartoum.

* Includes Current Account, Deposit Account and Saving Account. Saving Account is mainly private.

** Including Government agencies and the Agricultural Bank.

TABLE 7.2

GROWTH OF COMMERCIAL BANKS' DEPOSITS*
(Millions of Sudanese Pounds)

	Current Accounts	Deposit Accounts	Savings Accounts
1975	118,256	7,995	38,714
1976	151,258	9,141	52,659
1977	221,469	14,172	77,509
1978	288,224	24,242	92,830
1979	388,327	34,468	106,010
1980	528,568	51,046	115,210
1981	620,270	59,200	162,243

Source: Bank of Sudan, Economic and Financial Statistical Reviews.

TABLE 7.3

COMMERCIAL BANK DEPOSITS BY TYPE OF ACCOUNT (Private Sector)

(L.S. Millions)

1975 - June 1981

We now consider the other important function of commercial banks, namely lending. Between 1976 and 1973 commercial banks' advances to the private sector grew about four and a half times from L.S. 22.0 million to L.S. 98.8 millions. Between 1975 and 1981 there was a similar substantial increase from 186.1 millions to L.S. 675 millions. Nevertheless, lending policy is still inadequate and is heavily oriented towards the capital for short-term liquidating loans. Capital for medium and long term purposes is still scarce.

In general, about 65 to 80 per cent of total advances is in short-term credit, and export and import financing account for over 50 per cent of the lending. The activities of the commercial banks in the provisions of industrial working capital though growing, is still very limited. Similarly, the help they give for financing agricultural operations and the marketing of produce is small and leaves much to be desired. Due to this many of the farmers and the small merchants in the rural areas have been caught in the clutches of the money lenders whose rates are extortionately high. There is therefore a need for the growth of term lending institutions. Such channels may take time to establish, however there appears to be positive moves in this direction in the Sudan.

Perhaps the best indicator of moves to aid the better mobilisation of resources and extend term lending was the establishment and licensing of various Islamic financial institutions in the Sudan in recent years. For example, during 1977 the Faisal Islamic Bank was inaugurated as a public limited liability company. Toward the end of 1980 the Islamic Bank for Finance and

Investment was licensed and authorised to establish branches in the Sudan. Moreover four joint venture banks, the Gezira Islamic Bank, El Wadi Bank, the Western Sudan Islamic Bank and the National Bank of Sudan were granted preliminary approval to start banking business in the Sudan.

FIBS obviously faces a competitive market, although the management does not consider this to be unmanageable since it offers a different type of service to the traditional commercial banks and enjoys certain legal advantages not enjoyed by their competitors. However, taxation, licensing and commercial laws are problems which the bank's management foresees accentuated in the near future.

The main competitors of the Bank at present are the five major government owned banks which were nationalised in 1970 - Sudan Commercial, Khartoum Bank, El Nilein, People's Co-operative and Unity Bank. The others are relatively new banks and branches of foreign banks.

As a result of the various restrictive measures imposed by the Government via the Central Bank in its bid to stabilise the Sudanese economy - viz. import and export regulations and concentration on export financing, ceilings to credit and sub-ceilings for the various categories of advances, etc. - the banks appear to be competing largely in the fields of funds for export financing, agricultural and industrial activities.

Indeed the various and frequent credit restraint directives are a real problem according to the General Manager of FIBS:-

"... this is a real problem if it persists for a long time. The IMF traditional operations when it extends its facilities is to try to squeeze credit in the community and the Central Bank will issue stringent administrative injunctions telling each bank not to exceed a certain limit in its operations in each quarter of the year, or sometimes each month or week. Being an Islamic Bank which has to invest and liquidate its operations physically to gain profits, our formulae is in direct contradiction to the credit ceiling practice because the other banks can distribute the credit to its ceiling or apportion it among its clients and can calculate interest on its outstanding notes. We, in turn have to actually liquidate our operations so as to get our profits and re-invest them... We are hence restrained in our acceptance and utilisation of investible funds."

As regards the frequent and erratic government directives and guide-lines, the Deputy General Manager pointed out that these hamper rather than help in planning. Therefore:-

"I should think that an Islamic Bank operating in a stable society; stable economic environment with clear policies and a lot of information will be very successful. Ours is successful, but this is so in the face of numerous constraints which has put a very strong demand on the management and staff personnel of the Bank."

Given the economic and financial set-up of the Sudanese economy, the ability of any bank to implement a coherent, comprehensive planning policy is practically constrained by the several limitations already alluded to here. Other more stable factors which obviously affect the operations of the Bank are the social and religious.

Markets are people - people with money. The size of the market is closely linked to population, education and religion. The Democratic Republic of the Sudan, has an estimated population of some 20 millions. The population density per square mile is much lower than that of other Arab countries

such as Kuwait, Jordan and Lebanon. Yet it is the world's ninth largest country, the largest in Africa and about the size of Western Europe. Apart from a 400 mile stretch of the Red Sea coastline facing Saudi Arabia, with Port Sudan its single outlet, it is bordered by eight countries - Egypt, Libya, Chad, the Central African Empire, Zaire, Uganda, Kenya, Ethiopia - a position which immediately gives the Sudan strategic significance in the politics of several different arenas - North Africa, the Horn and, across the narrow Red Sea, the Arabian peninsula.

The tendency of the major cities, Khartoum, Omdurman, Port Sudan, Gadariff and Obeid, to overshadow all others is a notable feature of the population distribution of the Sudan.

Geologically, the Sudan contains some of the least explored territory in the world. Oil has recently been discovered there but whatever the oil chances, the presence of other minerals is already established. They include chrome, asbestos, iron ore, copper and possibly uranium, all of which hold considerable potential as resources for growth.

The market structure is influenced by the level of literacy and education. Specifically, literacy, affects not only the level of income, by which the size of the market can be increased, but also the communication of information that is pertinent to a wider market. In Sudan, the illiteracy rate is approximately 80 per cent. In general, at the ages of 6-14 it is less than that in other age groups, and that of females higher than that of males. However, this is gradually

changing with the rising level of education of girls. The belief that a woman is a better citizen for being educated is gradually spreading from the government to the homes of Sudanese. Indeed, the adoption of a new educational system and the cost of such a change has contributed considerably to the rise in government expenditure in recent years. Opportunities for primary and secondary education and enrolment of girls have been expanding over the last few years.

The majority of Northern Sudanese are Muslims and speak Arabic. Religion is a social factor which affects markets since it influences the people's habits, their outlook and type of bank services they desire and the kind of promotion they will accept. As will become increasingly clear throughout this study, Islamic tenets which are relevant to the economic and social behaviour of Muslims are numerous. The contemporary Islamic resurgence experienced by many Middle Eastern countries is also evident in the Sudan, where efforts are being made in almost every area of individual and social life to assess the relevance of Islam and to find ways and means of transforming its consciousness into socio-economic reality. Islamic goals and values encompass all aspects of human life including social, economic and political. Since all aspects of life are inter-dependent and the Islamic way of life is a consistent whole, its goals and values in one field determine the goals and values in the other fields as well.

The above brief outline of the economic and social situation of the Sudan illustrates the significance of economic, legal, competitive and social factors which have an impact on the

activities of important institutions such as banks. The magnitude and rapidity of the various economic climates makes it incumbent upon any young, novel institution such as FIBS to vigorously adjust in order to carry out its objectives in such turbulent environments. However, the history and operations of FIBS between 1979-1981, discussed in the following sections of this Chapter, give credit to the efficiency and dedication with which the Bank copes with the difficulties encountered within its external market environment.

In summary of this section, it might be useful to quote again the Deputy General Manager of FIBS. When asked what problems FIBS faced from its external environment he answered thus:-

"The problems really don't emanate from the customers themselves. The general problem pertains to the environment and the lack of information, lack of marketing channels, from the administrative policies and changes in the economic, fiscal, and monetary policies which are continuous. These set up problems which lead our customers to find themselves in difficulties, and we have to share this with them."

7.3 Initial Objectives and Operations of the Bank

Faisal Islamic Bank of the Sudan (FIBS) was incorporated as a Sudanese public company in August 1977, and commenced its commercial operations in May 1978. The aims of the Bank according to the Bank Act of 1977 were to:-

"strive to consolidate community development through performing all banking, financial, commercial and investment business." [1]

Furthermore, the Bank may for achieving its objectives:-

[1] *Faisal Islamic Bank Act, 1977.*

"establish co-operative insurance companies... participate in the economic and social development activities within or outside the Sudan." [1]

The Bank is seeking to operate according to the Islamic Sharia Code mainly to achieve:-

- (i) Prohibition of the receipt and payment of interest.
- (ii) Carrying out business and trade activities on the basis of fair profits.
- (iii) Distributing the Zakat (wealth tax).
- (iv) Prohibiting monopoly.
- (v) Endeavouring to promote social and economic development through performance of all banking services.

The authorised capital of FIBS on its inception was 6 million Sudanese pounds. Forty per cent of its shares were allocated to Sudanese nationals and forty per cent to Saudi Arabians and in order to reflect the international, non-sectarian nature of Islam, FIBS allocated the remaining twenty per cent of its shares to Muslims from other countries. However, in August 1978 the authorised capital was raised to ten millions due to over-subscription of the first issue and later to forty millions.

In accordance with the provisions of Article 106 the Sudanese Government exempted FIBS from the following taxations:- [2]

- (i) the property and profits of the Bank;

[1] *ibid.*

[2] Provisional Orders. The Faisal Sudanese Islamic Bank Act, 1977.

- (ii) the funds deposited with the Bank for the purpose of investment;
- (iii) the salaries, wages, gratuities and pension of all employees of the Bank;
- (iv) the Central Bank may exempt FIBS from the provisions of the exchange Control Regulations within the limits that it deems fit;
- (v) Sec. 42, 44 and 45 of the Bank of Sudan Act, 1959, pertaining to the determination of Bank rates, reserve requirements and restriction of credit activities are not applicable to FIBS;
- (vi) the FIBS assets are not subject to confiscation, nationalisation, sequestration or forfeiture.

FIBS offers the public most of the traditional commercial bank services, e.g. current account, saving account (no interest is paid); investment deposits (profits paid) domestic and international bank transfers; collection of bills, letters of credit, guarantees, safe custody, etc.

The services now offered on the three main accounts are as follows:-

Current Account - performed in the normal banking traditions except that FIBS obtains the explicit consent of the depositors to use their funds in its other activities. Current accounts in foreign currencies for Sudanese nationals working abroad (S.N.W.A.) are also undertaken according to the Bank of Sudan Regulations.

Savings Accounts - this banking service is offered free of charge. All or part of the deposit may be withdrawn by the customer without notice. No interest or profit is paid although there are special privileges to be given by FIBS under consideration, e.g. finance of small projects and consumer durables, to reward and encourage deposits of regular savers.

Investment Deposits - a minimum deposit of LS 1000 is required here. Funds are deposited for one year, renewable. They are utilised in the various investment projects of the Bank from which the Bank deducts a part (25 per cent) of the net profits earned as a consideration for its entrepreneurial efforts being the mudharib. If the deposit is withdrawn by the customer before the elapse of three months, he is not entitled to any profits.

The Bank has established correspondent relations with a number of countries in the Middle East, Europe and Asia and many of these countries' banks work on the receipt and payment of interest but a mutual agreement has been reached without charging interest should the account of FIBS go into the red. However, in consideration, FIBS undertook to keep reasonable amounts of cash in their current account with the correspondent banks and also endeavoured to cover any overdrafts as soon as possible. This type of arrangement has been reached with Barclays Bank International and U.K., Wells Fargo (U.S.A.) UPAF Bank, U.K., Commerz Bank (West Germany), National Bank of Pakistan (U.K.).

FIBS employs four types of profit-sharing principles in carrying out its business, their theoretical basis is firmly rooted in the Shariaa Code:-

- (i) Musharaka (participation);
- (ii) Mudaraba (agency);
- (iii) Morbaha (cost plus);
- (iv) Kerad Hassan (beneficial or interest free loans).

The reader will recall that the above four profit sharing principles have already been discussed in Chapter One. However, the steps taken by FIBS when processing these contracts are outlined thus:-

In Musharaka the object of participation should be clearly defined, the contribution of each party in the total investment is determined, division of profit and loss between the parties is agreed upon in advance, loss is strictly shared according to contribution to total investment, the co-partner manages the operation and submits regular reports about its progress. The Bank reserves the right of supervision and direction of the operation in case of failure, the date and conditions for the liquidation of the operation are also agreed upon in advance.

In Mudaraba (or Quiradh) the bank contributes all the financing and the partner (customer) contributes only his managerial effort. In consideration, the partner gets an agreed proportion of the profit actually realised. In case of loss from normal business causes or natural causes the Bank bears all the loss and the "mudarib" only loses that which would have been a reward to his efforts. The initiation could either

come from the Bank or the "mudarib" who suggests the type of transaction. Determination of the subject, framework, scope and size of mudaraba operation is agreed upon in advance. Selection of the Mudarib is governed by his experience and knowledge in the field and his managerial capacity.

In the case of Murabaha the partner approaches FIBS asking that a certain item be bought and or acquired for him for a specific price and he agrees to buy it later from the Bank at an agreed percentage of profits to the Bank. Here, the processing considerations include the marketability of the goods since if the partner (customer) does not rebuy the commodity, they could end up with the Bank when it is incumbent on it to resell, the quantity of the goods, the methods of payment (i.e. immediate delivery or by instalments).

From the above description the importance of evaluating projects will be obvious. The Deputy General Manager of FIBS pin-pointed this feature of the bank's activities as an important difference between Islamic banks and traditional Western style banking thus:-

"I would say that being an active bank, by virtue of its methodology, that is to say a Bank which has to be involved in its operations with customers and not just lend, secure lending and wait for the proceeds to come... Islamic banking provides from the beginning the study of different projects or ventures and that means there is technological and managerial input."

As pointed out by Mr. Hamdi [1], elsewhere, the participation

[1] Hamdi "The Operations of Faisal Islamic Bank", Paper presented at Geneva Conference on Islamic Banking, 1981, p.10.

mode lays a heavy managerial burden on the bank with regard to project evaluation, follow up, etc.

The task of allocating loanable funds also lays a heavy burden on management and is usually performed by individual banks on the following criteria:-

1. Specific credit needs of a firm.
2. Social priority attaching to the enterprise.
3. Nature of the security offered against the loan.
4. Whether the credit seeker has also obtained long-term advances from the bank for the same enterprise.
5. Annual, monthly or weekly average of the applicants' balance in current account with the bank.

In the case of FIBS the securities taken for the success of finance operations are as follows:-

1. The technical and economic study of each operation.
2. Investigation of the customer's financial position and his financial dealing.
3. Physical securities or personal securities by a third party in favour of the customer.
4. Continuous supervision and follow up.

Furthermore, the bank insists on securing its operations in accordance with Shariaa stipulations against any breach of contract through negligence or wilful act on the part of the customer. This is undertaken in the form of mortgage or insurance of operations with the Islamic Insurance Company, a wholly owned subsidiary of the Bank.

7.4 Historical Trends and Current Market Position

This section includes an analysis of trends in the operations of FIBS between 1979 and 1981, showing the growth in its share of the market and current market position.

1. May 1978 - 31st December 1979

The reader will recall that FIBS commenced its commercial operations in May 1978. Total deposits at 31.12.79 were LS. 21,773,694 of which:-

Current account deposits	L.S. 15,131,235
Investment account deposits	L.S. 2,718,088
Savings Account Deposits	L.S. 770,297
Customers Foreign Accounts	L.S. 3,154,074

(See Tables 7.4 to 7.8 below.)

During the period January 1979 to December 1979 the number and types of accounts increased by 200 per cent, i.e. an increase from 3,576 to 10,723 accounts. Deposits shot up by 100 per cent rising from L.S. 9.6 millions to 18.6 millions.

The investment profits realised from investments based on profit sharing principles were L.S. 879,000 representing 38 per cent of the gross revenues during the period May 1978 to December 1979. This figure is equal to 13.5 per cent profit-ability on all liquidated operations. Gross profits during the period 10.5.78 to 31.12.79 were L.S. 2,345,294 while total expenditure (both capital and current) for the same period was L.S. 1,292,761. Net profits before distribution of El Zakat were L.S. 1052,533

LIABILITIES	LS	LS	ASSETS	LS	LS
<u>DEPOSITS</u>			<u>CASH IN TILLS AND BANKS</u>		
Current Accounts	15131235		Cash (Domestic)	388272	
Saving Accounts	770297		Cash (Foreign)	739044	
Investments Accounts	2718088		Local Banks	3691901	
Customers Foreign Accounts	<u>3154074</u>	21773694	Foreign Banks	9172033	13991250
Local and Foreign Banks		26249	Joint Venture Investments	10776255	
Bills Payable		429352	Other Advances	1718836	
Other Credit A/Cs & Provisions		3826471	Less provision for Doubtful Debts	150000	12345091
			Bills Negotiated	1395665	
<u>CAPITAL</u>			Bills Under Collections	452281	
Authorised Capital 1000000 shares			Other Debit Accounts	1717080	3565026
each £s 10			Short term Investments	150000	
Paid-up Capital		3579041	Shares in Subsidiaries	400000	550000
Calls paid in Advance		77205	<u>FIXED ASSETS</u>		
Capital Reserve		372306	Furniture fittings less depreciation	288584	
Net profits		<u>1052533</u>	Land and Buildings	32514	
			Capital Expenditure	364386	685484
<u>TOTAL LIABILITIES</u>		<u>31136851</u>	<u>TOTAL ASSETS</u>		<u>31136851</u>
<u>MEMORANDUM ACCOUNTS</u>			<u>MEMORANDUM ACCOUNTS</u>		
Bank Liabilities for Credits and Guarantees		4349125	Customers Liabilities for Documentary Credits and Guarantees		4349125

Source: FIBS Reports to the Board of Directors

TABLE 7.4

FAISAL ISLAMIC BANK (SUDAN)
BALANCE SHEET AS AT 31ST DECEMBER 1979

<u>DEBIT</u>		<u>CREDIT</u>	
<u>EXPENDITURE</u>	<u>LS</u>	<u>INCOME</u>	<u>LS</u>
Administrative expenses	997,574	Musharaka profits	878,804
Staff bonus	60,000	Banking service charges	231,448
New branches	29,110		
Depreciation of fixed assets	51,077	Income from operations in foreign currency	1,220,607
Adult fees	5,000		
Provision for bad and Doubtful debts	150,000	Return on Mudaraba Suks	6,319
Net profits	1,052,533	Other income	8,116
	<u>2,345,294</u>		<u>2,345,294</u>
<u>PROFIT AND LOSS APPROPRIATION ACCOUNT</u>			
Net profit Before El Zakat		1,052,533	
less:-			
Zakat on capital and net profits		125,097	
Remuneration of Board of Directors		52,626	
Share of Investment Deposits		167,286	
General Reserve at 10% of net profits after deduction of Zakat		92,744	
Proposed Dividend at 15%		499,161	
Profits carried for next year		115,619	

Source: FIBS Reports to Board of Directors

TABLE 7.5

FAISAL ISLAMIC BANK (SUDAN)

PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDING 31st DECEMBER 1979 (in pounds)

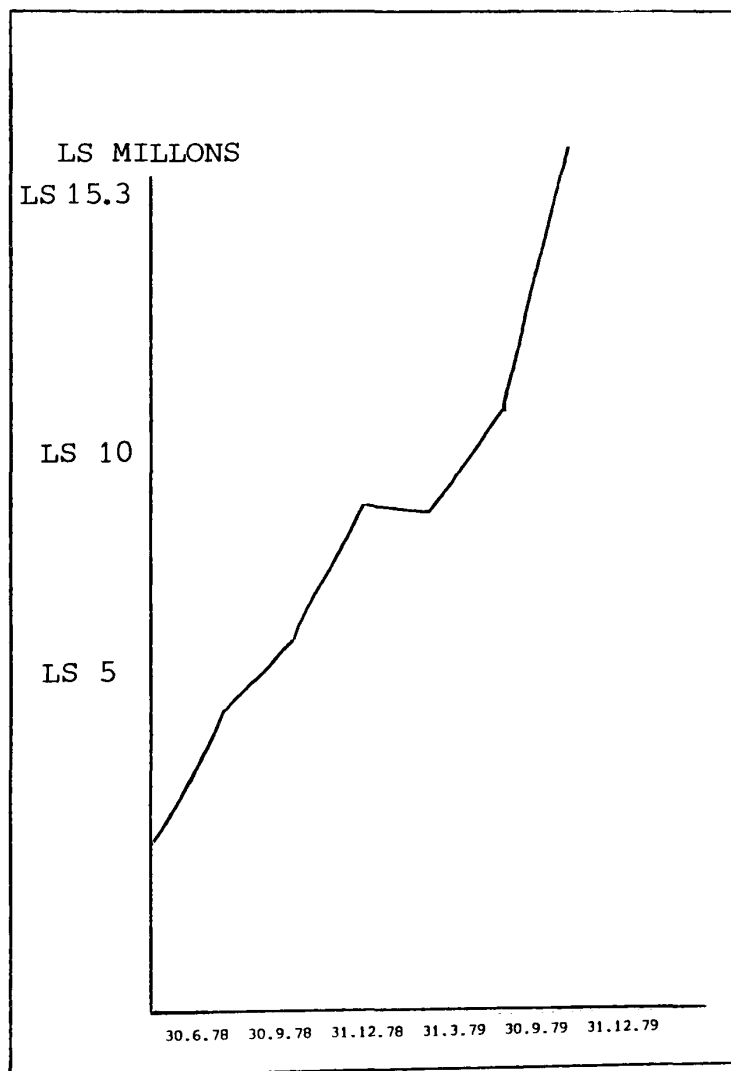
Tables 7.4 and 7.5 show the Balance Sheet and Profit and loss Account as at 31.12.79 while Tables 7.6 and 7.7 give a graphical representation of developments of current, investment and savings accounts.

The Bank's investment policy during this initial period was guided by aims of minimising the risks inherent in their new economic position. Hence, the Bank chose less risky areas of investment such as trade and working capital for industry, and the realisation of reasonable profits in the shortest possible time in order to prove the feasibility of realising profits through non-interest banking.

As a consequence of such investment policy considerations all investments were concentrated in the short-term and minimum risk areas, a reasonable profit of 13.5 per cent was realised on these investments and an administrative and financial base was laid down comprising of five branches and two affiliated companies (viz. the Islamic Insurance Company, and the Islamic Company for Trade and Services).

Although the Bank planned to gradually spread their geographical representations, during the whole of the first year, work was conducted through their main Khartoum branch. Suitable modifications were also introduced to the classic formulae for doing business in order to accommodate modern developments and this was done with the explicit approval and guidance of the Bank's Shariaa' Supervisory Board.

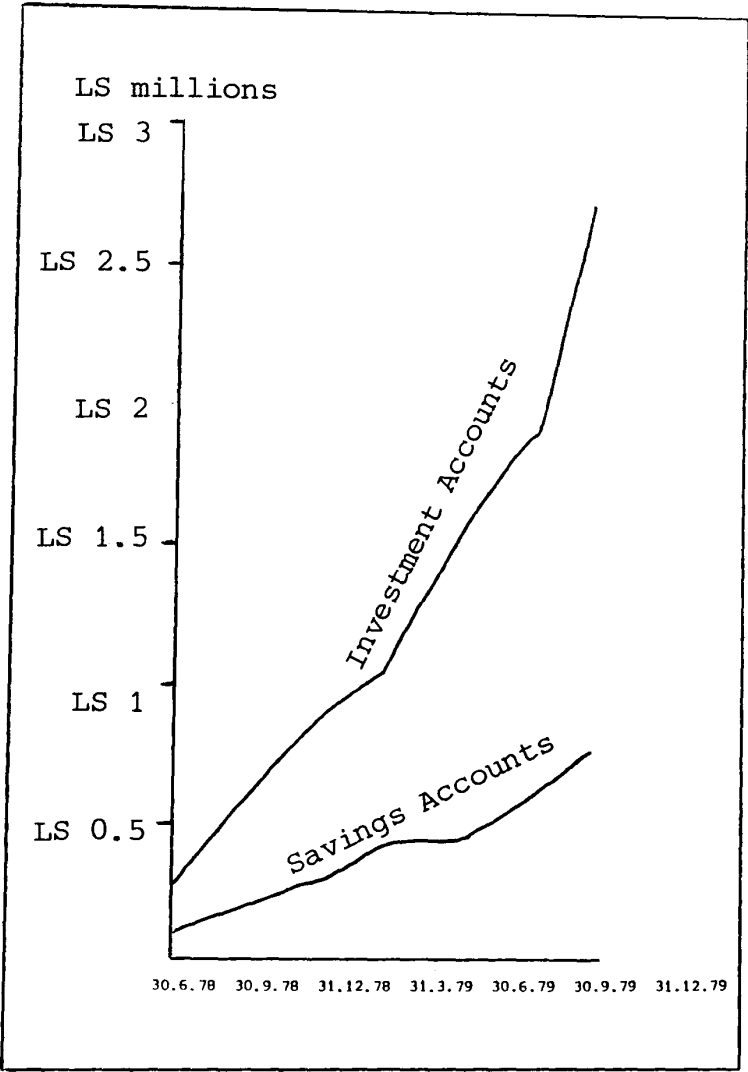
The total number of investment operations contracted in this period was 208 and the total contribution made by the



Source: FIBS Reports to Board of Directors.

TABLE 7.6

DEVELOPMENT OF CURRENT ACCOUNTS



Source: FIBS Reports to Board of Directors.

TABLE 7.7

DEVELOPMENT OF INVESTMENT AND SAVINGS ACCOUNTS

Bank was L.S. 27.6 millions of which 82 per cent was invested in trading operations. At the end of 1979 a total of 68 operations were fully liquidated.

The profits actually realised from the investment operations amounted to L.S. 879,000. However, the Bank's general policy is continuously to try to decrease their profit margins since they aim to make doing business easier and cheaper than the traditional "riba" based banks. [1]

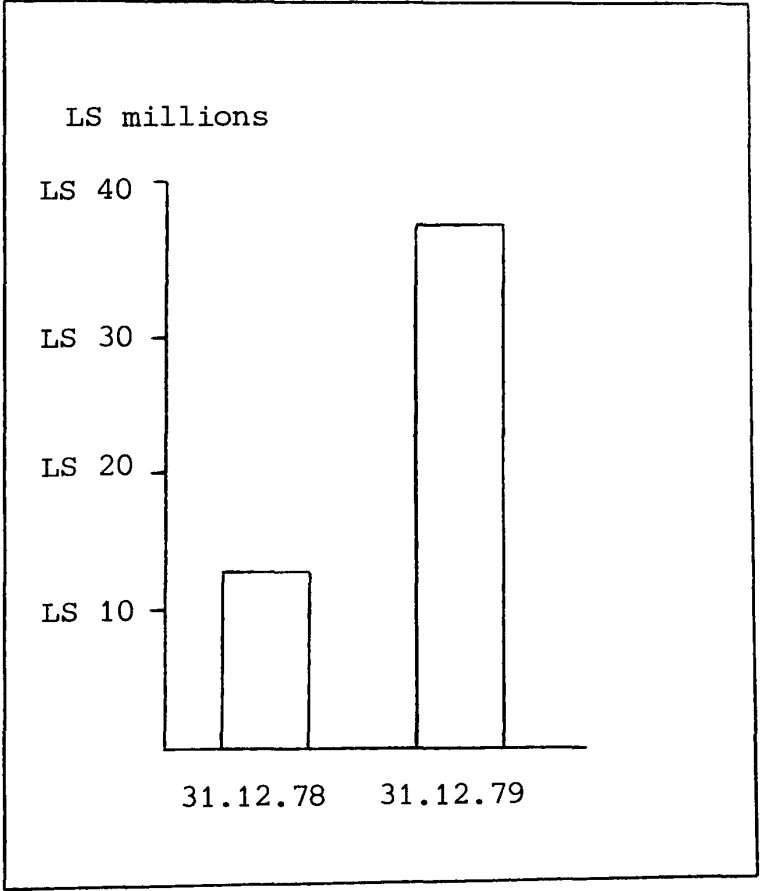
As for the social activities of the Bank, from its inception the socio-economic aspect of the Islamic ideal has been a chief consideration. Consequently, a special department was established to accept and distribute Zakat on behalf of those choosing to send it to the Bank or to authorise the management to deduct it from their accounts with the Bank.

At 31.12.79 the total number of Bank staff was 157, the high number of which is said to be due to the intensive supervisory and follow-up role of the Bank, stemming from its status as an active participant in the operations it finances. Training and education of staff was also a priority during this period and in the furtherance of this, the Bank intended from the outset to establish a training centre of its own.

2. 1979-1980

The internal economic situation of the Sudan during this year was largely dominated by the ongoing three year Financial

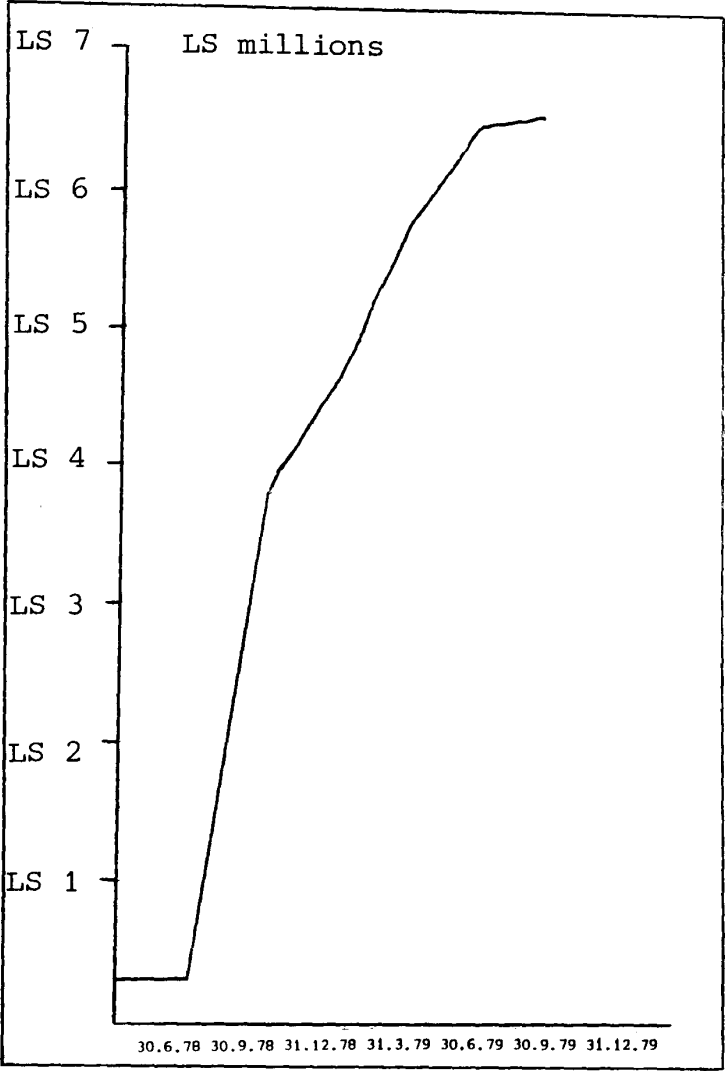
[1] Hamdi, Abdel-Rahim (1981) "The Operations of Faisal Islamic Bank (Sudan)." Paper presented at Conference on Islamic Banking, June, 1981, Geneva, Switzerland.



Source: FIBS Reports to Board of Directors.

TABLE 7.8

DEVELOPMENT OF ASSETS 1978-1979

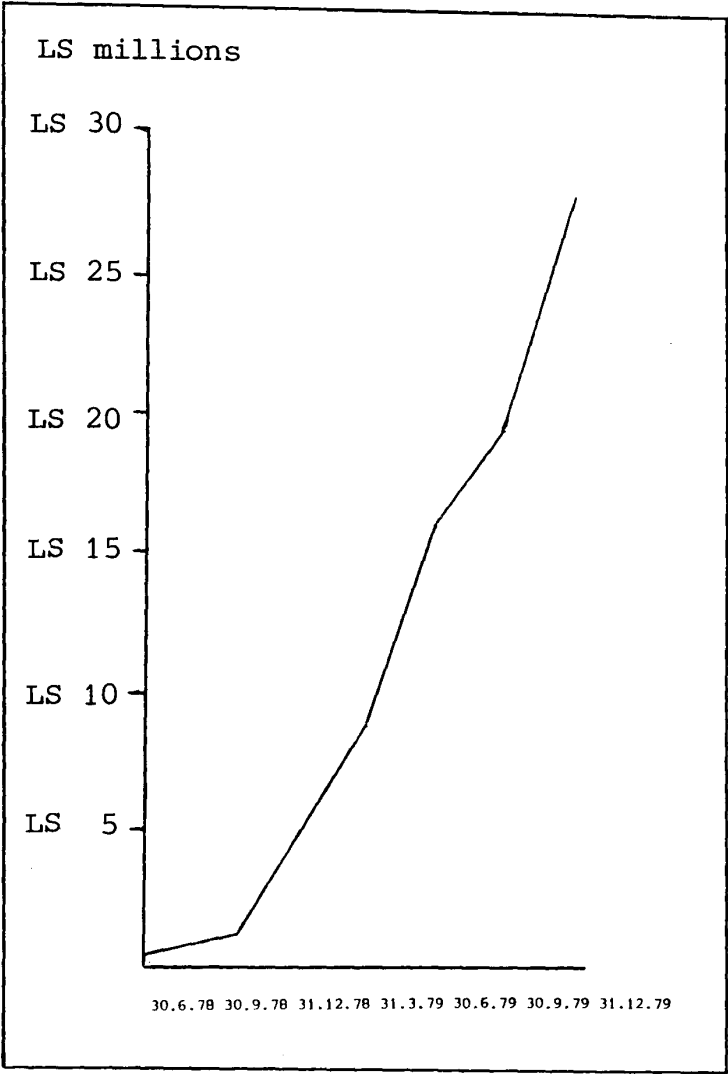


Source: FIBS Reports to Board of Directors

TABLE 7.9

COMMITMENTS IN PROJECTS

FULLY LIQUIDATED ON OR BEFORE 31.12.79



Source: FIBS Reports to Board of Directors

TABLE 7.10

DEVELOPMENT OF INVESTMENTS

Programme agreed upon between the Sudanese government and the IMF to cure the balance of payments deficit, minimise the rate of inflation and strengthen the foreign currency position by promoting exports. In continuation of the same Financial Programme, the exports and imports of some basic products were freed from State monopoly and import licence procedures eased. In addition, a number of applications for establishment of commercial banks were approved; four of which were Islamic. The paid-up capital of FIBS at the end of 1980 stood at LS. 4,465,763 and had increased by 25 per cent on the previous year. Total deposits as at 31.12.80 stood at LS. 49,511,640. Table 7.11 gives a breakdown of the deposits for the year.

The Bank's investment policy for the year continued to be the same as that in previous periods, i.e. concentrating on short-term financing of trade and industry although a small departure was made by their financing of medium term investments in the small business and artisan sectors. The actual number of operations financed by the Bank was 779 to which it contributed a total of LS. 56.5 millions - an increase of 104.6 per cent on the previous year's figure.

If we compare the total deposits at 31.12.80 (LS.49,511,640 (see Table 7.11) in comparison with total deposits as at 31.12.79 (LS. 21,773,694) we find an increase of 127 per cent. Gross profits for the year 1980 were LS. 2,587,681 compared with LS. 10,052,533 in 1979, an increase of 146 per cent. The profits of 1980 represent a return of 58 per cent on the paid up capital compared with 29 per cent for the year 1979. The total reserves both statutory and special, increased by 103 per cent, i.e.

DEPOSITS	LS
Current Accounts (Local Currency)	26,122,565
Investment Accounts (Local Currency)	08,064,950
Savings Accounts (Local Currency)	01,294,958
Customers Foreign Currency Accounts (Current and Investment Accounts)	14,029,167
TOTAL	49,511,640

Source: FIBS Reports to Board of Directors

TABLE 7.11

FIBS DEPOSITS AS AT 30.12.1980

LS. 465,650 in 1979 to LS 942,954 as at 31.12.80. It should also be pointed out, however, that this increase was mainly due to the raising of the statutory Reserves to 15 per cent out of net profits whereas in 1979 the Statutory Reserves were only 10 per cent. In addition to that, a new Special Reserve of 10 per cent of net profit was created as a profit subsidy fund, plus the issue of new shares.

However, FIBS distributed as profits in 1980, 16 per cent for investment depositors and 20 per cent as dividend for shareholders compared with 14 per cent and 15 per cent respectively in 1979 and as stated earlier deposits for the period 31.12.80 totalled LS 49,511,640 compared with LS. 21,773,694 as at 31.12.79, an increase of 127 per cent. The total earnings derived by the Bank amounted to LS 4,019,856 for the year ending 31.12.80 compared with 31.12.80 for the corresponding period - an increase of 14 per cent.

Of the total gross profits, income from the following contracts were:-

(a) Musharaka (participation) represent	52 per cent
(b) Income from operations in foreign currency represent	23 per cent
(c) Banking service charges	21 per cent
(d) Other revenues represent	4 per cent

Net profits represent 58 per cent on the paid up capital compared with 29 per cent for the previous year (see Table 7.12 Profit and Loss for 1980 and Table 7.13 Profit and Loss Appropriation). The Bank continued to accept and distribute Zakat funds which for this year amounted to L.S. 169,767.

<u>DEBIT</u>			<u>CREDIT</u>		
<u>EXPENDITURE</u>	<u>1979</u> LS	<u>1980</u> LS	<u>INCOME</u>	<u>1979</u> LS	<u>1980</u> LS
Administrative expenses	0,997,574	1,217,859	Musharaka profits	0,878,804	2,605,702
New branches establishments	0,029,110	0,363,875	Banking services charges	0,231,448	1,069,840
Depreciation of fixed assets	0,051,077	0,165,205			
Remuneration of Board of Directors		0,070,000	Income from operations in foreign currency	1,220,607	1,162,738
Staff bonus		0,200,000	Return on Mudaraba Suks	0,006,319	0,079,764
Audit fees	0,005,000	0,007,000			
Provision for bad and doubtful debts	0,150,000	0,300,000	The Bank's share of the profits from financing The Islamic Company for Trade and Services		0,051,000
Contribution to staff Provident Fund A/C		0,108,236			
Net Profits	1,052,533	2,587,681	Other Income	0,008,116	0,050,812
	<u>2,345,294</u>	<u>5,019,856</u>		<u>2,345,294</u>	<u>5,019,856</u>

Source: FIBS Reports to Board of Directors.

TABLE 7.12

PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDING 31ST DECEMBER 1980 (in pounds)

	<u>1979</u> LS	<u>1980</u> LS	<u>1979</u> LS	<u>1980</u> LS
Net Profit before El Zakat			1,052,533	2,587,681
Profits B/F from previous year				0,123,304
<u>Less:-</u>				
Zakat on Capital, Net Profits and Reserves	0,125,097	0,169,767		
Remuneration of Board of Directors	0,052,626			
Share of Investment Deposits	0,167,286	0,924,953		
General Reserve at 15% of Net Profits after deduction of Zakat	0,092,744	0,242,440		
Special Reserve at 10% of Net Profits		0,161,626		
Proposed Divident at 20%	0,499,161	0,893,152		
Profits carried forward for next year	0,115,619	0,319,047		
	<u>1,052,533</u>	<u>2,710,985</u>	<u>1,052,533</u>	<u>2,710,985</u>

Source: FIBS Reports to Board of Directors.

TABLE 7.13

PROFIT AND LOSS APPROPRIATION ACCOUNT

1979/1980

	<u>1979</u>	<u>1979</u>	<u>1980</u>	<u>1980</u>
	LS	LS	LS	LS
<u>LIABILITIES</u>				
<u>DEPOSITS:-</u>				
Current Accounts	15,131,235		26,122,565	
Savings Accounts	00,770,297		01,294,958	
Investments Accounts	02,718,088		08,064,950	
Customers Foreign Accounts	<u>03,154,074</u>		<u>14,029,167</u>	
		21,773,694		49,511,640
Local and Foreign Banks		00,026,249		00,782,066
Bills Payable		00,429,352		00,584,521
Other Credit Accounts and Provisions		03,826,471		08,679,330
<u>CAPITAL:-</u>				
Authorised Capital 1000.000 Shares each LS. 10				
Paid-up Capital		03,579,041		04,465,763
Calls Paid in Advance		00,077,205		00,078,848
Capital Reserve		00,372,306		00,372,306
General Reserve		-- -- --		00,166,582
Profits Carried Forward		-- -- --		00,123,304
Net Profits		<u>01,052,533</u>		<u>02,587,681</u>
TOTAL LIABILITIES		31,136,851		67,352,041
		=====		=====
<u>MEMORANDUM ACCOUNTS:-</u>				
Bank Liabilities for Documentary Credits, Guarantees and Acceptances		<u>04,349,125</u>		<u>24,777,214</u>

Source: FIBS Reports to Board of Directors.

TABLE 7.14

BALANCE SHEET AS AT 31ST DECEMBER 1980

	<u>1979</u>		<u>1980</u>	
	LS	LS	LS	LS
<u>ASSETS</u>				
<u>CASH IN TILLS AND BANKS:-</u>				
Cash (Domestic)	0,388,272		00,385,687	
Cash (Foreign)	0,739,044		01,076,891	
Local Banks	3,691,901		03,425,759	
Foreign Banks	<u>9,172,033</u>	13,991,250	<u>22,407,015</u>	27,295,352
<u>CURRENT ASSETS:-</u>				
Joint Venture Investments	10,776,255		25,311,982	
Other Advances	<u>01,718,836</u>		<u>05,043,960</u>	
	12,495,091		30,355,942	
Less Provision for Bad and Doubtful Debts and Other Provisions	00,150,000	12,345,091	00,450,000	29,905,942
<u>NEGOTIABLE INSTRUMENTS AND OTHER A/Cs:-</u>				
Bills Negotiated	01,395,665		04,143,644	
Bills Under Collections	00,452,281		01,100,020	
Other Debit Accounts	<u>01,717,080</u>	03,565,026	<u>02,093,917</u>	07,337,581
<u>INVESTMENTS:-</u>				
Short Term Investments	00,150,000		01,510,000	
Shares in Subsidiaries	<u>00,400,000</u>	00,550,000	<u>00,498,700</u>	02,008,700
<u>FIXED ASSETS:-</u>				
Lands and Buildings	00,032,514		00,151,264	
Furniture and Fittings Less Depreciation	00,288,584		00,379,048	
Capital Expenditure Less Depreciation	<u>00,364,386</u>	<u>00,685,484</u>	<u>00,274,154</u>	<u>00,804,466</u>
TOTAL ASSETS		<u>31,136,851</u>		<u>67,352,041</u>
<u>MEMORANDUM ACCOUNTS:-</u>				
Customers Liabilities for Documentary Credits, Guarantees and Acceptances		<u>04,349,125</u>		<u>24,777,214</u>

Source: FIBS Report to Board of Directors.

TABLE 7.14 (continued)

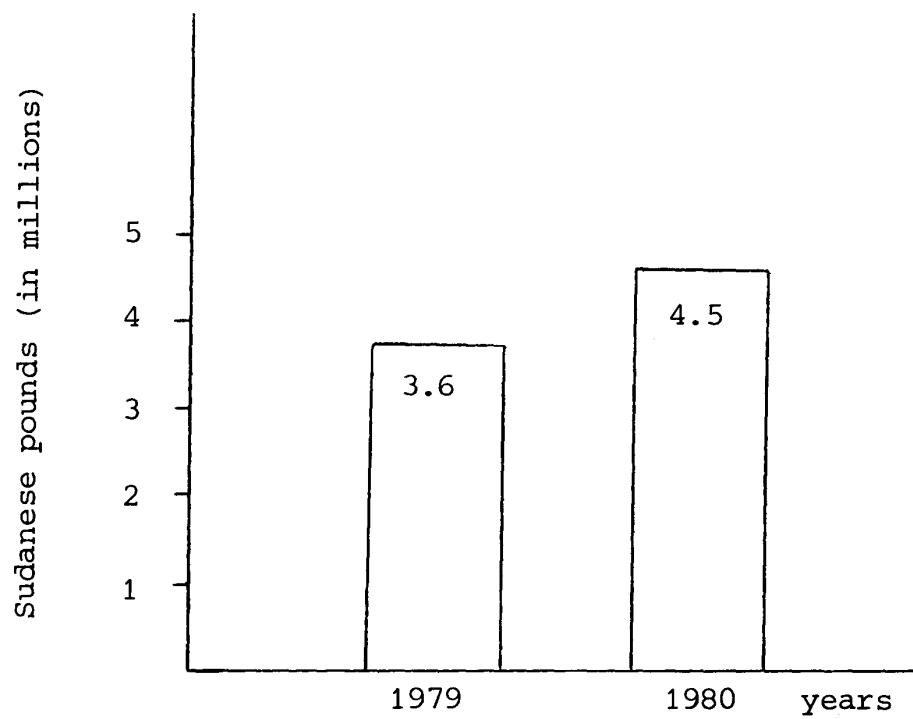


TABLE 7.15

GROWTH OF PAID CAPITAL

(million LS.)

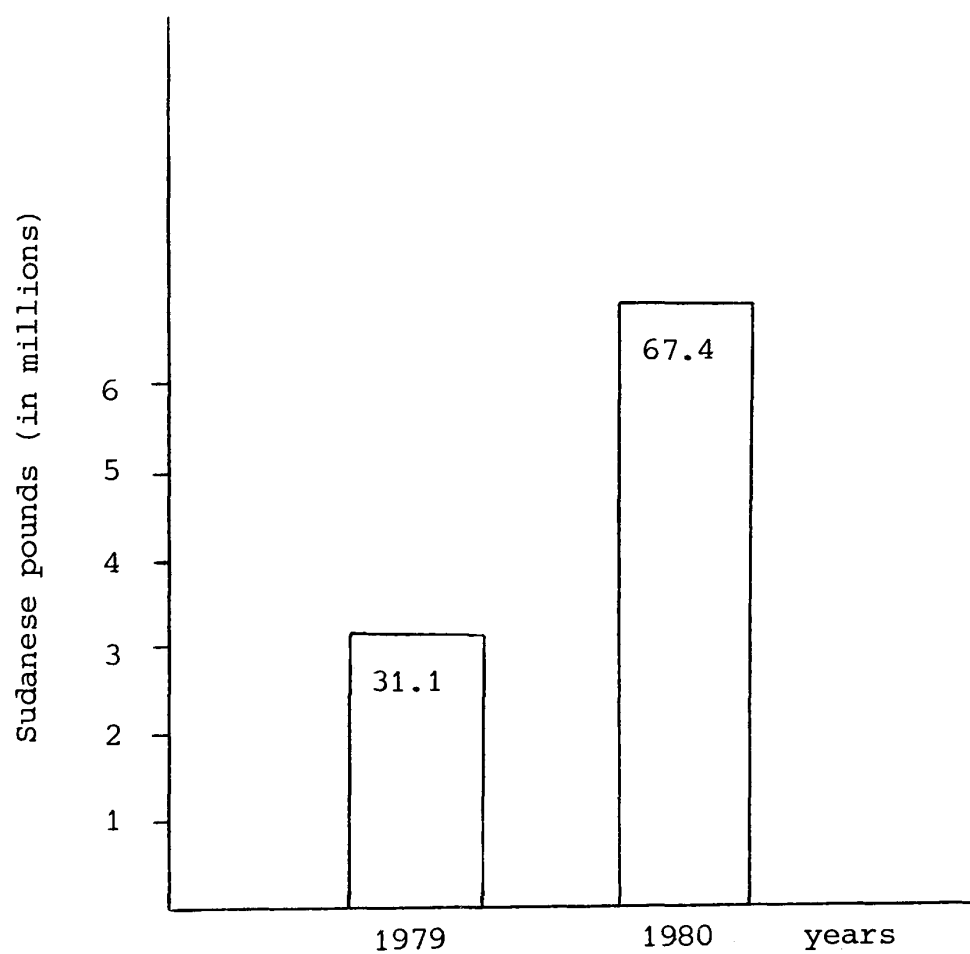


TABLE 7.16

GROWTH OF TOTAL ASSETS
(million LS)

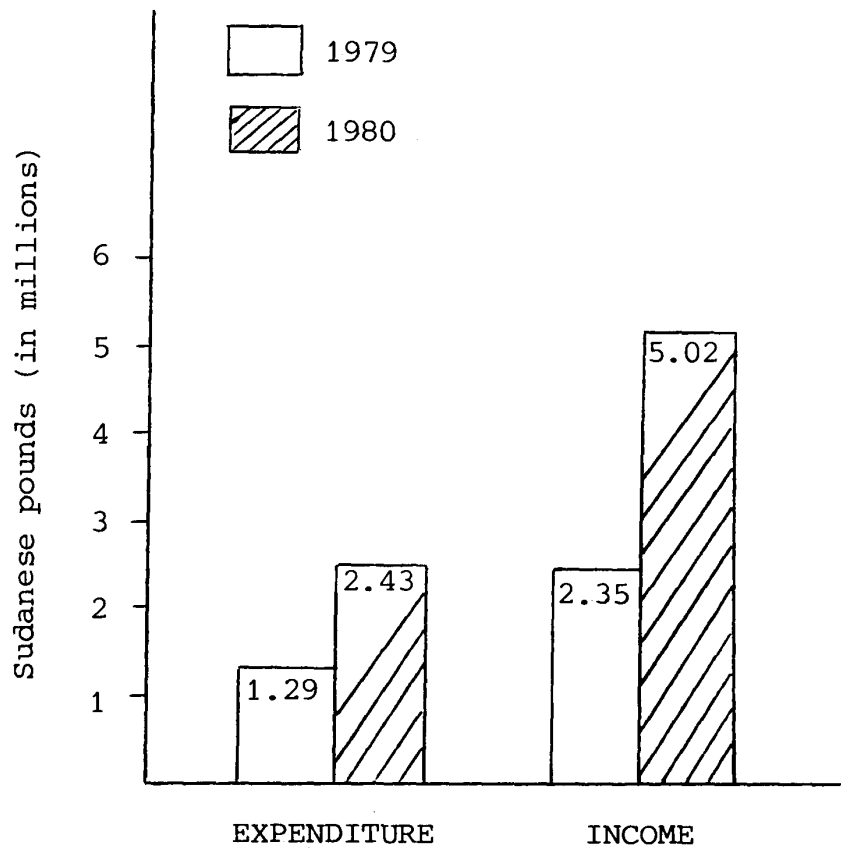


TABLE 7.17

INCOME AND EXPENDITURE FOR 1979/1980

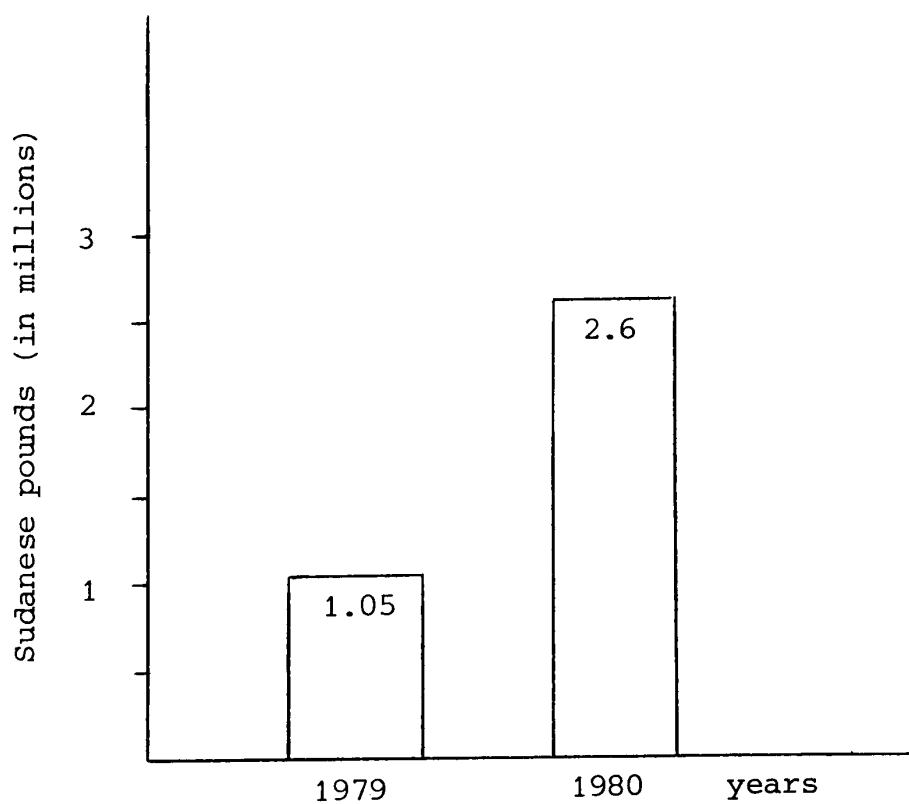


TABLE 7.18

GROWTH OF BANK PROFITS FOR 1979/1980

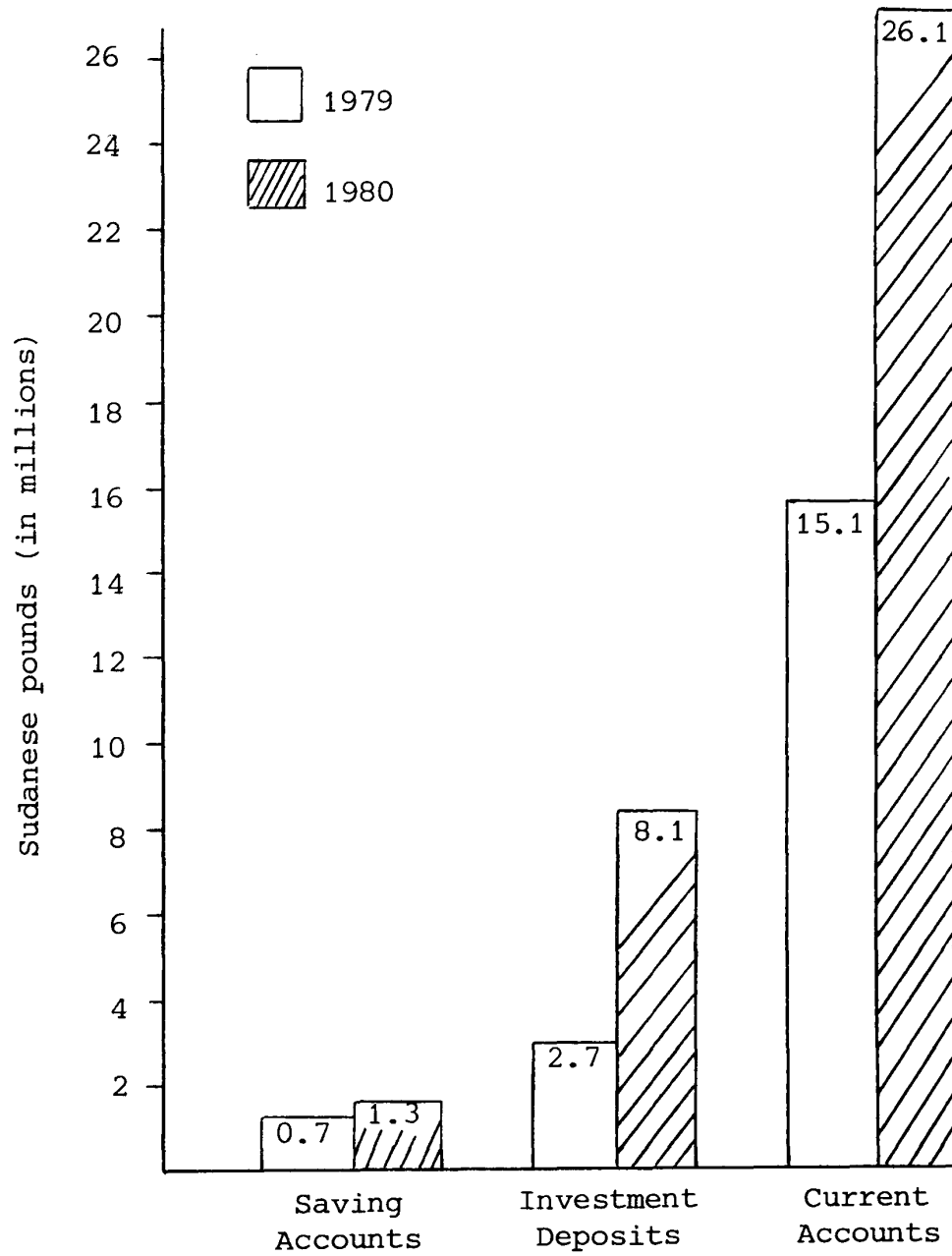


TABLE 7.19

GROWTH OF DEPOSITS

(local currency)

Source: FIBS Reports to Board of Directors.

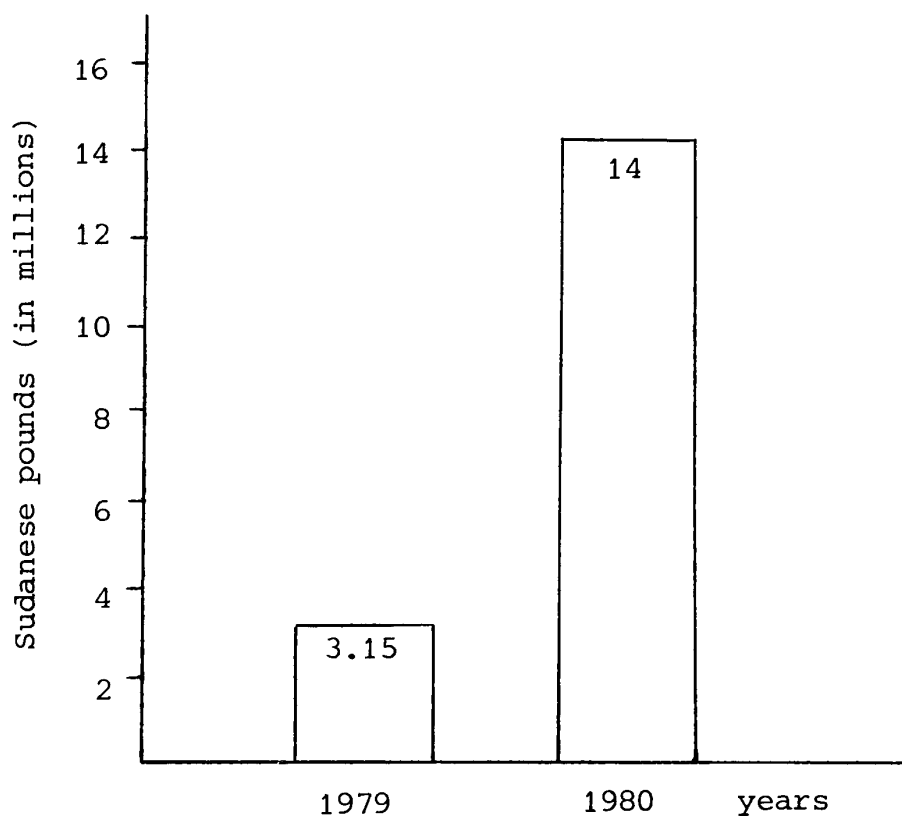


TABLE 7.20

GROWTH OF DEPOSITS

(foreign currency)

Source: FIBS Reports to Board of Directors.

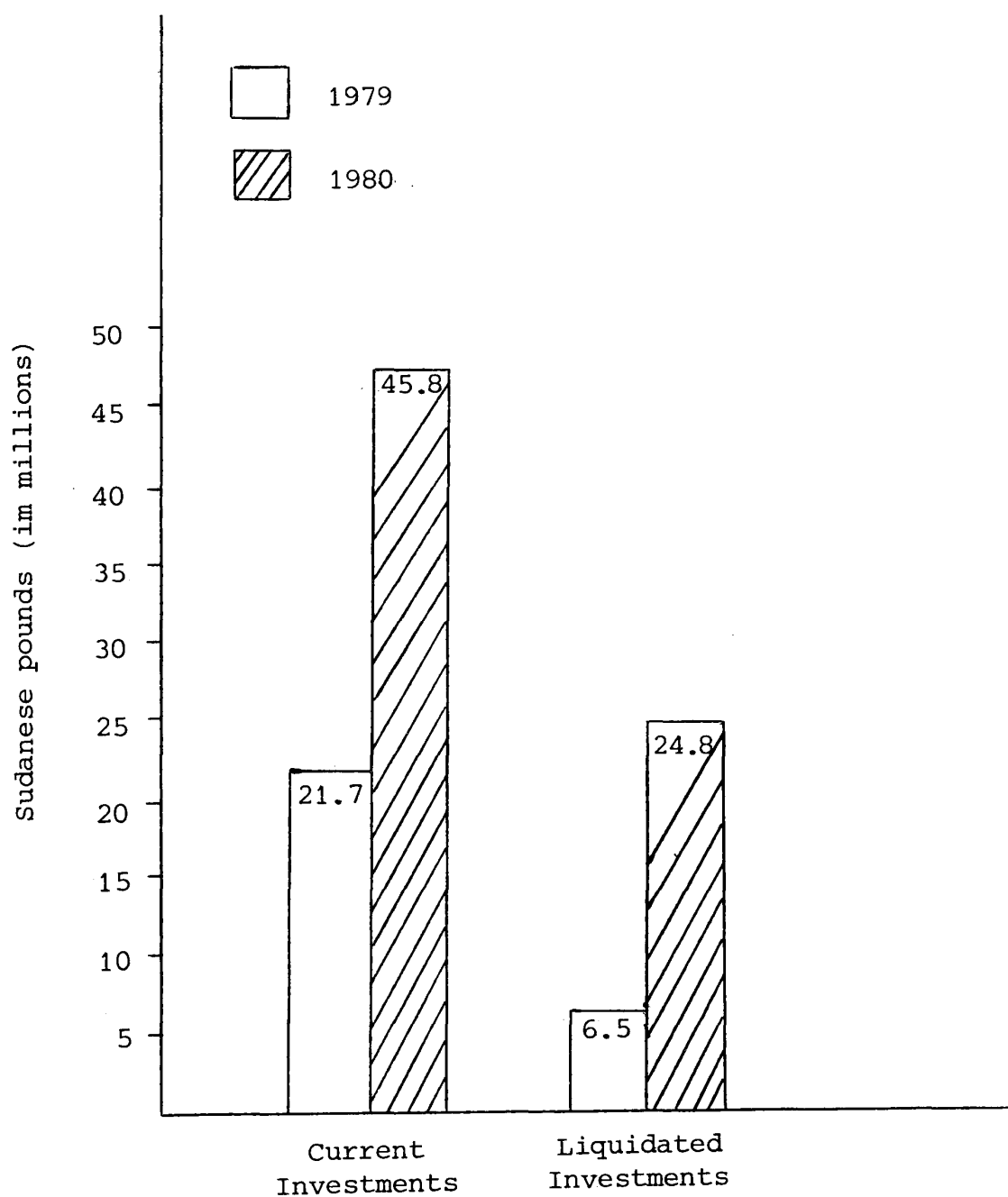


TABLE 7.21
INVESTMENT ACTIVITIES

Source: FIBS Reports to Board of Directors.

FAISAL ISLAMIC BANK (SUDAN)

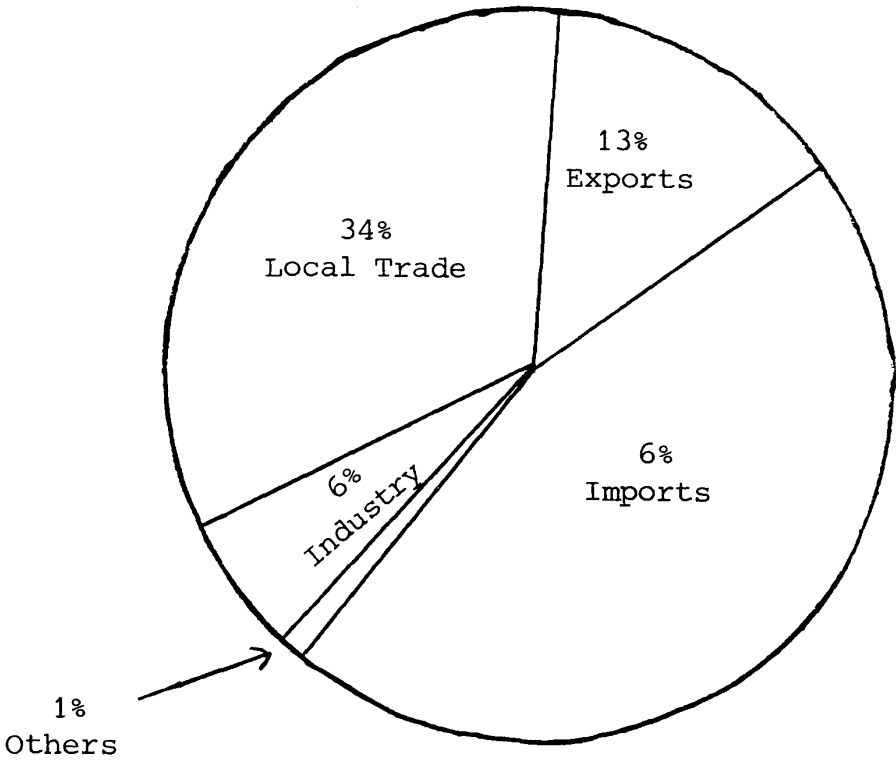


TABLE 7.22

DISTRIBUTION OF CURRENT INVESTMENTS IN 1980

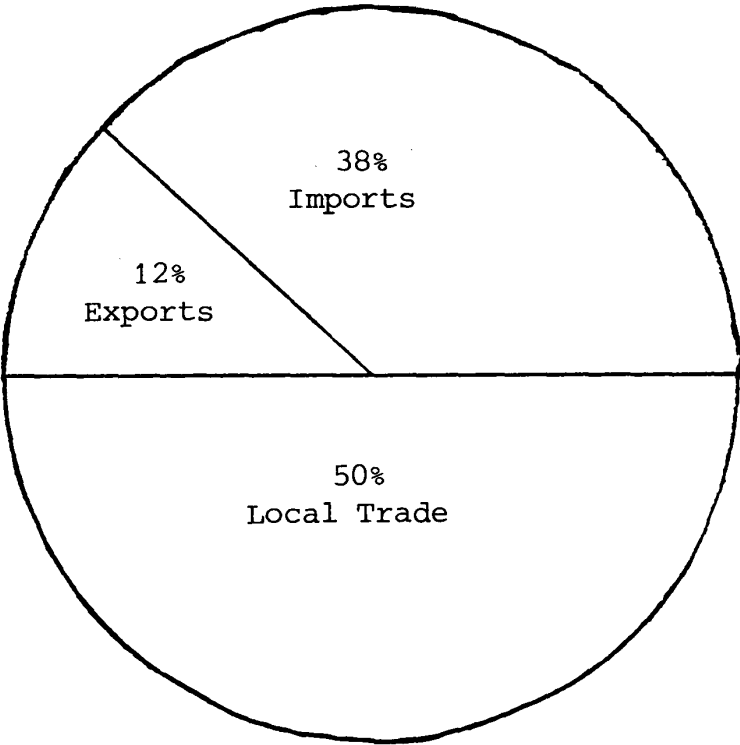


TABLE 7.23

DISTRIBUTION OF LIQUIDATED INVESTMENTS IN 1980

Source: FIBS Reports to Board of Directors.

Tables 7.12 and 7.13 set out the above figures in more detail while Tables 7.18 to 7.23 give graphical representations of figures compared with 1979.

3. 1980-1981

The economic scene in 1981 was essentially similar to that of the previous year. However, encouraged by the excellent results of the previous year, the Bank embarked upon medium term financing of industries in the field of small businesses and the artisan sectors more fully and has consequently achieved a distinct progress in its policy towards a more balanced financing of the different sectors of the economy and thereby giving more stress to its social and developmental roles. As stated earlier, the Bank commenced operations in May 1978 with an authorised capital of 6 millions (L.S.) which has now increased to 50 millions. The total fixed and current assets of the Bank for the period ending 31.12.81 were L.S. 138,359,000 showing an increase of 106 per cent on the previous year's figure. For the same period total deposits stood at 102,319 millions.

The breakdown of the deposits were as follows:-

	L.S.
(a) <u>current deposits</u>	59,527,000
showing an increase of 48 per cent compared to 1980	
(b) <u>investment deposits</u>	40,081,000
showing an increase of 397 per cent compared with the previous year	
(c) <u>savings deposits</u>	2,710,000
showing an increase of 109 per cent compared to the previous year	

In 1981, the Bank contracted and financed 1,471 operations to which the Bank's total financial commitment was 73.7 million Sudanese Pounds compared to 56.5 million in 1980.

For 1981, the Bank realised a net profit of L.S. 10,287,000 showing an increase of 334 per cent on the previous level of profit.

Total ratios of gross profits according to source are as follows:-

Musharaka (i.e. participation)	57 per cent
Income from operations in foreign currency	27 per cent
Banking services charges	16 per cent

All relevant figures are shown in Tables 7.24 to 7.27 whilst Tables 7.28 to 7.34 give graphical representation of figures compared over the three-year period 1979-1981.

The current market position of FIBS can best be considered by presenting the key ways in which the market now differs from the past and the opportunities and problems these differences present the Bank together with the strengths of the Bank as follows:-

(a) Key ways in which the market now differs from the past

As already pointed out in this Chapter, FIBS has been operating in a relatively turbulent and restrictive economic environment since its inception. The broad features of the Sudanese economy included problems of inflation, a general pattern of slow growth in the level of output which have led to balance of payments deficits and in turn several governmental attempts to rectify this via the use of credit ceilings and other

<u>ASSETS</u>	1980 LS	1981 LS
Cash in Titles and Banks:-		
Cash (Domestic)	385,687	828,989
Cash (Foreign)	1,076,891	4,306,410
Local Banks	3,425,759	24,228,651
Foreign Banks	22,407,051	31,475,087
<u>CURRENT ASSETS:-</u>		
Joint Venture Investment	25,311,982	44,154,536
Other Advances	5,043,960	8,228,592
<u>NEGOTIABLE INSTRUMENTS AND OTHER ACCOUNTS:-</u>		
Bills Negotiated	4,143,644	2,983,027
Bills under collections	1,100,020	2,466,808
Other Debit Accounts	1,643,917	8,356,798
<u>INVESTMENTS:-</u>		
Short Term Investment	1,510,000	4,450,000
Shares in Subsidiaries	498,700	498,700
<u>FIXED ASSETS:-</u>		
Lands and Buildings	151,264	1,927,163
Capital Expenditure	379,048	1,122,413
Establishment Cost	274,154	3,332,719
TOTAL	67,352,041	138,359,893
<u>MEMORANDUM ACCOUNTS</u>		
Customers Liabilities for Documentary Credits, Guarantees and Acceptances	24,777,214	28,360,985

Source: FIBS Report to Board of Directors.

TABLE 7.24

FAISAL ISLAMIC BANK (SUDAN) BALANCE SHEET AS AT 31.12.1981

<u>LIABILITIES</u>	1980 LS	1980 LS
Current Accounts	26,122,565	49,403,062
Savings Accounts	1,294,958	2,710,364
Investments Account	8,064,950	40,081,707
Customers Foreign Accounts	14,029,167	10,123,916
Local and Foreign Banks	781,066	92,902
Bills Payable	584,521	592,760
Other Credit Accounts and Provision	8,758,178	12,067,103
<u>CAPITAL</u>		
Authorized Capital (5 millions ordinary shares each ten pounds)		
Paid up Capital	4,465,763	10,212,005
General Reserves	166,582	335,184
	372,306	962,976
Special Reserve		161,626
Profits carried forward	123,304	
Net Profits	2,587,681	11,616,288
TOTAL	67,352,041	138,359,893

TABLE 7.25

FAISAL ISLAMIC BANK (SUDAN) BALANCE SHEET AS AT 31.12.1981

Income	1980 LS	1981 LS
Musharaka Profits	2,605,702	8,039,157
Banking Services Charges	1,069,840	2,237,740
Income from Operations in foreign currency	1,162,738	3,170,340
Return on Mudaraba Suks	79,764	575,515
The Bank's share of the Islamic Company for Trade and Services	51,000	
Other Income	50,812	36,707
	5,019,856	14,059,459

Expenditure	1980 LS	1981 LS
Administrative Expenses	1,326,095	2,443,170
New Branches Establishments	363,875	233,464
Depreciation of fixed assets	165,205	454,855
Remuneration of fixed assets	70,000	125,000
Remuneration of Board of Directors		
Staff Bonus	200,000	350,000
Audit fees	7,000	15,000
Provision for Bad and Doubtful debts	300,000	150,000
Net Profits	2,587,681	10,287,970
	5,019,856	14,059,459

Source: FIBS Report to Board of Directors.

TABLE 7.26

PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDING 31.12.1981

Details	1980	1981
Net Profit before Elzakat Profits B-F	2,587,681 123,304	10,287,970 319,047
TOTAL	2,710,185	10,607,017
Zakat on capital, Net Profit and Reserve	169,767	473,177
Share of Investment Deposits Statutory Reserve 15% for 1980 and 25% for 1981	924,953 242,440	4,423,882 1,427,490
Special Reserves 10% for 1980 15% for 1981	161,626	856,494
Proposed Dividend 20% for 1980 25% for 1981	893,152	2,553,001
Profits Carried Forward	319,047	872,973
	2,710,985	10,607,017

Source: FIBS Report to Board of Directors.

TABLE 7.27

PROFIT AND LOSS APPROPRIATION ACCOUNT IN L.S.

1980-1981

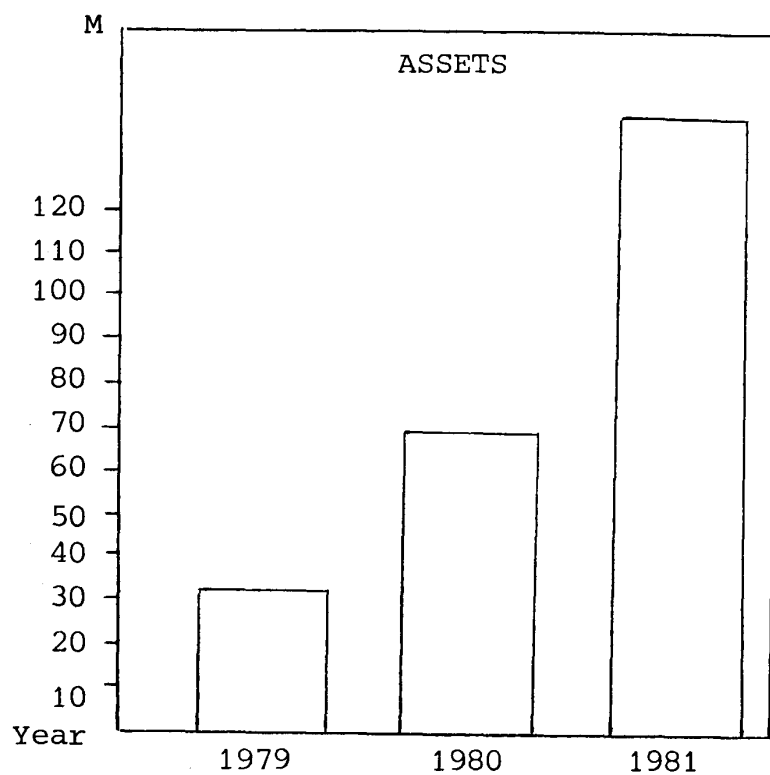


TABLE 7.28

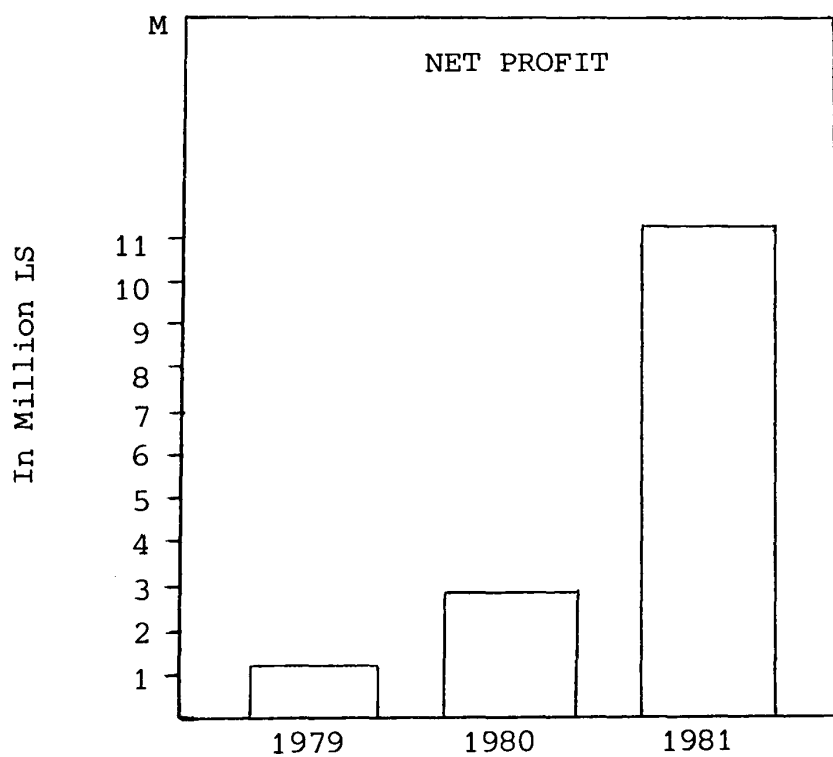


TABLE 7.29

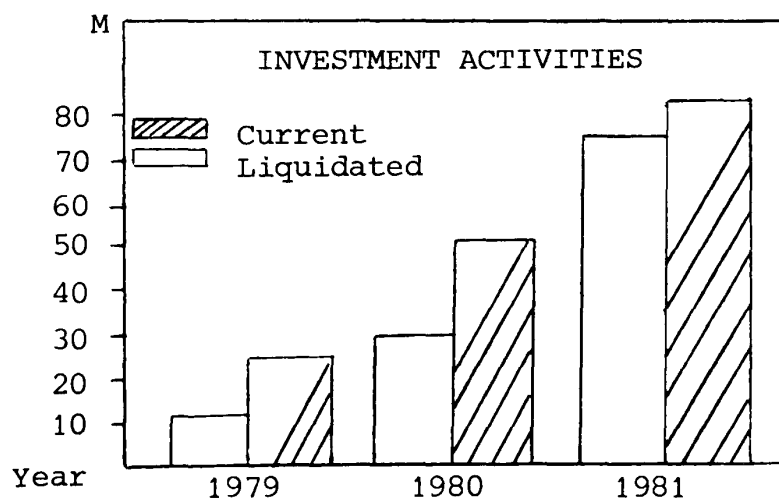


TABLE 7.30

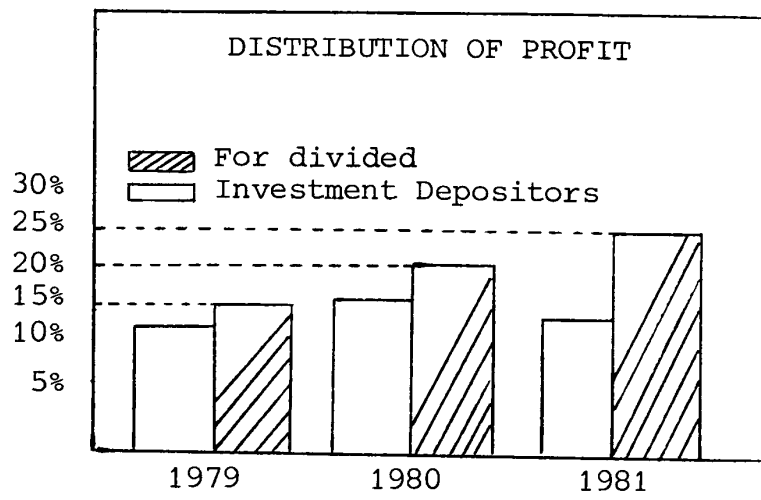


TABLE 7.31

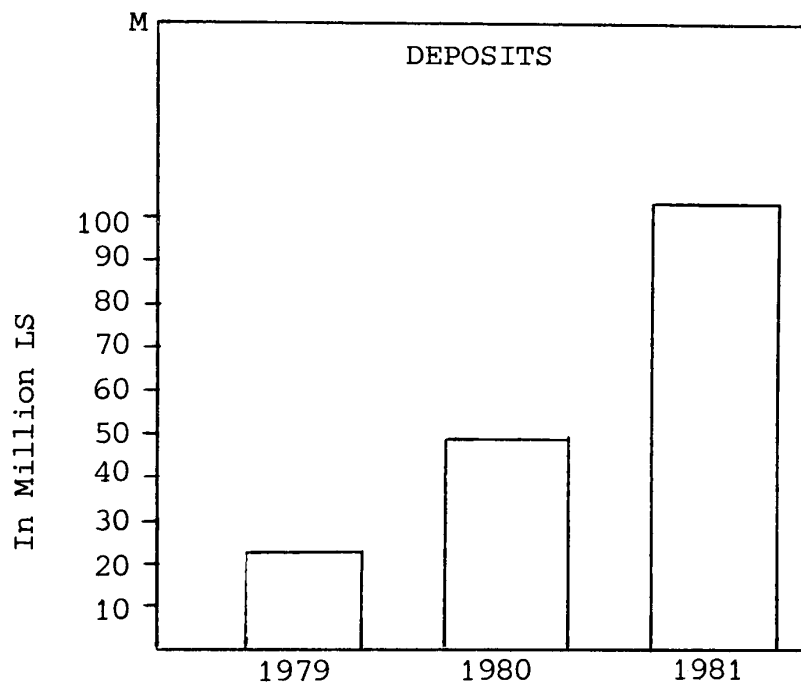


TABLE 7.32

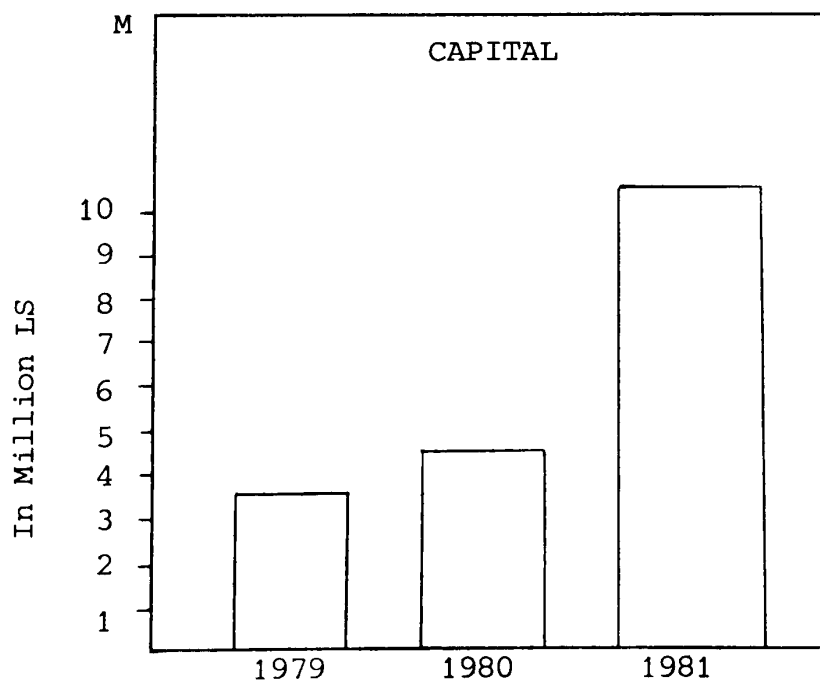
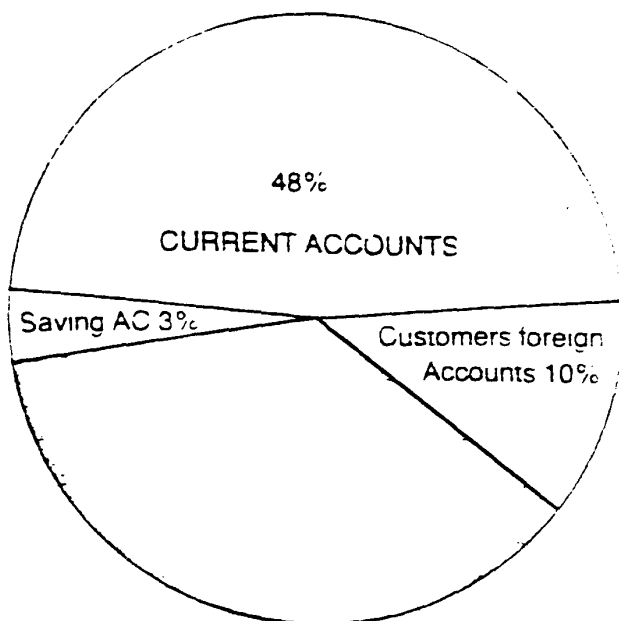
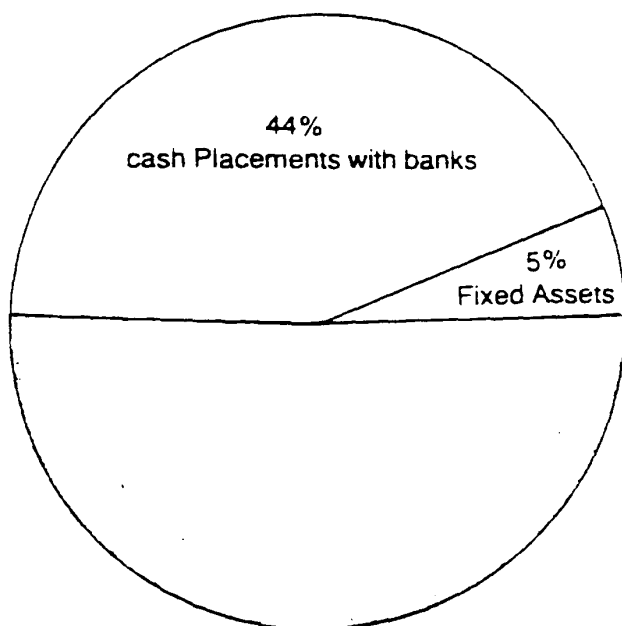
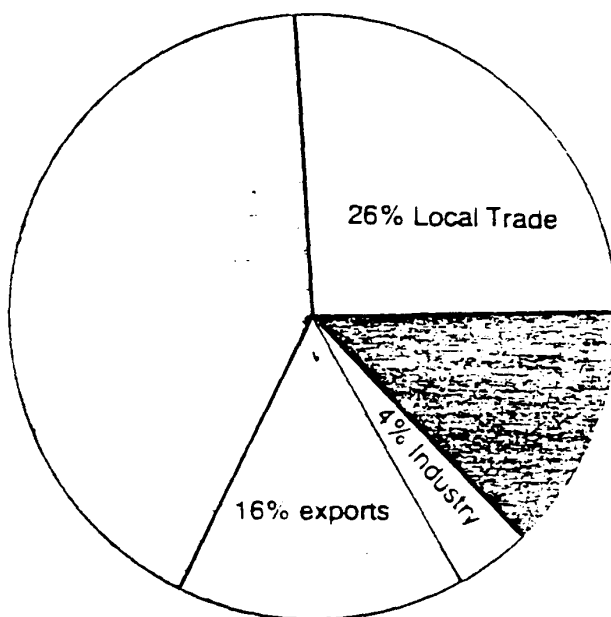


TABLE 7.33



DEPOSITS

SECTORIAL DISTRIBUTION
OF INVESTMENTS



UTILIZATION OF THE ASSETS

Source: FIBS Report to Board of Directors.

TABLE 7.34

restrictive practices. This broad picture has changed insignificantly to date and fiscal, monetary and economic policies continue to impinge heavily upon corporate objectives. Indeed, the continued imposition of various credit ceilings confronts the Bank with the frustration of operating below potential capacity.

Although the Bank is still operating within a seller's market at least three other Islamic Banks have now been established in the Sudan. This has brought a clear awareness within FIBS that whilst initially they could have afforded to operate within a limited geographical location, this would not be possible any longer. Consequently, the Bank plans to extend its branch network throughout the regions. Similarly, there are plans and opportunities to refine, develop and vary their present services. Indeed, this is deemed necessary, since the pressures of increased competition will bring with it increased sophistication of customers and of management.

In facing up to all these developments, the Bank will have the opportunity to continue sustaining a high level of professional competence and intellectual commitment in its tasks, to encourage regular testing and enquiry in the market and monitoring of changes as a result of received wisdom. On the International stage, the current establishment of several new Islamic Banks both within Middle Eastern countries and in the West presents the bank with opportunities for establishing branches internationally.

According to the Deputy General Manager of FIBS there is

an expected increase in the number of clients from other categories besides Muslims. Thus, in addition to those religiously motivated there are those with the economic motivation of finding good services and better investment returns and gives rise to a greater number of marketing opportunities. Opportunities for wooing the unbanked are especially significant. Recently, selective measures have been undertaken to stimulate investment and increase output and the Bank, encouraged by this and their excellent results in the short-term finance field, have currently been ceasing this opportunity to embark on its policy of financing long and medium-term projects.

Although at present key sectors of the Sudanese economy, including domestic banking and insurance remain nationalised, many companies have been returned to the private sector and, for the first time in years, Sudanese businessmen are expressing confidence and willingness to invest. Foreign investment laws are now as liberal as anywhere in the third world, and the government is taking steps to encourage the flow of direct investment, including joint ventures with the government-controlled sector. The market opportunities these moves imply for FIBS are obvious.

It is also a sign of the times that the government is now encouraging the return of foreign banks to handle investment finance and foreign trade. Citibank, Chase Manhattan, the National Bank of Abu Dhabi, the Bank of Credit and Commerce, Societe Generale, are among those which have already opened offices. There is, however, a notable absence of the British banks, despite their former associations. With a number of Arab

financial institutions now Khartoum based, including the Arab African Bank, the Arab Bank for African Economic Development (BADEA), the Arab Investment Company, the City is now becoming something of an African financial centre and leaves no room for complacency on the part of FIBS.

Agriculture is still the dominant sector of the Sudanese economy, but as the contributions of the commercial, manufacturing transportation and communication sectors increase there will not only be further opportunities for the extension of term lending but also for extending operations in other areas. For example, an improved communications system will aid in foreign transactions handling, and the processing of information vital in long-term projects. Indeed, apart from the already mentioned Central Bank restrictions the failure of the postal, telex and communications systems in the Sudan and the lack of adequate numbers of well trained and technologically skilled bank personnel, presents further constraints and problems.

As both new technology and the pressures for greater professionalism and skill of employees, emanating from an increasing complexity of customers' financial requirements gather pace in the Sudan, the Bank is going to be faced with formidable challenges and difficulties in recruiting employees of a high calibre as well as in deciding how far they should lead or follow the market forces in their use of the new technology. The addition of three more affiliated companies to the Bank: The Islamic Company for Exchange operating in the free exchange market; a real estate development company undertaking operations such as the development of housing complex for Sudanese nationals

working abroad and the Islamic Investment Company, intended to aid in the new programme of investments in the long and medium term activities, consolidates and adds security to the operations of the Bank. Indeed, the state policy which aims to support the transportation and communications systems as a first priority of the national development plan has already presented opportunities for an earlier established affiliated company - the Islamic Company for Trade and Services and similar opportunities are expected to accrue to the Bank in the long run.

(b) Strengths of FIBS

From the foregone an initial evaluation of the strengths of FIBS can be offered here, however it should be noted that a sounder offering in this area will ensue from analysis of consumer survey data.

1. Total demand potential appears high.
2. Highly religious motivated and loyal clientele.
3. Is successfully fulfilling its role as a middleman channelling the savings of households into productive investment opportunities and thus aiding the development process.
4. Flexibility in applying contractual regulations and management of services.
5. Scientific Management approach to the evaluation and monitoring of investment projects.
6. Offers a range of flexible and valid services.

7. Flexibility in profit structure.
8. Good bank image.
9. High liquidity.

CHAPTER EIGHT

SITUATION ANALYSIS II

THE MARKETING PROCESS OF FAISAL ISLAMIC BANK OF SUDAN

8.1 Introduction

Establishing an Islamic Bank implies that it is based upon a particular ideology which pervades and directs all activities of the Bank, including that of marketing. The objective of this Chapter is to describe and assess the marketing orientation of FIBS in the light of its philosophical and practical objectives.

This is achieved through presentation of primary data and excerpts from interviews with the Deputy General Manager, Mr. Hamdi and other managers of FIBS. Indeed, the writer felt that the presentation of such "first hand" information would be valuable for two reasons: Islamic banking is of recent vintage, hence literature regarding operational strategies of such banks is very limited; furthermore, bank managers are usually very reluctant to disclose information regarding operational strategies, in the experience of most researchers the acquisition of such information is hence, a rarity and should not be wasted. Before embarking upon our task of describing and assessing the marketing activities of FIBS it will be useful to remind the reader of the ideological nature of Islamic banking.

The ideological nature of Islamic banking, means in practice that social benefit maximisation as a guiding principle should

be the objective. The achievement of an equitable distribution of profits between entrepreneurs and investors and the prohibition of interest are its key features, as too are prohibition of engagement in economic activities not sanctioned by Islamic law, i.e. haram activities such as financing gambling casinos, night clubs, pork projects, etc.

Islamic banks by the nature of being ideological, must be social banks in every sense of the word; not just banks performing some special social functions or raising the motto of social responsibility.

Al Hawary [1] outlined the ideological nature of Islamic banks thus:-

"Islamic banks are not free to do as they please, rather they have to integrate moral values with economic action... Property and, hence, money are social tools to achieve the social good. The objective of a bank should not be maximisation of profits irrespective of the means but rather social benefit maximization. This objective is derived from the principle of socially oriented function of wealth. An Islamic bank should structure itself to serve the community along the lines prescribed by moral values, positive and negative teachings of Islam... An Islamic bank is not merely an economic institution, but rather a religious-oriented institution, for the good of mankind..."

Practically, Islamic banks are required to conduct their financial business in strict conformity with Islamic laws, principles and traditions and on the basis of modern management and administrative techniques permitted thereby.

[1] Al Hawary, Sayed (1981) *Economic Philosophic Principles of Islamic Banking*, Paper presented at Conference on Islamic Banking, Geneva (p.26).

Those materially blessed by Allah's bounties are enjoined to use their surplus funds in trade and industry for purposes mutually profitable to society generally. In this regard, the owners of surplus funds are commanded to invest this in accordance with the terms of Sharia Code sharing risks and rewards, rather than receive a fixed rate of interest (riba), according to the principle that those who hope to profit should be prepared to lose. But this does not mean that investments are speculative. Since investment profit can only arise from productive results a necessary corollary is that available funds are channelled only to productive purposes and investment with income dependent upon productive success demands a high level of commercial skill, supervision, prudent managerial methods and diversification of risk.

From the above brief outline of the ideological nature and practical implications of Islamic banking, it can be seen that the dichotomy between Western and Islamic banking does not only entail the institution of interest. The Deputy General Manager of FIBS clarifies the differences between the two systems as follows:-

Q. Mr. Hamdi, is it on issues relating to the receipt and payment of interest that FIBS differs from the traditional Western bank?

A. "Well, this is the major difference. The other difference I would say is in the management of our operations, because if you don't receive and pay interest you will have to be an active participant. So, you will have to enter into the study part of the project, you have to come into the implementation area and into the supervision area. So, in fact, we think we are a brand of very dynamic and active banking.

This, is different from the traditional Western style of banking."

This illustrates the importance of sound management and administrative techniques already alluded to. He continued thus, in illustrating the social and ideological differences:-

"... the third dimension or difference is that we have social aims to contend with because Islamic banking is part of the Islamic concept. The basic criteria of Islam is that it is a way of life and so wherever you are serving any Islamic cause, being religious, political, or economic or whatever, you will have to take into consideration the other aspects of Islam. So, the Islamic Bank, by virtue of being Islamic, has to adopt wider socio-economic objectives. This is where we also differ from the Western style of banking... Again, because financing is undertaken by the Islamic bank which has specific social objectives, it can only finance the basic projects necessary for the society. There is no financing of secondary projects like hotels, etc., or things which are very attractive to foreign investors but really add nothing to the economy of any certain country. Islamic banking, led by its social objectives would start by investing in basic areas first. This is also a help to the developmental effort in society."

Thus, the ideological nature of Islamic banking does not remain a theoretical concept it gives serious consideration to the total development requirement of the community. Through policies surrounding direct-investment and joint-venture projects, they can preserve natural resources and ensure their best utilisation, engage in infrastructure projects needed for long-term development and achieve a balance in different economic sectors. FIBS Deputy General Manager stresses the developmental aspect of the bank's operations:

"... I would say that this is a very important aspect for the development of Islamic countries which in fact, transcend the whole third world or developing world. So one would say that the formula is very conducive to the development of the developing world. In what way? Let us take the different development

theories which have been expounded since the Second World War to now. There is first, the capital accumulation theory which were proposed by people like Arthur Lewis of the Manchester School. They said that capital was the basic constraint for development; well Islamic banking offers, and our experience in the Sudan vindicates this, the opportunity for capital accumulation because it offers the small investor a real opportunity to invest whatever money he can and get a good return for it. This has shown that there is a big potential amongst the small investors who are the mainstay of the economies of the third world because big corporations are very few and far between.

"... So Islamic banking in fact, invigorates the simple Muslim to save and invest. This helps development. Islamic banking again helps investment because it is involved from the beginning in the study of different projects or ventures and that means that there is technological and managerial input offered by the Bank which is a specialised agency whose input is being added to the client's from the inception of the idea up to the implementation and execution stage. This is a managerial factor which is lacking in the third world or the developing countries. Again, a lot of development schools came to emphasise this aspect as the leading or critical factor in the development process; lack of management and technological inputs which have to be blended with capital. Capital itself, as has been shown, is not a problem because there have been capital transfers from the developed world into the developing world but they did not generate sufficient results to justify their volume. So people came later to say that the management factor is a critical factor. Islamic banking provides this management factor from the outset because it studies, be it a very simple trading operation or a very complicated operation, so as to determine the feasibility of the project. So this helps society to finance only the best projects.

This quote alone is a useful reminder of the multi-dimensional nature of an Islamic Bank for, it portrays the ideological, social and developmental natures of Islamic banking and leads us quite conveniently into a consideration of the implications of this for FIBS bank executive attitudes toward, and the application of the marketing concept.

8.2 Attitude Toward the Marketing Concept

As pointed out in Chapter Four, the application of the marketing concept is primarily a function of attitudes of the top executives in any institution toward a set of values. These values were operationally defined as consumer orientation, profit orientation, social responsibility, status of the marketing department and managerial appreciation of the importance of applying the marketing concept.

From the research data presented in Chapter Five, it became clear that the marketing orientation of Islamic bankers is emphasised in their focus on social orientation, consumer orientation and their recognition of the necessity of researching investment projects and consumer behaviour, banking needs and wants, which demonstrates managerial appreciation of at least one important aspect of the marketing concept. FIBS' favourable attitude toward the marketing concept can be demonstrated thus:-

Q. Mr. Hamdi, how does FIBS manage the services of The Bank so as to persuade customers to use them?

A. Consumer Orientation

"... we devise or we manage to give the services in such a way as to make them very popular to the customers who use them. For example, the general attitude up to now has been that people have shunned the interference in their day to day operations for so many reasons, either because it was not the custom or because they fear that bank interference may be prejudicial to the running of their operations, or they fear that their trade secrets may be liable to be spread through bank staff indirectly. So we managed to give our services in such a way as to balance the needs of the cliental and our need for control, their need for secrecy and for freedom and our need to have sufficient controls and to monitor performance so as to gain the desired results."

The bank, however, also appears to believe that the satisfaction of all customer needs and wants may not be in the best interests of both customers or the bank and are prepared to use their managerial skills to dissuade certain customers from using certain services, i.e. demarketing.

Q. In meeting customer needs and wants does FIBS offer general and personal financial advice?

A. "Yes, we offer quite a lot of this to our customers who come and approach us at our different points in the branches or in our affiliated companies. I think they find rather good interaction from us because we try to study the market in the same way that a merchant or a businessman would because we will be partners to any operation in that market. One of our features in this area is that we sometimes dissuade them from undertaking a certain venture and our point has often been proven right. This has been clear in changing to cereal products mainly dura and ground nuts last year. Our monitoring of the international and local markets convinced us that we had to stop operations and we also advised our customers to stop operations and a lot of them avoided huge losses by heeding our advice because if we went on giving them the facilities and signing contracts both they and we would have suffered big losses."

That customer orientation is an integral part of managerial attitude can again be demonstrated thus:-

Customer Orientation

"There is now clear awareness in the Bank that the services which we are now providing have to be refined, developed and modified in so many ways in order to meet customer needs and there is a major effort going on now to restructure the whole bank so as to undertake this operation.

"In fact, the process has not just begun, to give one example, we have developed one variation from our Al Morabaha formula which will end by handing the documents to the customer and receiving the money at this point. The classical form of Al Morabaha service which is a form of financing was that the bank should acquire on the order of the client certain goods specified by the client at a certain price and then

hand them physically to the client so that he will repurchase them from the Bank. But, because of a lot of clients did not like this formula for practical reasons because they either had the capability to transport their own goods or the capability to clear their own goods from the customs or they had their own customs agencies, they didn't want the Bank to be involved in the latter stages of handling the goods, so in fact, we cleared this with our Religious Supervisory Board and we came up with the variation whereby the physical handing over of goods against the proceeds which is the classical form of concluding the chain in the Islamic jurisprudence was accepted to be the documents..."

Social Responsibility

Social responsibility has already been demonstrated in the first quote from FIBS Deputy General Manager, however since this objective is so highly represented in the policy of FIBS it will not be surprising to find repeated reference to it throughout an interview:-

"In some of our operations we have option and we exercise this option, of rejecting operations unless we think that they serve many social aims... we cannot indulge in anything which is religiously haram (prohibited) or even frowned upon. This is very clear."

Thus, as a direct partner, Islamic banks can be more selective about the operations to be financed and this enables it to take full account of the economic and social considerations in order to realise state policy. This means that although customers may satisfy all the financial requirements of the Bank it may not be enough to cause the Bank to agree to finance the operation. The profit motive of the Bank is overridden by the social.

Social orientation is also reflected in the Islamic Bank's attitude and concern for economic development. FIBS Deputy General Manager expresses this attitude thus:-

"... people are now totally cut off from the development process because there is no hope for them to come to the fore and approach the banks because they do not have sufficient collateral, they in fact can offer nothing except their personal efforts. Again, I would say that this is not very conducive to development..."

The distribution of profits in an equitable manner is seen to be an essential factor in the development process:-

"The structure and formula of an Islamic bank does not imply the use of one rate of interest, as is the case in Western banking, but in fact you can have a profit structure for each different operation. This gives it real flexibility as to the type of financing and type of profit structure needed for the development of each sector. This is an added strength in the formula for Islamic banking, again this helps economic development. Similarly, this participation aspect would encourage a lot of people in society to come to the fore and try to utilise their energies because they only have to come to offer their labour and endeavours and buy ideas. The financing agency - i.e. the Islamic bank, would provide the capital if the project is sufficiently feasible.

"The rate of interest, as I see it has polarised the wealth inside society because finance is given to those who already have sufficient collateral... I would say Islamic banking, because it is totally devoid of this rate of interest does not aid polarisation, on the contrary, it helps a spread in society, because there are other Islamic institutions which are helped by an Islamic bank like Zakat which is a wealth tax which aids the redistribution of wealth in society... it is evident from our experience in the Sudan, we are taking part of the profit which is generated from operations undertaken by the relatively wealthier sections of society and re-investing it by giving it to the poorer sections of society such as smaller artisans and small and up-coming investors... if the whole banking machinery in the Sudan and the developing countries was geared to work on the Islamic model, I think in a very short time, the re-distribution of wealth, which is the mainstay of development would be achieved in a very short time."

Importance of Marketing Research, Forecasting and Planning

Management's appreciation of the importance of marketing research as an aid to positive action is another indicator of

favourable attitudes toward the marketing concept and its implementation. Indeed, the prohibition of interest puts a very real responsibility on Islamic bank management since it is necessary to make sound feasibility studies in order to minimise the risk taken for numerous projects - much more than in traditional banks. Furthermore, the investment-profit sharing nature of Islamic banks makes it imperative to act in positive ways. An Islamic bank has to go out and search for new opportunities to invest funds available; opportunities other than just lending.

Comparing the Islamic bank's need to minimise risk and to search for lending opportunities with that of traditional commercial banks, Al Hawary [1] points out:-

"... in the normal lending practices of commercial banks, one can easily see that banks usually wait for their customers, it is true that banks today introduce the concept of marketing to the field of banking thus making them more positive in their action than before. But still, the lending function is still an intermediate action between those who supply funds (depositors) and those who demand funds for investment (borrowers). It is true that a commercial bank seeks out opportunities (for lending), searches out for information required for sound lending, takes necessary collateral... but still a bank is more or less sure that it will get its money back (the principal and the interest)."

Similarly, elaborating on the major differences between Islamic and Western banking systems, FIBS Deputy General Manager states:-

"I would say that being an active bank, by virtue of its methodology, that is to say a Bank which has to be involved in its operations with customers and not just lend, secure lending and wait for the proceeds to come... requires proper supervisory,

[1] Al Hawary, Sayed (1981) "Economic Philosophic Principles of Islamic Banking", Paper presented at Conference on Islamic Banking, Geneva (pp.32033).

monitoring and sufficient preparatory work in terms of feasibility studies, market surveys, etc., to reduce the risk to tolerable and manageable proportions... our approach however is not to circumvent or run away from risks but to minimise it... We face it head on and try to minimise it by proper forecasting, proper supervision, proper planning and monitoring."

Furthermore, in his presentation of the operations of FIBS Mr. Hamdi pointed out that technical and economic study of each operation, investigation of the customer's financial position and his financial dealing and continuous supervision and follow-up via a follow-up section in every branch and at the headquarters are among the necessary securities for the success of finance operations. Indeed:-

"In some cases, we have permanent representatives, stationed in the factories we are financing, as in the case of oil mills. We have noticed that continuous supervision and follow-up leads to sizable raising of profit levels."

On the other hand, since a depositor cannot have a fixed pre-determined rate of return, he cannot be passive. He has to be alert to the soundness and good management of his chosen bank.

There is hence a genuine managerial concern about social and individual needs and problems and hence marketing research becomes a tool of prime importance in decision making. In fact, the most significant discernible feature of FIBS is that management attaches great importance to marketing research. This represents a first step toward a marketing orientation and is corroborated by their positive appraisal of consumers' role in the bank's existence, growth and stability and point moreover to their recognition of the necessity for researching consumer behaviour, banking needs and wants.

8.3 Organisation

It will now be obvious that the organisational structure of an institution must be designed to permit it to meet its objectives. The organisation structure is thus a vitally important factor and is generally a cross-product growing out of objectives and environment. Indeed, according to Haire [1]:-

"1. ... organisation structure is powerfully influenced by the conditions that exist in the market place and 2. the basic purposes, objectives and scope of business always influence and often determine organisation structure."

Similarly, evidence of the manner of application of the marketing concept is usually apparent in the organisational structure of the institution. It is to a consideration of the general and marketing organisation of FIBS that we now turn.

Figure 8.1 shows the organisational structure of FIBS. From this it will be noted while there is no formal marketing department, the Administrative Affairs Department, Investment Department and Research, Statistics and Information Department may be said to be undertaking all the functions of a single formally organised marketing department.

In order to gain further insight into FIBS general marketing management, the Deputy General Manager was asked:-

Q. Mr. Hamdi, who usually takes decisions regarding the following controllable marketing variables: product or service design,

[1] Haire, M. (1962) *Organisation Theory in Industrial Practice* John Wiley & Sons: New York (p.69).

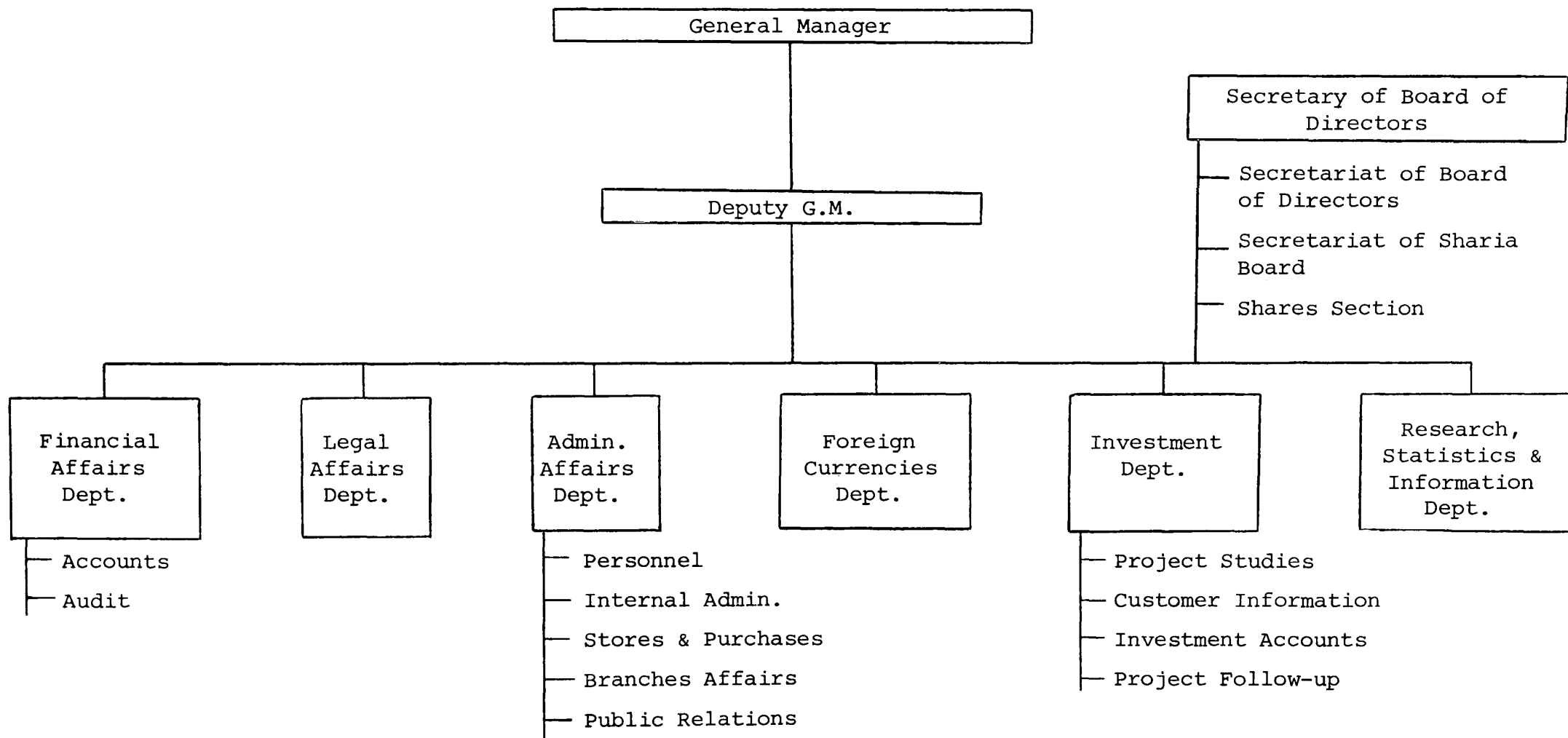


FIGURE 8.1

FIBS ORGANISATIONAL STRUCTURE

branching decisions, pricing, communications, public relations, and market research?

- A. "As to who takes these decisions, we have a very clear structure in the Bank. There is an Executive Management Committee, there is a Board of Executives Committee and then there is a Board of Directors, as I go through the question I will try to indicate who really take these decisions.

"Regarding product or service design, this is really a managerial decision taken with the collaboration of our Religious Supervisory Board (Shariaa Board). Branching decisions are undertaken at Board level on the advice of the Executive Management, especially in the opening of any new branch. Pricing decisions are entirely an Executive Management function, similarly communications (advertising, brochures, etc.). Public relations, merchandising and market research are also Executive Management decisions. However, generally our executive decisions are transmitted to the Executive Committee of the Board of Directors and they take an active role in trying to supervise, etc. because some of these have to come to the Board by way of specific operations. We have to present to the Board any operations exceeding a certain financial limit for example. In this way they have an opportunity to discuss the pricing, selling, security, collateral aspects of an operation and merchandising and sellability of a commodity and so on. It is not a strict separation and at the same time, we have the benefit of different opinions from the Executive Committee and from the Board."

The above indicates that operations recognised as coming under the responsibility of a formally organised marketing department are in effect however, being performed informally by officers of other departments. We can therefore conclude, that though the marketing concept has in effect been implemented the structure of the bank has not been influenced by the performance of formal marketing operations.

According to the fundamental interests to be served (social, individual customer, markets, etc.) a proper integration of the functions of the organisation must be achieved in the

structure that will permit these major interests to be served. The above quote also indicates that FIBS executives favour the co-ordination and integration of efforts in serving major interests, planning corporate goals, strategies and tactics. Furthermore, they approve the fact that actions of individual departments have interdepartmental implications. For example, when the Deputy General Manager was asked whether the innovation of services should be a bank-wide managerial concern, he answered in the positive. This shows the extent to which bank executives are involved in the innovation of services to satisfy fundamental interests (i.e. customer and social needs). On the whole then, findings clearly indicate that although they have not yet developed formal marketing channels, FIBS executives are applying certain fundamental aspects of the marketing concept.

That formal marketing channels are not yet evident is however, not surprising. As pointed out earlier, the conditions which exist in the market place powerfully influence organisational structure. Mr. Hamdi also indicated that general organisational problems emanate from:-

"... the environment and the lack of information,
lack of marketing channels in the market place
and in the Sudan generally."

The likelihood of the marketing concept being implemented (whether formally or informally) is greater obviously, if executives show a high degree of receptivity to the principles which constitute it. This was demonstrated in the previous section. Again, when asked does the marketing process generate FIBS overall corporate objective or are marketing objectives developed from the bank's overall corporate objectives, Mr. Hamdi replied:-

"I should think the answer is that both in fact impinge on each other... from what I have said earlier it should be clear that we had some corporate objectives and these were in fact adhered to. On the other hand, I think that the market place in fact, up to an extent, influences the corporate objectives and I say this is true of all corporations because you just can't ignore the market forces and try to impose corporate objectives regardless. One example of how the market forces influenced our aims was that last year we were planning to embark upon our medium and long-term investment policies, but there were radical variations in the market place following fiscal and monetary changes, the liberalisation of the foreign exchange laws and increase of customs which forced us to delay the implementation of this policy for another year to see how this would affect our profits from the short term operations which would be the mainstay of the Bank for some time to come. This is just a general example."

From the organisational set up of FIBS there is an indication that two other criteria of the marketing concept are being met, that of integration of marketing operations and co-ordination of the activities of other departments of the Bank. Indeed, this is demonstrated in the following quote which stresses the importance of the bank's Religious Supervisory Board in marketing decisions and the use of marketing research:-

"... prior to the adoption of any new formulae or service, we in fact, undertake marketing studies with some of the bank clientele so as to establish the popularity and feasibility of this service and we put them to the test for some time then we appraise them to see what has become of them and their performance as against projected targets, but prior to all this we have to clear all formulae with our Religious Supervisory Board (Shariaa Board) so as to make sure that a formulae does not contravene with Shariaa Code in any way.

"A prime example of this was when we undertook a formulae for servicing and financing small artisans and investors. We started with a limited budget of a few hundred thousands and we had to monitor the service very closely so as to gain insight into the problems and foremost, to see the performance of a number of personnel who had very little experience,

if any, in dealing with the bank. When we were convinced that their behaviour in terms of repayment instalments and generally in fulfilling their contractual obligations were sufficient, we expanded the service to include bigger items in terms of value and also geographically to one branch which was due for this experiment. This was Omdurman University branch to all other branches.

"So we undertake this all in a rather scientific way. We don't just plunge into marketing services without trying to find out something about it first. We have done the same thing in marketing the service of financing homes for the Sudanese working abroad for this is going to be a big service in terms of value and medium range finance."

From what has been said so far, we can conclude that Islamic banks are guided by a "grand design", mission or ideology. This exerts constraints on the institution, internally as well as externally. Since all programmes and strategies are derived from this "grand design", the application of the marketing concept will be subject to the considerations of the fundamental aims and objectives of the institution.

There is no doubt that FIBS management have a strong sense of purpose and mission defined in terms of meeting needs within the external environment. Within such a framework marketing objectives and strategies can be derived. Given this, most management analysts would underscore the importance of "management by objectives" which serve to provide personnel with a sense of their role in the organisation, provide consistency in decision making, stimulate exertion and accomplishment and provide the basis for corrective actions and control.

There is nevertheless, an unresolved debate in the management literature as to whether the first step in the marketing process is to identify opportunities or to set

objectives. The arguments show that both must be considered simultaneously. FIBS Deputy General Manager indicated that the identification of opportunities in the market place and the realisation of company and marketing objectives had to be considered side-by-side thus:-

"... as to opportunities, we think that there are many areas in which the Bank could participate - trading, industry and agriculture - which will in fact aid economic development. The opportunities are available for everyone who wants to take them. We have however, to consider our overall objectives which are in turn subject to the constraints emanating from our external environment, as I have already indicated."

On the basis of the foregoing, we can thus conclude that FIBS has an informal and comparatively limited marketing process. This appears to be the case for a number of reasons, chief among which are the restrictive elements emanating from an unsophisticated, economically and politically fraught market environment, plus the considerations of the Islamic Sharia Board of permissible practices. Bearing all these restrictive elements in mind, Michael Field's [1] assertions regarding the problems of marketing in most Arab countries are understandable:-

"In practice companies that are even trying modern marketing... are few... Anyone who has modernised the marketing operations or management structure of his business (at considerable expense in terms of higher overheads) seems to have done so as much out of professional pride or 'Western mindedness' as in the expectation that it will do anything to increase his profits in the medium term. Furthermore, there is little call for sophisticated marketing techniques

[1] Field, Michael (1982) "Marketing in the Arabian Peninsula - Profits and Problems" in *Middle East Review*, 1982, pp.115-118.

when the market itself is unsophisticated - albeit with a lot of special characteristics which make it both complicated and very different from Western markets." (p.115)

Nevertheless, the greatest asset of any new bank is potential, and given time FIBS can refine and develop a marketing process which would be to the mutual advantage of its customers and itself.

CHAPTER NINE

RESEARCH FINDINGS AND RESULTS III

CONSUMER SURVEY - FAISAL ISLAMIC BANK OF SUDAN

9.1 Introduction

In Chapters Five and Six, the analyses of the data relating to the acceptance, implementation and administration of the marketing concept within groups of Islamic, British, Middle East Riba and Western banks was carried out. Chapters Seven and Eight then presented findings of a situation analysis and marketing process of Faisal Islamic Bank (Sudan). From this it was concluded that though the Bank had a favourable attitude toward the marketing concept and was implementing particular elements of the concept with vigour, the structure of the Bank had not been influenced by performance of formal marketing functions. Furthermore, while the Bank faced an unstable economic and social environment, it had nevertheless made remarkable achievements in terms of growth over the first three years of its inception.

The analyses in this Chapter have to do with primary data from questionnaires designed by the researcher and distributed to over 1,000 personal depositor customers of FIBS, of which 575 respondents formed the basis for final analyses due to incomplete and unreturned questionnaires. The aim of the analyses in this section is to identify the basic bank characteristics, selection factors leading to the choice of this particular bank and other commercial banks, the socio-economic and demo-

graphic traits of customers and related institutional factors and finally, to recommend a marketing strategy for Faisal Islamic Bank of Sudan, based upon the salient variables identified in this study.

The first two parts of the Chapter present the demographic and socioeconomic characteristics as well as banking habits of respondents from Parts I and II of the Consumer Survey Questionnaire. The next three parts focus on bank image, investment periods and media. The last part of the Chapter contains a summary of findings. These findings are then utilised to conclude whether or not to accept the hypotheses relating to patronage factors, socioeconomic and demographic characteristics of customers and image of an Islamic bank.

Specifically, it has been hypothesised that:-

Hypothesis (5) A significant proportion of customers of FIBS buy the services of this bank for reasons other than the desire to conform to Islamic ethics or ideology.

Hypothesis (6) No significant relationship exists between socioeconomic and demographic variables and:-

- (a) the types of accounts held with FIBS;
- (b) the image customers of the Bank hold of the Bank;
- (c) the characteristics looked for when choosing between commercial banks;
- (d) types of accounts held with other banks.

These hypotheses will be tested in this Chapter. First, descriptive statistics will be presented relating to each aspect. This is followed by factor analysis results in the case of the first hypothesis (5) and simple chi-square analysis in the case of each segment of the second hypothesis (6a, b, c, d).

A variety of variable sets have been factor analysed. For example, the institutional variables (image) have been factor analysed to identify the common elements or factors.

The reader will recall from Chapter Four that factor analysis permits data reduction of an assortment of variables by abstracting the commonness within the characteristics and grouping them accordingly into respective categories identified as factors.

The correlation between a factor (group) and a characteristic variable is defined as the factor loading. Individual factors with loadings of plus or minus .30 or higher were considered meaningful for this part of the study since the sample size was considerably large. Although no tests of significance were used to identify a meaningful factor loading [1], a factor loading of .30 is generally viewed as moderately significant. [2]

[1] According to Rummel, "for many applications, however, factor analysis does not require such tests (of significance of loadings). Factor analysis is a mathematical tool like calculus and not necessarily a technique of statistical inference..." R. J. Rummel, *Applied Factor Analysis*, Evanston, Ill.: Northwestern University Press, p.24.

[2] Child, D. (1970) *Essential of Factor Analysis*.

9.2 Customers

Markets are made up of individual consumers and a study of an organisation offering products or services must begin with them. However, the single consumer is frequently described in terms of a number of different variables. For example, personal variables, consumer choice variables, attitudes, etc. Hence, in this section, findings pertaining to demographic, socioeconomic and factors that influence the consumers selection of this particular bank are drawn from the analyses of primary data from the bank's consumer survey and presented below. Customers were asked a few initial questions such as: What is your occupation and age?

Occupational Group of Customers	Absolute Freq.	%
Professional	258	44.9
Managerial	73	12.7
Clerical	101	17.6
Manual	45	7.8
Entrepreneur/Businessman	76	13.2
Student	22	3.8
TOTAL	575	100%

TABLE 9.1

FREQUENCY DISTRIBUTIONS OF CUSTOMERS BY OCCUPATIONAL
STATUS

N=575

Age Group of Customer in Years	Frequency Distributions	
	Absolute Freq.	%
18 to 29 years old	170	29.6
30 to 39 years old	239	41.6
40 to 49 years old	127	22.0
50 to 59 years old	31	5.4
60 to 69 years old	5	0.9
70 years and over	3	0.5
TOTAL	575	100%

TABLE 9.2

FREQUENCY DISTRIBUTION OF FIB CUSTOMERS BY AGE GROUPS

N = 575

From both tables it can be seen that 44.9 per cent of the customers sampled were classified as having professional occupations, 17.6 per cent clerical occupations, 13.2 per cent entrepreneurial occupations, and 12.7 per cent managerial occupations. Manual workers and students accounted for 7.8 and 3.8 per cent respectively. In addition, the largest proportion of the sample were in the 30 to 49 years age group (41.6%), followed by the younger customers - 18 to 29 year olds (29.6%) and those in the 40-49 years age group (22.1%).

Differences in consumer choice reasons based upon socio-economic and demographic variables may also be studied, as

it is possible that consumers of different ages or consumers belonging to different social classes differ in their conceptual structures to such an extent that segmentation by means of these criteria will be useful. A consideration of this will take place in a later part of the Chapter.

Consumer questionnaires also began with questions concerning the respondents' banking habits, as such information promised a better understanding of the loyalty consumers had for the bank, whether consumers could be said to be originally unbanked individuals and hence whether FIB was "mopping up" a number of these individuals. The question asked: "Which of the following banks have you held an account with?", to which the respondent was asked to indicate by ticking all that applied from a list of seven alternatives. The descriptive statistics relating to this data are presented in Table 9.3 below.

Name of Other Bank	Absolute Freq.	%
Khartoum Bank	86	15%
Unity Bank	37	6.4%
Peoples Co-operative	38	6.6%
Sudan Commercial	47	8.2%
Elnilane	75	13%
Foreign Bank	30	5.2%
Other	5	0.9%
TOTAL	318	55.3%

TABLE 9.3

CUSTOMERS OF OTHER BANKS BEFORE FIBS

N = 575

Thus, Table 9.3 shows that 55.3 per cent of respondents banked at other commercial banks before joining FIB. The other 44.7 per cent have held accounts at no other bank before FIB. The two banks at which customers chose to hold accounts at before transferring to FIB were Khartoum Bank and Elnilane Bank.

The number of banks with which an individual deals and the kinds of basic accounts used by an individual are considered to be measures of banking proneness. Consequently, this section of the study sought to consider if the market for non-Islamic banks services such as interest-bearing savings and deposit accounts existed significantly among present customers of FIB. Table 9.4 below shows that a small number of respondents had either only an interest bearing savings and deposit account or a combination of both at other commercial banks, whilst holding an account with FIBS simultaneously.

Accounts with Other Banks and FIBS	Absolute Freq.	%
Interest bearing savings	157	27.3%
Interest bearing deposit	14	2.4%
TOTAL	171	29.7%

TABLE 9.4

INTEREST BEARING SAVINGS AND DEPOSIT ACCOUNTS
WITH OTHER BANKS

Thus, of those customers who held an account with other banks as well as FIBS 29.7 per cent can be said to be participating in the market for both Islamic and non-Islamic bank services. Having looked at the banking proneness of customers before joining FIBS, we now turn to the types of accounts held by customers of the Bank.

FIBS offers a variety of banking services which are carried out in a manner not involving interest elements. Customers of the bank were therefore asked to indicate from a list of nine different types of services offered by FIBS, which they were using at present. Table 9.5 below shows the results.

Account/Service	Absolute Freq.	%
Current	380	66.1
Personal Loan	19	3.3
Letters of Credit	39	6.8
Insurance	9	1.6
Collection of Bills	17	3.0
Investment Deposits	228	39.7
Savings	238	41.4
Domestic and International Transfer	22	3.8
Foreign Currency	48	8.3

TABLE 9.5

TYPES OF ACCOUNTS WITH FIB

It can be seen that the three most typical accounts sampled customers of FIBShold are current, savings and investment accounts. Since customers could have indicated any combination of the above services, the results of this data was factor analysed in order to ascertain the main service areas to which customers of the bank subscribed. Note however, that the average customer held 1.8 accounts.

Tables 9.6 and 9.7 show factor analysed principal components of a battery of accounts held with FIBS and the varimax-rotated components whose variance exceeded unity.

Type of Account	Factor			
	1	2	3	4
Current	.11097	.80665	-.15995	.33487
Personal Loan	-.1421	.13665	.81736	.16786
Insurance	.03544	.12586	.41946	.03957
Letters of Credit	.78884	.05307	.00439	.10791
Bills	.80709	.16380	.10780	.04933
Investment Deposits	.25031	.72569	.28553	.24032
Savings	-.26791	-.00603	.23623	.78519
Domestic and International Transfers	.81878	.12280	.6413	.53166
Foreign Currency	-.04380	.17332	.36024	.53166
Eigenvalue:	2.09416	1.28662	1.15246	1.11475
% total variance	23.3	14.3	12.8	12.4
Total Variance	62.8%			

TABLE 9.6
PRINCIPAL COMPONENTS
TYPES OF ACCOUNTS HELD WITH FIBS

Type of Account	Factor			
	1	2	3	4
Current	.05423	<u>.80286</u> ¹	-.27565	.27788
Personal Loan	.07006	.01236	<u>.83559</u> ¹	.10895
Insurance	.02966	.05048	<u>.43326</u> ²	-.05890
Letters of Credit	<u>.79117</u> ³	.08877	.04650	.02756
Bills	<u>.82903</u> ²	.02753	.03915	.05192
Investment Deposits	.12928	<u>.772083</u> ²	.14748	<u>.30658</u> ³
Savings	.15458	.15237	.29407	<u>.78137</u> ¹
Domestic and International Transfers	<u>.82964</u> ¹	.02181	.00273	.05155
Foreign Currency	.04871	.18657	.29181	<u>.56750</u> ²

TABLE 9.7

VARIMAX ROTATED FACTOR MATRIX

TYPES OF ACCOUNTS HELD WITH FIBS

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. Thus, the Varimax factor matrix indicates that the first factor, accounting for 23.3 per cent of total variance, underlines business oriented services, while factor 2 accounting for 14.3 per cent of total variance, reflects services subscribed to by the personal customer. Similarly, factor 3 indicates personal and commercial service areas, while factor 4, loading significantly on savings, foreign currency and investment deposits, indicate that a small group of customers are subscribing to these services as a group.

Once a customer has accepted the need to open a banking account and has decided to go ahead and open one, his next major decision is where to open an account(s). In deciding which Bank will best suit his needs he can draw upon values, needs, beliefs, his own knowledge and past experience of banks.

Since a study of consumer choice must deal with the values to which alternatives are related and the beliefs and perceptions which influence choice, firstly consumers of FIBS were asked to rank, in order of priority, the reasons which lead to their choice of the Bank, and secondly the characteristics they looked for in their choice between two Islamic banks.

Rokeach (1968a [1] and 1969 [2]) defined values as:-

"an enduring belief that a particular mode of conduct or a particular end state of existence is personally and socially preferable to

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- [1] Rokeach, M. (1968a) *Beliefs, Attitudes and Values*, San Francisco, Jossey-Bas Inc.
 - [2] Rokeach, M. (1968b) "The Consumer's Changing Image". In: P. Bliss (ed.) *Marketing and the Behavioural Sciences*, Boston: Allyn and Bacon.

alternative modes of conduct or end-states of existence." (1969, p.550)

Rokeach [1] further suggests that as values are related it is possible to identify a relatively limited number of basic values that can explain large parts of the individual's behaviour. Applying such a definition of values to the present study seems especially feasible as it encompasses the belief-value systems behind the whole concept of Islamic banking to which one would expect customers of FIBS to identify and which influenced their choice of the Bank.

Tables 9.8 and 9.9 below show the descriptive results of this data. Customers were asked to rank in order of priority the four most important reasons for choosing the Bank.

Just taking the first column of Table 9.8, one can see that the main characteristic looked for when choosing this Bank was that of "Islamic banking", for 86.4 per cent of respondents ranked this as their first reason for choosing the Bank. The second most important choice characteristic was "prompt and efficient services", which was ranked as of first importance by 6.3 per cent of respondents. Thus, the results show that FIBS was chosen because of a clearly perceived difference between it and other banks and the services they offer. The difference being that of "Islamic Banking". Two variables were ranked of equal importance on the fourth ranking, these were wide range of services and courteous employees. Thus,

[1] Rokeach, M. (1969) "The Role of Values in Public Opinion Research", *Public Opinion Quarterly*, Vol. 32, Winter 1969, pp.547-59.

Characteristics/Traits	Ranks							
	1st		2nd		3rd		4th	
	No.	%	No.	%	No.	%	No.	%
Islamic Banking	497 ¹	86.4	78 ³	13.6	-	-	-	-
Community Minded	17 ³	3.2	105 ²	18.3	420 ¹	73	26	4.5
Prompt and Efficient Services	36 ²	6.3	270 ¹	47.9	10	1.7	50 ⁴	8.5
Wide Range of Services	9 ⁴	1.6	32	5.6	51 ²	8.9	284 ¹	49.4
High Profits	2	0.3	25	4.3	45 ³	7.8	39	6.8
Courteous Employees	9 ⁴	1.6	56 ⁴	9.7	14	2.4	105 ²	18.3
Other Reasons	5	0.9	9	1.5	35 ⁴	6.1	71 ³	12.5
TOTAL	575	100%	575	100%	575	100%	575	100%

TABLE 9.8

RANKED CHARACTERISTICS LOOKED FOR WHEN CHOOSING FIBS

according to these figures, choice reasons can be classified as value-oriented and functional. The first group consisting of judgments of the service related to the values held by consumers and the second category consisting of attributes related to the performance of the services.

Other findings obtained from factor analysis of the same choice variables, reinforced the observation already noted. Tables 9.9 and 9.10 summarise choice reasons in an even more meaningful manner.

Characteristics Statements	Factor				
	1	2	3	4	5
Islamic Banking	.7364	.1386	.2285	.1606	.2429
Community Mindedness	.7241	.6541	.0398	.0398	.1001
Prompt Efficient Services	.4979	.2568	.0873	.0230	.2429
Wide Range Services	.4190	.3455	.2424	.1625	.2705
High Profits	.2738	-.4862	.0873	.3588	.5092
Courteous Employees	.3252	.2568	.6363	.3576	.4564
Other Reasons	.1526	.0222	.2812	-.2555	.1001
Eigenvalues	2.175	1.408	1.322	1.056	1.002
% total variance	21.7	14.1	13.2	10.6	10.0
TOTAL VARIANCE	69.6				

TABLE 9.9

PRINCIPAL COMPONENTS FACTOR MATRIX

CHARACTERISTICS LOOKED FOR WHEN CHOOSING FIBS

Principal components above show the eigenvalues and total percentage each factor adds to the total variance of 69.6 per cent.

Characteristics Statements	Factor				
	1	2	3	4	5
Islamic Banking	.7620 ¹	.4294 ³	.2491	.0381	.0266
Community Mindedness	.7331 ²	.0577	.3779 ³	.3119 ¹	.6279 ²
Prompt Efficient Services	.6654 ³	.0357	.4053 ²	.1929	.0858
Wide Range Services	.1470	.6407 ¹	.0227	.0703	.1259
High Profits	.0435	.1342	.0875	.0211	.8424 ¹
Courteous Employees	.0938	.4982 ²	.4053 ¹	.0633	.0311
Other Reasons	.0992	.1281	.1038	.2491	.0089

TABLE 9.10

VARIMAX ROTATED FACTOR MATRIX

CHARACTERISTICS LOOKED FOR WHEN CHOOSING FIBS

Varimax rotated factor analysis shows that:-

Factor 1 loaded significantly on three of the seven characteristics looked for when choosing FIBS. These variables were: Islamic Banking, Community Mindedness and Prompt Efficient Services. The factor accounted for 21.7 per cent of total variance and was interpreted as an Islamic banking principles choice factor.

Factor 2 loaded significantly on a further three variables accounting for 14.1 per cent of total variance. In order of priority the choice variables were: Wide Range of Services, Courteous Employees and Islamic Banking. The factor was labelled a customer oriented Islamic banking factor, because the three variables appeared

to be reflecting both an interest in the customer and the overall aims of Islamic banking as reasons which attracted customers to the bank.

Factor 3 had loadings of .30 or more on three variables. These were in order of priority; Courteous Employees, Prompt Efficient Services and Community Mindedness. The underlying reasons for choice of this Bank therefore appeared to be similar to that identified in the previous factor but here, there was an added interest in community mindedness. The factor was therefore interpreted as reflecting both individual customer interest and community-wide interest and labelled a customer and social interest choice factor. The percentage variance accounted for by this factor was 13.2.

Factor 4 yielded significant loadings on only one variable. This was community mindedness. As the previous factor also loaded significantly on this variable, it was difficult to interpret the uniqueness of this variable on Factor 4. However, it appeared that yet again, customers were interested in the Bank's perceived inclination to pursue socially oriented banking policies and this was reflected in their choice. The factor accounted for 10.6 per cent of total variance and was labelled a social orientation choice factor.

Factor 5 had significant loadings on only two variables - "high profits" and "community mindedness". Because both variables seemed to be associated with performance in the interests of the individual and society, integrity and fair play, the factor was so labelled. In most research situations customers become

"rational" in their replies, hence high profits are held as being an important choice criteria after the service aspects.

Some researchers maintain that consumers tend to select products and services that they perceive as congruent with self-image. That is, the consumer holds an image of himself as identifying with particular values, beliefs, social classes, etc., and will select particular goods and services according to whether or not they exemplify or support such values, beliefs, etc. A statement of the underlying psychological theory can be found in Rogers (1965) [1] and Martineau (1958) [2].

From the above results, it would seem feasible to apply this theory to the present case study, for one can assume that the values exemplified by FIBS would be aroused in a choice process and it is those to which the perception of the self relates. Indeed, in its application to this study, the hypothesis predicts choice well, for the social/religious image of Islamic banking in Islamic religious society is important, and it is an image which one would expect customers of such a bank to identify. The interpretation gains further support from the reasons respondents gave for their choice of FIBS. Inspection of Table 9.10 thus, makes it clear that the most salient characteristic entering the consumer's decision to bank with this Bank was that of being an Islamic bank.

[1] Rogers, C. R. (1965) *Client Centred Therapy*, Boston: Houghton-Mifflin, Co.

[2] Martineau, P. D. (1958) *Motivation in Advertising*, New York, McGraw-Hill Book Company.

Thus, from the above analysis, it is evident that the customer has goals of satisfying his needs and these are termed his buying motives. Two types of motives are recognised: those that are relevant to value adherence/religious needs and those that are relevant to the attributes of the service such as efficiency. Here however, it appears that value orientations and the motives they give rise to constitute the "engine room" of customer choice. Indeed, the unique feature of FIBS is that of being Islamic and it is the most important factor in the choice process followed by efficiency and community mindedness.

The concept of wide range of services does not seem to be highly rated. This can probably be attributed to a lesser degree of sophistication and knowledge about the range of services offered. This will however, develop with banking experience and as the needs of the customer develops.

A further relevant consideration of this study was whether customers adhered to similar choice criteria when choosing between two similar banks, i.e. what are the characteristics looked for when choosing between two Islamic Banks. Customers were therefore asked to indicate from a list of seven choice statements, the three most important traits they would look for if they had to choose between two Islamic banks today and to put them in order of priority. Table 9.11 sets out the descriptive data.

Trait Statements	Ranks					
	1st		2nd		3rd	
	No.	%	No.	%	No.	%
High Rate Return	38	6.6	84	14.6	115	20.1
Free Services	7	1.2	211	36.7	64	11.1
Wide Range Services	23	4.0	126	21.9	182	31.7
Less Risky Investments	31	5.4	54	9.4	91	15.8
Strict Islamic Banking	408	71.0	68	11.8	18	3.1
Efficient Services	61	10.6	23	4.0	87	15.1
Other	7	1.2	9	1.6	18	3.1
TOTAL	575	100%	575	100%	575	100%

TABLE 9.11

RANKED TRAITS LOOKED FOR WHEN CHOOSING BETWEEN
TWO ISLAMIC BANKS

Again, looking at the first ranked traits looked for when choosing between two Islamic banks, one can see that 71 per cent of respondents indicated that adherence to Strict Islamic banking principles would influence their choice, 10.6 per cent (61) ranked efficient services as the next important trait which would enter their choice process. It is thus, again evident that the consumer in the Islamic society is driven to a considerable extent toward alternatives which are relevant to value adherence and which are efficient. The third trait

which was ranked most important was high rate of return (6.6 per cent). Characteristics looked for in the choice between two Islamic banks were also factor analysed as shown in the following Tables.

Choice Statements	Factor		
	1	2	3
High Rate Return	-.57152	-.55263	.14312
Free Services	-.57727	.38793	-.61389
Wide Range of Services	-.20484	.51891	.78381
Less Risky Investments	.79823	-.01394	.01134
Strict Islamic Banking	.31526	-.74058	-.02394
Efficient Services	.42635	.37858	.30055
Other	.46044	.21196	.03173
Eigenvalue	1.8321	1.46205	1.10375
% of total variance	26.2	20.9	15.8
TOTAL VARIANCE	62.8%		

TABLE 9.12

PRINCIPAL COMPONENTS FACTOR

MATRIX

(Choice Between Two Islamic Banks)

Choice Statements	Factor		
	1	2	3
High Rate Return	-.79859 ¹	.05103	-.11031
Free Services	-.07869	-.91824 ¹	-.10601
Wide Range Services	-.05580	.07020	.95789 ¹
Less Risky Investment	.61367 ³	.4821 ³	.16856
Strict Islamic Banking	-.17141	.57211 ²	.54012 ²
Efficient Services	.62408 ²	-.13643	.08567
Other	.47373 ⁴	.17393	.05718

TABLE 9.13

VARIMAX ROTATED FACTOR MATRIX

(Choice Between Two Islamic Banks)

As in the previous sections the data, tabulated in Table 9.12 are discussed on a factor by factor basis.

Factor 1: Efficiency

The first factor has loadings of .30 or higher on four of seven choice statements and accounts for a total of 26.2 per cent of total variance. The choice characteristics in this group are:-

High Rate of Returns	-.7985
Efficient Services	.6240
Less Risky Investments	.6136
Other	.47373

This factor was labelled an efficiency factor as the variable with the highest positive loading was that of efficient services.

Factor 2: Adherence to Islamic Banking Principles Factor

Factor 2 had loadings over .30 on three statements regarding the characteristics customers looked for when choosing between two Islamic banks. The three statements were:-

Strict Islamic Banking	.5721
Free Services	-.9182
Less Risky Investment	.4821

Characteristics included in Factor 2 accounted for 20.9 per cent of total variance and was identified as "adherence to strict Islamic banking principles" factor. The fact that "free services" had a high negative loading influenced the interpretation of this factor.

Factor 3: Customer Oriented Values

This factor accounts for 15.8 per cent of variance among the seven choice statements. The two statements with meaningful loadings are:-

Wide range of services	.9578
Strict Islamic banking	.5401

The factor is identified as a "customer oriented values" factor because both statements reflect an interest in the customer and adherence to the principles of Islamic banking.

Summary of Factor Analysis of Characteristics Looked for In Choosing Between Two Islamic Banks

The results of choice characteristics statements analysed presented in Tables 9.12 and 9.13 above indicated that the

extraction of three factors accounting for 62.8 per cent of total variance among the seven original statements, summarised the data in a meaningful way. The total variance accounted for by each factor was 26.2%, 20.9%, and 15.8 per cent respectively. The three factors were interpreted as being associated with:-

1. efficiency;
2. adherence to Islamic banking principles, and
3. customer oriented value characteristics.

7.3 Distributing Bank

Length of consumer knowledge of the existence of the bank was considered to be a further indicator of bank loyalty, interest in and conviction to the principles on which such a bank is established. Customers were therefore asked to indicate how long they had known about the services of FIBS. Replies were as follows:-

Time Span	Absolute Freq.	%
Less than 1 year	124	21.6
1 to 2 years	191	33.2
3 to 4 years	260	45.2
TOTAL	575	100%

TABLE 9.14

HOW LONG HAVE YOU KNOWN ABOUT FIBS?

Hence, as can be seen from the above Table, 45.2 per cent of consumers had known about FIBS since its establishment (3 to 4 years), 33.2 per cent, for 1 to 2 years and 21.6 per cent for less than 1 year. This latter group can therefore also be said to be relatively new customers of the bank, and the bank is increasing its share of the market each year.

Despite their length of knowledge of the existence of the bank, in making the choice to purchase the services of an Islamic Bank rather than that of any other, one would expect consumers to have some degree, if not perfect, knowledge and understanding of the underlying principles on which such a bank operates, particularly as a result of the efforts of that bank to inform customers of their aims and objectives. The researcher therefore placed four further questions on the consumer questionnaire asking respondents had FIBS explained the principles of (a) modaraba, (b) musharaka and (c) morabaha, and (d) further had they understood all these principles.

The reader will recall from Chapter 1 that the above principles are types of contracts on which the business operations of Islamic banks are currently based. Their theoretical basis is firmly rooted in the Sharia Code. Al-Modaraba is a type of contract in which the bank contributes all the financing and the partner (customer) contributes his managerial effort or labour. In return, the partner receives an agreed proportion of the profit realised. Al-Musharaka (or participation) entails customer and Bank agreeing to join in a temporary participation for the effectance of a certain operation within an agreed period of time on the basis that the partners will receive a

proportion of the net profits realised after the liquidation of the operation. Finally, Morabaha entails a partner or customer approaching the bank requesting that a certain commodity be bought on his behalf in full or partially on the promise of the partner to repurchase the said commodity at a profit agreed upon by both partners.

It will be evident therefore, that consumer understanding of these major types of contracts will be an important element in their dealings with the bank. The descriptive statistics presented in Tables 9.15 and 9.16 below show the results relating to the above-mentioned questions.

Principles	Absolute Freq.		%	
	Yes	No	Yes	No
Modaraba explained	213	361	37.0	62.8
Musharaka explained	220	355	38.3	61.7
Morabaha explained	229	346	39.8	60.2

TABLE 9.15

HAS FIBS EXPLAINED THE PRINCIPLES OF:
MORABAHA, MUSHARAKA AND MODARABA?

Absolute Frequency		%	
Yes	No	Yes	No
242	332	42.1	57.7

TABLE 9.16

DO CUSTOMERS UNDERSTAND PRINCIPLES OF MODARABA,
MUSHARAKA AND MORABAHA?

The above tables show that:-

- (a) according to FIB consumers the Bank had not explained any of the principles on which they operated (62.8, 61.7 and 60.2 per cent said that the principles of modaraba, musharaka and morabaha respectively had not been explained by the bank);
- (b) over half the sample did not understand the aims of the three major types of contracts for doing business with FIBS.

However, it is not mere knowledge and information, according to the behavioural scientists, which direct human behaviour but, rather, it is the images we have. It is to a consideration of the Bank's image that we now therefore turn.

9.4 Bank Image

Corporate image describes the picture an organisation presents to the public, it therefore reflects the overall character of the institution. Essentially, it must be a favourable image that is projected; an image that the various publics will understand and one which is underlined and not undermined by actual performance and policies. In the strict sense, every organisation can be said to have a corporate image, whether positive or negative. Every bank, every manufacturer has a personality or reputation consisting of many facets. According to many theorists [1] [2], a good corporate image is important in creating a subtle confidence in any product or service associated with it. It helps assure acceptance

[1] Hill, E. W. (1962) "Corporate images are not stereotypes", *Journal of Marketing*, January 1962.

[2] Martineau, P. (1958) "Sharper focus for the Corporate Image", *Harvard Business Review*, November/December 1958, p.49.

of a new product or service in advance and it can help a community understand an organisation's philosophy, values and aims. Thus, in endeavouring to build up a good image, organisations must remember that the corporate image is addressing itself to many different publics, each of which is looking at the organisation from different sets of values and beliefs and expectations. Whilst the various publics overlap and are not discrete, they all see the image differently because of their different perceptions, expectations and wishes. The present study now seeks to uncover the different facets of FIBS image.

The question asked:-

From the following list of statements about FIBS, please tick in all the characteristics you believe the Bank to have:-

A list of fifteen statements was placed on the questionnaire which reflected both positive and negative evaluations of the Bank. Respondents' replies appear in Table 9.17 below. Note that each response is taken as a percentage of the total (575).

A glance at Table 9.17 indicates that the majority of customers (80.9 per cent) included the image statement "Islamic bank" in their evaluation of the Bank's features, 69.9 per cent indicated that it was both courteous and new, 62.4 per cent said that it was efficient and 59.7 and 57.9 per cent indicated that the characteristics of the Bank included convenient location and friendly employees, respectively. A further glance at the Table suggests intuitively that some statements may be

Image Statements	Absolute Freq.	%
FIB courteous	402	69.9
FIB large	202	35.1
FIB Islamic	465	80.9
FIB friendly employees	333	57.9
FIB convenient location	343	59.7
FIB easy to get loans from	147	25.6
FIB efficient services	359	62.4
FIB community minded	297	51.7
FIB small	12	2.1
FIB deviates from Islamic banking	51	8.9
FIB unfriendly employees	3	0.5
FIB difficult to get loans from	58	10.1
FIB slow services	10	1.7
Profit minded	10	1.7
New Bank	402	69.9

TABLE 9.17

FIBS IMAGE -FREQUENCIES

(N = 575)

more or less tapping the same general constructs. For example, it would not be surprising if statements referring to: courteous employees and friendly employees led to similar responses since both deal with social relations between customer and employees. By the same token statements referring to Islamic banking, community mindedness and efficient services all suggest something quite positive about the Bank's attitudes and performance. Conversely, "deviates from Islamic banking", "difficult to get loans from", "slow services" are rather pejorative about the Bank's interaction with its public.

Therefore, it would not be unusual to find that respondents' answers to statements grouped as above, were highly correlated. Rather than trusting strictly to intuition, factor analysis promised a more systematic exploration of which variables exhibited high or low intraset correlations, and how many such sets there are (each set defining a dimension of the Bank's image). The factor analysis data, tabulated in Table 9.18 are discussed on a factor by factor basis.

The principal components analysis has extracted the minimum underlying dimensions or factors replicating the observed set of image variables. Five factors were extracted accounting for a total of 50.6 per cent of variance.

The varimax rotation shown in Table 9.19 has produced high and low loadings on each factor and define separate clusters of the observed variable set which are indicated by the rectangles around the variables. Thus, the original set of underlying factors abstracted by principal components are rotated

Image Statements	Factors			
	1	2	3	4
FIB courteous	.4976	.0396	.2950	-.4719
large	.5709	.1448	-.0924	.2252
Islamic bank	.4723	.0622	.2899	.2333
friendly employees	.4180	-.1248	.4960	.2181
situated in convenient location	.6322	.2557	.2294	.0780
easy to get loans from	.5722	-.2598	-.0372	.4244
efficient services	.5272	.3682	.0826	.2377
community minded	.6385	.2238	.1556	.2947
small	.2812	.3609	.0678	.3346
deviates from Islamic banking	.0643	.4783	.6159	.0929
has unfriendly employees	.3907	.5541	.1421	.1340
difficult to get loans from	.2004	.5377	.3113	.1894
slow services	.3559	.6323	.3541	.0638
profit minded	.3230	.5436	.3442	.0565
new	.4723	.0622	.2898	.2333
EIGENVALUES:	3.21744	2.0599	1.1791	1.4447
% Total Variance	21.4	13.7	7.8	7.6
Total Variance	50.6%			

TABLE 9.18

FIB IMAGE

PRINCIPAL COMPONENTS FACTOR MATRIX

Image Statements	Factors			
	1	2	3	4
FIB Courteous	.0336	<u>.71946</u> ²	.0574	.2411
Large	<u>.521</u> ³	.283	-.326	.040
Islamic Bank	<u>.505</u> ⁵	-.059	.137	<u>.364</u> ³
Friendly Employees	<u>.479</u> ⁶	<u>.543</u> ³	.065	.084
Situated in Convenient Location	.112	<u>.794</u> ¹	.139	-.181
easy to borrow from	<u>.739</u> ¹	.084	.095	-.064
efficient services	<u>.346</u> ⁷	<u>.515</u> ⁴	.074	.277
community minded	<u>.735</u> ²	.193	.058	.075
small	-.009	.122	.022	.036
deviates from Islamic Banking	.030	.016	.048	<u>.792</u> ¹
unfriendly employees	.088	.052	<u>.345</u> ³	.148
difficult to get loans from	.107	.070	.262	<u>.592</u> ²
slow services	.039	.020	<u>.816</u> ¹	.120
profit minded	.017	.065	<u>.802</u> ²	.090
new bank	<u>.516</u> ⁴	.076	-.056	<u>.309</u> ⁴

TABLE 9.19

FIB IMAGE

VARIMAX ROTATED FACTORS

by the varimax procedure so that any given factor will be highly correlated (high loadings) with a portion of the observed variables and less correlated (low loadings) with other observed variables. The relative importance of each extracted factor is suggested by the eigenvalue for that factor. The percentage of variation or variance in the observed set of variables explained by these extracted factors can also be seen in Table 9.18.

Factor 1: Socially Oriented Bank Philosophy Image

The first factor has loadings of .30 or more on seven of the fifteen bank image statements and accounts for 21.4 per cent of the total variance.

The statements in this group are:-

Easy to borrow from	.739
Community minded bank	.735
Large bank	.521
New bank	.516
Islamic bank	.505
Friendly bank	.479
Efficient services	.346

The loadings on the first two statements: "easy to borrow from" and "community minded bank" suggested that the factor is related to bank philosophy or aims, in addition the high loading on Islamic bank reinforced this belief. The statements, "large bank", "new bank", "friendly bank" and "efficient bank" suggested a general positive or favourable bank image. The factor is labelled a socially oriented bank philosophy image factor.

Factor 2: Customer Oriented Convenient and Efficient Image

This factor accounts for 13.7 per cent of variance among the fifteen image statements. The three statements with meaningful loadings are:-

Convenient location	.794
Courteous employees	.719
Efficient services	.515

All these statements viewed together suggested the underlying factor is the image of convenience and efficiency associated with the Bank. The factor is therefore labelled accordingly. The managerial implication is that the bank has established an easy-to-reach, sound institutional structure-type of atmosphere in which the customer can conduct banking business. The variables that correlate therefore cast an aura of consumer interest.

Factor 3: Negative Institutional Image

Factor three has loadings over .30 on four statements. These account for 7.8 per cent of variance among the original set of statements. The four statements are:-

Slow services	.816
Profit minded bank	.802
Unfriendly employees	.345
Large bank	.326

Because all four statements reflect a dissatisfaction in the operations of the bank, the factor is identified as "negative institutional image".

Factor 4: Disappointing Reputation Image

Factor 4 accounts for 7.6 per cent of total variance.

The four statements constituting this factor are:-

Deviates from Islamic banking	.792
Difficult to get loans from	.592
Islamic bank	-.364
New bank	.309

The high loadings on "deviates from Islamic banking" and "difficult to get loans from" suggested that this factor was tapping elements of disappointment in the bank, in that customers perhaps had an image of the bank which had not been proven after experience. The negative loading of -.364 on "Islamic bank" supports this interpretation. The bank, consequently, may therefore seek to improve its image in the first two areas, as the factor appears to be reflecting a discrepancy between the consumers' expectations and actual performance of the Bank as assessed from experience.

While the last two factors should not be ignored the researcher suggests that they are of minimal importance as they accounted for less than 10 per cent of total variance. The most important dimensions of the image of the Bank appear to be represented in the first two factors. All aspects of the image represent endogenous variables that the bank's management can nevertheless improve on in its marketing programme.

Customers' Satisfaction/Dissatisfactions with FIBS

When asked whether they were satisfied with the services and performance of activities of FIBS customers replied as follows:-

Satisfied with FIBS	Absolute Freq.	%
Yes	363	63.1
No	210	36.5
TOTAL	573	99.6

TABLE 9.20: SATISFACTION WITH FIBS

Of those dissatisfied, when asked what were their prime dissatisfactions with FIBS replied as follows:-

Reasons for Dissatisfaction	Absolute Freq.	% of total (N = 575)
Slow Services	72	12.5
Deviates from Islamic Banking	69	12.0
Needed services not available	28	4.9
Inconvenient Location	15	2.6
High service charges	11	1.9
Errors in accounts	6	1.0
Low rate return	4	0.7
Discourteous employees	4	0.7
Other Reasons	1	0.2
TOTAL	210	36.5

TABLE 9.21: DISSATISFACTION WITH FIBS

The above figures show that the first most frequently mentioned dissatisfaction with Faisal Islamic Bank is "slow services" (12.5%) and the second, "deviates from Islamic banking" (12.0%).

The figures therefore suggest that the consumer who is dissatisfied with the Bank is experiencing some sort of post-choice conflict - i.e. there is a slight discrepancy between the perceived ideal of Islamic banking and the reality. It is therefore possible that repeated exposure to similar conflict may result in increased predisposition to find alternative attractive solutions. However, the fact that the consumer is unlikely to find a similar alternative within his geographical location suggests that he will not make any post-choice changes. The likelihood of his exploring other dissimilar alternatives will however depend upon his commitment to the principles of Islamic banking. The results of this study indicate however, that the dissatisfied customer of FIB may tolerate the conflict until such time that an alternative is available. Thus, the strategies which will be applied in attempts to reduce dissatisfaction or post-choice conflict, can be classified into two categories. The consumer can modify perceived value importance in such a way as to reduce conflict or he can seek out information to help him arrive at an alternative.

9.5 Investment Periods

Apart from the various joint-venture investments mentioned above, FIB undertakes its own direct investments and offers consumers and investment accounts service, for which a minimum deposit of LS 2000 is required. Funds are deposited for one year, and renewable at the end of the time. They are utilised in the various investment projects of the Bank and the Bank deducts a small percentage of the net profits earned as a compensation for its entrepreneurial efforts. If the deposit is

withdrawn by the customer before the minimum period of investment - six months, he is not entitled to any profits.

It was of further interest to the researcher, which periods of investment the customer of FIB typically preferred. Hence the question placed on the consumer survey asked:-

In your opinion, what is most suitable periods of investment? Rank according to priority.

Table 9.22 below presents the descriptive results.

Preferred Periods of Investment	Ranks by Percentage	
	1st	2nd
6 months	51.0	21.9
1 year	36.9	48.4
2 years	4.9	16.0
3 years	1.3	11.1
5 years	4.0	2.3
7 years	1.9	0.3
TOTAL	100%	100%

TABLE 9.22

RANKED PREFERRED PERIODS OF INVESTMENT

The above table indicates that the majority (51.0 per cent) of FIB consumers ranked six months as their first preferred period of investment and (48.4 per cent) one year as their second preferred period of investment. It can be assumed therefore, that FIB customers tend to prefer short-term investment periods.

9.6 Media

Consumers in developing countries can more or less easily acquire information from various sources today. On the one hand there are easily accessible sources such as newspapers, brochures and personal communication. While, on the other hand, there are sources such as television, radio, posters, etc., which allow the consumer less control over the information to which he is exposed. Much available literature discusses the effects of mass communication, however, to the extent that most deal with products about which information acquisition can be expected to be frequent, this material throws little light on consumer's choices among mass communication sources in relation to the availability of services. A further consideration of this study therefore was:-

- (a) how they came to first hear of FIB, and
- (b) which media they evaluated as the most informative in terms of available services. Here, customers were asked to rank four in order of priority.

Tables 9.23 and 9.24 below set out the descriptive data relating to both these questions.

As can be seen, the majority of sampled consumers first came to hear of FIB via television (40.5 per cent), press (23.1 per cent) and word of mouth communications (19.8 per cent). The first two sources are not surprising as these have been deliberately used by the Bank in advertising campaigns. However, in developing countries in particular, often other group members act as information sources for consumers. Indeed, studies

Media	Absolute Freq.	%
T.V.	233	40.5
Press	133	23.1
Conference	19	3.3
Radio	57	9.9
Brochures	14	2.4
Word of Mouth	114	19.8
Other Medium	5	0.9

TABLE 9.23

HOW CONSUMERS FIRST CAME TO HEAR OF

FAISAL ISLAMIC BANK

N = 575

Media	Rank by Percentages			
	1	2	3	4
T.V.	46.4	31.7	9.2	7.1
Press	16.3	28.7	43.8	5.7
Conference	2.8	1.7	2.8	11.0
Radio	30.3	31.7	26.6	5.2
Brochures	1.2	2.8	12.2	54.1
Word of Mouth	2.8	3.0	4.0	14.3
Other Media	0.2	0.5	1.4	2.6

TABLE 9.24

RANKED MEDIA WHICH BEST INFORMS

N = 575

such as Summers & King (1969) [1] have shown that personal communication among consumers may be more important than any other form of communication influence. In close knit communities such as the one in which the case study was undertaken, personal influence from friends, neighbours, family members and the like are important. Often too, the trustworthiness of the source and the absence of intentions to influence the individual are important factors in such sources of information. Hence, the finding that word of mouth or personal information source is rated high among means by which consumers came to hear of FIB is also not surprising.

That customers evaluate media in different ways can be seen in Table 9.24. When asked which media best informs 46.4 per cent ranked television first, 30.3 per cent ranked radio and 16.3 per cent ranked press similarly. The findings suggest that the media by which FIB customers came to hear of the service may not also be evaluated as the best sources as one might anticipate. Indeed, while 23.1 per cent of customers came to hear of FIB via the press, only 16.3 per cent of the total sample ranked this source of information as the first best. Similarly, whilst 19.8 per cent came to hear of FIB through personal communication (word of mouth) only 2.8 per cent believed this to be a very efficient means of information acquisition. However, the data presented in Table 9.24 suggests that for this service, mass communication is a more important source

[1] Summers, J. O. and King, C. W. (1969) "Interpersonal Communication and New Product Attitude", paper presented at Conference of American Marketing Association, Cincinnati, Ohio.

of awareness than personal communication. It also appears that it should be possible to point to factors that predict the kind of information sources preferred in connection with different products or services. The fact that several FIBS consumers indicated that they first came to hear of the bank through a personal information source means that for the marketer, this is an important source in addition to mass communication. It would appear that awareness and knowledge of the Bank's existence is high although active search for information is low. Thus, advertising and promotion will probably cover proportionately more and more receptive people.

9.7 Testing of Hypotheses

In this section, each of the hypotheses is restated and then followed by a discussion of the findings that relate to the particular hypothesis.

Hypothesis (5) stated:-

A significant proportion of FIB customers buy the services of this Bank for reasons other than the desire to conform to Islamic ethics or ideologies.

Results of Factor analysis presented in Tables 9.9 and 9.10 indicated that the main reason for choosing FIB was precisely because consumers wished to buy the services of a bank established on the principles of Islam. The fact that "Islamic banking" had the highest loading on the first factor which accounted for 69.6 per cent of total variance lead the researcher to conclude the above and hence to reject this hypothesis.

Nevertheless, the battery of choice reasons factor analysed by principal components and varimax rotation yielded other principal choice reasons which were identified as customer oriented/efficiency, customer oriented and social responsibility and fair play/integrity reasons. Thus, two types of motives were recognised: those relevant to the desire to adhere to Islamic ethics/ideologies and those relevant to the attributes of the service such as efficiency. Hypothesis (5) was therefore rejected.

Hypothesis (6) consisted of four segments. These were:-

No significant relationships exist between socio-economic and demographic variables (age and occupation) and:-

- (a) types of accounts held with FIB;
- (b) the image consumers of the Bank held of FIB;
- (c) types of accounts held with other banks;
- (d) the characteristics looked for when choosing between commercial banks generally.

Tests of mutual association across the two separate bases (age and occupational status) were carried out by means of chi-square analysis, as Tables 9.25 to 9.26 illustrate.

The chi-square procedure and contingency coefficients are employed to evaluate the results of cross-tabulations. As the reader will recall from Chapter 4, in the chi-square procedure, the strength of the relationship of the cross-tabulations is reflected by the level of significance that the obtained value (computed chi-square) is due to sampling or random variations.

The lower this level of significance, the less likely the observed relationship is due to random variations. The contingency coefficient measures the degree of association for categorical data such as the cross-tabulations between age of customer and whether or not they hold a savings account with FIB, whereas the chi-square procedure tests for the existence of this association. The degree of association is greater as the contingency coefficient approaches its theoretical limit of one.

The characteristics along with computed chi-square and contingency coefficients are shown in Tables 9.25 to 9.26 below. Note that with five degrees of freedom, a chi-square value of 11.070 is required before it can be said that there are statistically significant associations between a customer characteristic and type of account with FIB, at the .05 level of probability. Similarly, a chi-square value of at least 18.307 is required when there are ten degrees of freedom and of 31.410 when there are 20 degrees of freedom, before the null hypothesis can be rejected at the 0.05 level of probability.

In the case of part (a) of Hypothesis 6 the major emphasis was to isolate associations between customer characteristics and the use of the following bank services:-

1. Personal Loan Accounts;
2. Savings Accounts;
3. Current Accounts;
4. Investment Accounts.

These four services were chosen for the following three reasons:-

1. Previous research has shown that most respondents are familiar with all these services [1].
2. Previous research has shown that most banks offer all these services [2].
3. Both direct revenue producing and customer services are represented, thus yielding a cross section of bank services.

The level of use of the services is examined from the point of view of age and occupation.

Table 9.25 below therefore shows that there is a moderately strong association between age of customer and their propensity to hold an investment account with FIB (p significant at .05 level). Although the computed X^2 statistic measuring the association between the occupational groups to which respondents belong and inclination to hold current accounts with FIB is approaching the critical value (computed chi-square = 10.376) at which one can say there is an association between the two variables at the .05 level of probability, there is no other indication that there is a significant association between occupational status and types of accounts held with FIB. This implies that FIB can increase its market via all age and occupational groups via cross-selling of services to customers, i.e. encourage new customers to open more than one account. Hypothesis 6(a) was tentatively rejected.

[1] Mason, J. B. and Mayer, M. L. (1974) "Analysing Factors that affect Banking Patronage", *Bank Administration*, 50, July 1974.

[2] *ibid.*

Similar results to that obtained above were indicated in Table 9.25(a) below which shows that there are no significant associations between age and image perceptions held by consumers of FIB services. Table 9.26(b) however, shows that significant associations exist between occupational status and consumers' tendency to hold an image of the Bank as being friendly and conveniently situated ($p < .05$) and even more significantly, between occupational status and an image of the Bank as offering efficient services ($p < .01$). Thus while hypothesis 6(a) is tentatively rejected in the direction of the demographic (age) variable, and it is accepted in the direction of the socio-economic variable (occupation), hypothesis 6(b) is rejected conclusively in the direction of the socioeconomic variable (occupational status).

In testing part (c) of hypothesis 6 one can see from the Table 9.28 that chi-square analysis yielded a significant association at the .05 level of probability between age and the tendency for consumers of FIB to also hold a savings account with some other non-Islamic bank. Thus, hypothesis 6(c) is also rejected in the direction of a demographic variable only.

Finally, hypothesis 6(d) is rejected on both demographic and socioeconomic variables. First, there is a significant association between consumers age group and pursuance of efficient services as a characteristic in any commercial bank ($p < .05$). Secondly, there is a very significant ($p < .01$) association between occupation and pursuance of efficient services and understanding of customer problems and needs when choosing between commercial banks. A less significant relationship exists

between occupation and the traits of honesty in dealings and personal services looked for when choosing between commercial banks ($p < .05$).

Overall therefore, the results of hypothesis (6) suggests that socioeconomic characteristics are better indicators than demographic characteristics of image perceptions of customers and both demographic and socioeconomic characteristics are reasonably good predictors of types of accounts held and characteristics looked for when choosing between commercial banks.

Before presenting a summary of this Chapter, it is useful to set out a summary table of results obtained in this section. This is contained in Table 9.31 below.

Characteristics Looked for	Consumer Characteristics	Computed Chi-square	Degrees of Freedom	Level of Significance	Contingency Coefficient
Efficient services	AGE	36.766	20	.0125*	.24515
Prompt cashing facilities	AGE	22.121	20	.3339	.19248
Wide Range of Services	AGE	25.336	20	.1889	.20544
High Rate of Profits	AGE	40.681	25	.0248*	.25705
Honesty in dealings	AGE	26.340	20	.1549	.20829
Regular Statements	AGE	19.109	20	.5147	.17934
Personal Services	AGE	21.013	20	.3964	.18777
Community Mindedness	AGE	13.007	20	.8771	.14873
Understanding of Customer Problems and Needs	AGE	29.583	20	.0769	.22120
Islamic Banking	AGE	21.013	20	.3964	.18777

* $p < .05$ significant association between age and characteristics looked for in choice between two commercial banks.

TABLE 9.25 (a)

SUMMARY OF BIVARIATE ANALYSIS OF DEMOGRAPHIC AND SOCIOECONOMIC CHARACTERISTICS OF CONSUMERS OF FIB
AND CHARACTERISTICS LOOKED FOR WHEN CHOOSING BETWEEN COMMERCIAL BANKS

Characteristics Looked For	Consumer Characteristic	Computed Chi-square	Degrees of Freedom	Level of Significance	Contingency Coefficient
Efficient Services	OCCUPATION	42.671	20	.0023**	.2628
Prompt Cashing Facilities	OCCUPATION	18.811	20	.5341	.1779
Wide Range of Services	OCCUPATION	27.376	20	.1250	.2131
High Rate of Profits	OCCUPATION	24.685	20	.4801	.2028
Honesty in Dealings	OCCUPATION	32.861	20	.0034*	.2325
Regular Statements	OCCUPATION	29.413	20	.0799	.2206
Personal Services	OCCUPATION	33.844	20	.0272*	.23577
Community Mindedness	OCCUPATION	28.2096	20	.1045	.21625
Islamic Banking	OCCUPATION	21.7325	20	.3552	.19084
Understanding Customer Problems and Needs	OCCUPATION	44.6191	20	.0012**	.26835

* $p \leq .05$

** $p \leq .01$

significant associations between occupational status and choice characteristics.

TABLE 9.26 (b)

SUMMARY OF BIVARIATE ANALYSIS OF DEMOGRAPHIC AND SOCIOECONOMIC CHARACTERISTICS OF CONSUMERS OF FIB
AND CHARACTERISTICS LOOKED FOR WHEN CHOOSING BETWEEN COMMERCIAL BANKS

Image Statements	Variable Characteristics	Computed Chi-square	Degrees of Freedom	Level of Significance	Contingency Coefficient
FIB courteous	OCCUPATION	20.3076	10	.0265*	.18470
FIB large	OCCUPATION	15.9480	10	.3855	.16428
FIB Islamic Bank	OCCUPATION	16.3057	10	.0912	.16606
FIB Friendly Employees	OCCUPATION	21.23946	10	.0195*	.18874
FIB Situated in Convenient Location	OCCUPATION	21.9919	10	.0151*	.19193
FIB Easy to get Loans From	OCCUPATION	16.6408	10	.0827	.16771
FIB Efficient Services	OCCUPATION	25.8544	10	.0039**	.20744
FIB Community Minded	OCCUPATION	14.5182	10	.1506	.15693
FIB Small	OCCUPATION	12.3481	10	.2624	.14499
FIB Deviates From Islamic Banking	OCCUPATION	15.6049	10	.1115	.16255
FIB Unfriendly Employees	OCCUPATION	17.26979	10	.0686	.17076
FIB Difficult to Get Loans From	OCCUPATION	13.07328	10	.2196	.14910
FIB Slow Services	OCCUPATION	14.3030	10	.1596	.15579
FIB Profit Minded	OCCUPATION	11.7403	10	.3028	.14145
FIB New Bank	OCCUPATION	11.5540	10	.3160	.14035

* $p \leq .05$

** $p \leq .01$

significant associations between occupation and image perceptions.

TABLE 9.27 (b)

SUMMARY OF BIVARIATE ANALYSIS OF DEMOGRAPHIC AND SOCIOECONOMIC CHARACTERISTICS
OF CONSUMERS OF FIB AND IMAGE PERCEPTIONS OF BANK

Characteristics	Type of Account Held with Others	Computed Chi-square	Degrees of Freedom	Level of Significance	Contingency Coefficient
AGE	Savings	14.0830	5	0.0151*	.15462
	Deposit	3.7172	5	0.5908	.08115
OCCUPATION	Savings	6.78449	5	0.2372	.10799
	Deposit	4.50384	5	0.4794	.08816

* $p \leq .05$ significant association between age and Savings accounts held with other banks.

TABLE 9.28

SUMMARY OF BIVARIATE ANALYSIS OF DEMOGRAPHIC AND SOCIOECONOMIC CHARACTERISTICS OF CONSUMERS OF FIB
AND WHETHER THEY NOW HOLD SAVINGS AND DEPOSIT ACCOUNTS WITH OTHER NON-ISLAMIC BANKS

Characteristics	Type of Account	Computed Chi-square	Degrees of Freedom	Level of Significance	Contingency Coefficient
AGE	Current	6.429	5	0.258	.1059
	Personal Loan	1.528	5	0.909	.514
	Savings	7.478	5	0.187	.113
	Investment	14.078	5	0.015*	.154
OCCUPATION	Current	10.3761	5	0.0663	.1331
	Personal Loan	6.6303	5	0.2496	.1073
	Savings	9.8812	5	0.0787	.1310
	Investment	12.5619	5	0.0278	.1462

* $p = \leq .05$ significant association between Investment A/C and Age.

TABLE 9.29

SUMMARY OF BIVARIATE ANALYSIS OF DEMOGRAPHIC AND SOCIOECONOMIC CHARACTERISTICS OF CONSUMERS OF FIB
AND TYPES OF ACCOUNTS HELD WITH FIB

Image Statements	Variable Describing Characteristic	Computed Chi-square	Degrees of Freedom	Level of Significance	Contingency Coefficient
FIB Courteous	AGE	9.759	10	0.4619	.1291
FIB Large	AGE	11.428	10	0.7217	.13960
FIB Islamic Bank	AGE	9.0336	10	0.52890	.12437
FIB Friendly Employees	AGE	8.5230	10	0.5779	.12086
FIB Situated in Convenient Location	AGE	6.9404	10	0.7311	.10921
FIB Easy to get Loans From	AGE	7.7818	10	0.6501	.11555
FIB Efficient Services	AGE	6.0424	10	0.8117	.10198
FIB Community Minded	AGE	6.3721	10	0.7831	.10469
FIB Small	AGE	6.6783	10	0.7554	.10715
FIB Deviates From Islamic Banking	AGE	6.5411	10	0.7679	.10606
FIB Unfriendly Employees	AGE	5.22499	10	0.8757	.09490
FIB Difficult to Get Loans From	AGE	10.70604	10	0.3809	.13520
FIB Slow Services	AGE	7.30611	10	0.6963	.11201
FIB Profit Minded	AGE	9.73442	10	0.4641	.12903
FIB New Bank	AGE	8.893	10	0.5423	.0879

No significant associations between age and image perceptions.

TABLE 9.30

SUMMARY OF BIVARIATE ANALYSIS OF DEMOGRAPHIC AND SOCIOECONOMIC CHARACTERISTICS
OF CONSUMERS OF FIB AND IMAGE PERCEPTIONS OF BANK

Hypothesis No.	Hypothesis Formulation	Instruments Used	Statistical Procedures Followed	Findings	Evaluation
5	A significant proportion of customers of FIB buy the services of this Bank for reasons other than the desire to conform to Islamic ethics or ideologies	Consumer Survey Questionnaire Item	Factor Analysis	"Islamic Banking" highest loading Factor 1	Reject
6	No significant relationship between: socioeconomic and demographic variables and:-	Consumer Survey Questionnaire Item	Chi-square	(a) signif. assn. between age and investment a/c (p < .05) (b) sign. assn. between image and occup. (p < .01) (c) age and type of a/c held with others (p < .05) (d) sign. assn. between occup., age and characteristics looked for (p.05) and .01)	Reject
(a)	types of accounts held with FIB				
(b)	image consumers of FIB hold of the Bank				
(c)	types of accounts held with other banks				
(d)	characteristics looked for when choosing between commercial banks				

TABLE 9.31

FAISAL ISLAMIC BANK (SUDAN) CONSUMER SURVEYSUMMARY OF RESULTS

9.8 Summary

Descriptive, univariate and multivariate analyses of FIB consumer survey indicated the following:-

- (a) the typical customer of FIB may be described as a middle aged professional male;
- (b) the findings pertaining to bank selection factors that influence the selection of FIB were drawn from the analysis of primary data from the bank's consumer survey. The bank selection factors were extracted from fifteen bank selection statements by factor analysis. Five factors were drawn forth. The percentage of variance among the original statements explained by the extracted factors was 69.6 per cent. The factors were identified as:-

- 1. Islamic banking principles choice;
- 2. customer orientation Islamic banking;
- 3. courteous and efficiency;
- 4. social orientation;
- 5. fair play/integrity.

In choosing the services of an Islamic bank, customers are aroused by particular values and perceptions of service attributes.

- (c) factor analysis of "image" characteristics give insight into the consumers functional and socio-religious image of the bank. Factor analysis yielded four factors accounting for 50.6 per cent of total variance, of which factors 1 and 2 seemed the most important. These were identified as:-

- 1. socially oriented bank philosophy image;
- 2. customer oriented convenient and efficient image;
- 3. negative institutional image, and

4. disappointing reputation image.

- (d) while on the whole the majority of FIBS consumers were satisfied with the services/performance of the Bank, factor analysis of bank image also suggest that for some customers there may be some sort of post choice conflict experienced by a small minority of customers, in that there are slight discrepancies between the perceived ideal of an Islamic bank and the reality of certain aspects of its performance.

The results of this study indicate that the Bank has two principal methods of achieving a rectification of this, for the customers loyalty will be heavily dependent upon the adherence of the Bank to the principles on which it was founded and which initiated his interest in the Bank, and secondly by maintaining the quality of service. Hence, not only efficiency, friendliness and speed must be maintained but also strict Islamic banking.

- (e) The factor analysis results indicate that the functional image of the service reflects the way the consumer perceives Islamic banking along performance and social/religious image dimensions. It reflects aspects of the service itself, and the consumers satisfaction with it. It can also be said that the image encompasses the consumer's perception of who uses the service and what kind of personality he will be expressing about himself by using it. As demonstrated by the findings, an image composed of functional and social characteristics is highly complex and multidimensional. As consumers frequently make choices based upon a few values only, this complete image is not always aroused and vary

from situation to situation. The implications for FIB of such an image will be discussed in the following chapters.

- (f) Even though some marked differences may exist among the users of FIB services, the results of this study suggest that the ability of socioeconomic and demographic criteria to discriminate among consumers image perceptions of the bank and choice criteria, are relatively limited. The evidence supports Frank's (1968) [1] conclusion:-

"for the most part socioeconomic characteristics are not particularly effective bases for segmentation".

However, results suggest that segmenting the market would place FIB in a favourable position than would treating it as a homogeneous entity in the sense that: (a) there are identifiable variations in the age characteristics of consumers and (b) media habits, (c) image perceptions of the Bank.

- (g) Customers have well defined specific needs for particular services: current accounts, savings and investment accounts.
- (h) Customers indicated that they preferred short-term investment periods.
- (i) Whilst a large number of respondents indicated that they first came to hear of the Bank via mass media a significant number also indicated that they first came to hear of the Bank via personal sources (word of mouth). There however, appeared to be no relationship between the source of first knowledge and the best perceived source of information acquisition as personal sources were not ranked among the

[1] Frank, R. E. "Market Segmentation Research: Findings and Implications" in F. M. Bass et al (eds.) *Applications of the Sciences in Marketing Management*, New York: John Wiley & Sons, Inc. 1968.

most informative source of information acquisition.

- (j) Although there appears to be awareness and knowledge of the Bank's existence for some time among consumers, knowledge and awareness of the principles on which the Bank operates are not equally discernible (mudaraba, musharaka and morabaha). Nevertheless, this further reinforces the belief in the consumer's conviction toward the very idea of Islamic banking, for even though he may not know and understand the principles on which the Bank operates, he invariably chooses to buy the services of such a Bank precisely because of the inclusion of "Islamic" in its title and the perceptions which are aroused because of such a title.

9.9 Conclusion

From the results of the above analysis of data one can briefly conclude that the salient variables with which the Islamic bank marketer must be concerned include:-

- (a) the values, motives and perceptions aroused in the choice situation;
- (b) perception of alternatives;
- (c) perception of the bank's functional and social image;
- (d) knowledge of principles on which the bank was established and operates;
- (e) post choice conflict when the bank's perceived image is not in congruence with the reality;
- (f) mass media and interaction among consumers;
- (g) personal selling via bank personnel;
- (h) demographic and socioeconomic segments.

CHAPTER TEN

RESEARCH CONCLUSIONS, IMPLICATIONS AND RECOMMENDATIONS

10.1 Introduction

This final Chapter is initiated by a review of the purpose of the study, followed by a restatement of findings from analysis of the data relating to each part of the study, implications for theory, management and finally, recommendations for an Islamic bank marketing strategy and future research in the field. The main purpose of this study was to examine and compare the marketing orientation and view of the marketing function of Islamic and "Western" banks. The study presents data on the marketing orientation of Islamic banks which is nowhere else available. To provide a basis for comparison, "Western" banks operating on interest-yielding principles and Islamic banks operating on profit-sharing principles were studied. Four major areas of interest were probed; attitudes toward the marketing concept, organisation and structure of the marketing effort, marketing functions or activities performed and perceived "outcome" of adoption of the marketing concept.

The study is important in the light of the growing numbers of Islamic banks being established throughout the Islamic and Western worlds. Indeed, predictions indicate a slow but steady growth of these banks over the next decade. [1] Hence, these

[1] Kiely, A., Bright, J., Weston, G., Londesborough, R. and Sadler, P. (1983) "New Role for Arab Banks" *A Bankers' Magazine Survey, Bankers' Magazine*, Vol. No. 1671, Vol. CCXXVII, June, pp.18-48.

institutions face increasing competition from not only traditional types of commercial banks, but also from other Islamic banks and similarly run financial organisations. A better understanding of the operations and marketing approach of Islamic banks is one positive response to possible opportunities and challenges faced by these banks.

Of the limited literature on the marketing of bank services generally, much appears impressionistic and intuitive. Numerous writers have called attention to the lack of empirical data concerning the marketing of bank services and in particular, to the feasibility of consumer models, theories and marketing strategies applicable on a worldwide basis. It was a major underlying objective of this study to provide such empirical data on the various aspects of the marketing of Islamic bank services and to add to our understanding of global or cross-cultural marketing management.

10.2 Findings and Conclusions Pertaining to Comparative Study of Islamic and "Western" Marketing of Bank Services

Univariate and factor analysis of the data from the four responding groups of banks (Islamic, Middle East "Riba" British and other Western) indicate that significant differences do exist between Islamic and "Western" banks in the areas of attitude toward the marketing concept (Hypothesis 1), the scope of activities involving components of the marketing mix (Hypothesis 2) and organisation of marketing administration (Hypothesis 3). Only on their perceptions of the contributions afforded by the adoption of the marketing concept, were there

no significant differences apparent between the said groups of banks (Hypothesis 4). Hence Hypotheses (1), (2) and (3) were rejected and (4) tentatively accepted.

Although there were discernible differences in emphasis and application, overall, Islamic banks appeared to be no less marketing oriented than Western banks.

Specific selected findings are discussed in the following paragraphs.

As in other areas of the study, following an initial test of the null hypothesis via use of analysis of variance, factor analysis was then used to construct a minimum number of dimensions underlying attitudes toward the marketing concept as measured by the Bank Questionnaire. Each resulting factor was defined as a dimension of attitude. In most cases adjectives were assigned to factors on the basis of subjective evaluation of philosophic and psychological meaning rather than by the absolute magnitude of their loadings on the factors. From this it was concluded that although there were significant differences between Islamic and Western banks regarding their attitudes toward the marketing concept, both types of bank appeared to agree to the applicability of the marketing concept in relation to services and hence all had favourable attitudes toward the concept. However, the differences were interpreted as denoting differences in attitude toward areas in which the marketing concept should have most influence and application and this was assumed to be dictated by the inherent aims and philosophical principles on which the two groups of banks were

established.

For Islamic bank respondents, factor analysis indicated that their main use of the marketing concept would be directed to the furtherance of social needs, that is, they were more socially oriented in their use of the marketing concept than "Western" banks who tended to be more overt in aiming at individual customer and profit objectives. The data therefore suggested that although there is a common base for both types of banks concerning positive attitudes toward the marketing concept, Islamic banks are not affected by the concept in the same ways as "Western" banks. To this extent it is believed that Islamic bankers are more value oriented and Western bankers more goal-oriented.

The researcher however believes that when the service offerings of Islamic banks are themselves more sophisticated and complicated, customer orientation will take on an added importance for Islamic bankers although this will not override the social value orientation. This was further indicated from the case study data to be discussed in a later section of this Chapter.

The data on scope of activities and organisation of marketing administration appeared inconsistent with the agreement expressed by Islamic bankers on the importance of the marketing concept in banking; for utilisation of the ideas involved with the concept is less indicated by Islamic bankers in these two areas. Significant differences between Islamic and Western banks were also evident in the areas of executive

influence and levels of responsibility for marketing activities. The top marketing executive in an Islamic bank is less likely to be a member of top level committees and has lower levels of responsibility for marketing activities. Top managements of Islamic banks therefore appear not to have involved their marketing personnel in the decision-making levels of responsibility to the extent that Western banks have. The explanation would seem to be based on type of organisation and differing stages of development reached by both types of banks, for it must be constantly borne in mind when interpreting the results of this study, that Islamic banks are relatively new and are being examined during what is essentially an early and transitory phase of their development. However, as they grow it is anticipated that more attention will be directed toward integration of marketing with the functions of other business.

Only for studying customer needs and buying habits and developing sales plans are the responsibilities of marketing not significantly different between the groups of banks. This suggests that Islamic banks have recognised the importance of individual customers and the role of public relations. Indeed, it confirms the view that Islamic banks are implicitly and explicitly customer oriented as they have missed no opportunity for meeting market needs of devout Moslems. However, relatively more efforts are needed here on the part of these banks.

There are significant differences between Islamic and Western banks on how each type organises and administers its marketing function. Islamic banks are less likely to have

a centralised form or organisation. Also Islamic banks are more likely to have no designated structure for the marketing effort. The general impression is that whilst Western banks have developed and use an array of formal channels through which marketing activities take place, Islamic banks have a more informal ad hoc approach to organisation. That different approaches are used cannot be denied nevertheless, overall descriptions of the organisation within both approaches appear evident.

The scope of the marketing mix activities is again significantly different between Islamic and Western banks. Islamic banks are less likely to have marketing mix activities carried out in the marketing department, even though both types of banks are equally likely to undertake such activities - whether formally or informally. In addition, Islamic banks are less likely to perform analysis in the offerings and pricing areas, especially for new offerings. Thus, the data suggests that a particularly fruitful area for analysis and development in marketing mix of Islamic banks is in the offering activity.

The promotional area is another example of significant differences between the two groups of banks. "Western" banks are more likely to handle advertising within their organisations than go to external sources. The data therefore suggests that Islamic banks suffer from the poor internal co-ordination of advertising with other aspects of the marketing mix. A finer enmeshment of advertising with other marketing functions might increase the cross-fertilisation of ideas among marketing officials and stimulate creativity within these banks conducive to

strengthening performance in the market place.

Islamic banks are also less likely to have an overall sales plan, therefore developing sales efforts appears to be another fruitful area for marketing managers of Islamic banks. For, under the marketing concept the responsibilities of a company's sales department increase vastly as both sales management and field salesmen are required to raise their sights and broaden the scope of their activity. Again, sales management must demonstrate an ability to plan and execute strategy in the field with a view toward integrating selling activity with other elements of the marketing mix. With personnel such an important part of the overall service offering, all employees must sell the bank and its offerings. Close liaison between marketing and personnel departments will therefore also be necessary. The sales manager's major duty will be to create a conducive atmosphere to growth, and to plan and co-ordinate the strategy of the sales force in such a way that advances the bank's objectives.

Though there is more marketing orientation, the marketing mix activities in Western banks appear fragmented. Consideration should be given to bringing all such activities under the jurisdiction of the marketing department. No significant differences were found between groups of banks regarding their perceptions of areas in which adoption of the marketing concept had made significant contributions to the overall performance of their banks, and Islamic and Western bankers were equally likely to indicate that adoption of the marketing concept had

made contributions in increasing organisational efficiency, providing better planning and control, improving overall bank profitability, providing better bank services, and improving the banks' competitive position. However, Islamic bankers were less likely to indicate perceived contributions in the latter two areas although this did not reach any significant level.

In summary, all these findings support the view that whilst Islamic banks have a different view of the marketing function in comparison to Western banks, they are nevertheless no less favourably inclined in their attitudes toward the marketing concept. Both hold a different interpretation of the marketing concept which is dictated largely by the principles on which they were founded and their aims. Islamic bankers may be said to be social or "value oriented" marketers while "Western" bankers can be evaluated profit and customer oriented or "goal oriented" marketers.

However, present trends in the "Western" world cast serious doubts on whether these bankers will be able to continue marketing their services without considerations of social responsibility. It is suggested for example, that Western bankers will have to lay greater stress on public affairs programmes, consumer financial counselling, consumer education, careful monitoring by bank personnel of harmful effects of proposed new products, advertising and the like. On the other hand, Islamic bank marketing will have to lay greater stress on the needs and wants of the individual consumer. Both types of banks are

thus assumed to be at different stages of an evolutionary process in marketing.

10.3 Findings and Conclusions Pertaining to Consumer Survey And Situation Analysis of Faisal Islamic Bank of Sudan

The purpose of this part of the study was to case study a "model" Islamic bank in order to ascertain basic bank characteristics, selection factors leading to the consumers' choice of this particular bank in preference to other traditional commercial banks, the socioeconomic and demographic traits of customers and finally to recommend a marketing strategy for an Islamic bank based upon the salient variables identified in this Consumer Survey.

In studying consumer choice behaviour, emphasis has been placed upon selective demand determinants rather than upon primary demand determinants. Primary demand pertains to overall demand for the given service, i.e. industry demand, whilst selective demand is for a given institution's services; here a given bank's services. This approach does not however, overlook the opportunities for stimulating a growth in overall primary demand of Islamic bank services.

It should further be noted that the study is static in the sense that it seeks to analyse only those demand determinants which now exist. No analysis is made of changing determinants and inter-relationships over time although from time to time the researcher alludes to the possibilities of such changes. Major findings of the study of consumer choice and preferences

are that Islamic bank customers have well defined needs. They mainly require the facility of current, savings and investment accounts. Only a minority, require more than two of the range of services offered by the Bank at a time.

Awareness of the objectives of Islamic banking is high although the principles on which the Bank operates are said not to have been explained or understood. Preference for such a bank precisely because of its philosophy and social value orientation is high. There was substantial consideration of what consumers looked for when choosing a bank. This of course, is a selective demand in a broad impersonal and ideal sense. The study then looked at reasons customers gave for selecting Faisal Islamic Bank of Sudan. The tables presented in Chapter Eight show traits for the ideal bank are ranked by the frequency with which they are selected, as is customers reasons for selecting FIBS. In both cases the most frequently mentioned characteristics were Islamic banking, community mindedness and efficient services. Thus, it was apparent that in offering its services the bank must not only adhere to Islamic principles, it must also present services in an effective, efficient manner.

A bank may have the best services in the world from a "rational" point of view, yet those may be perceived negatively by the market if the bank is not cognisant of its image. Here, clearly there is a force operative that attracts customers besides the obvious functional factors of facilities, services, etc., per se. This force is the bank's image. It may be called the bank's personality. The image as defined by customers

of Faisal Islamic Bank of Sudan was extremely favourable. They basically saw the bank as a social and customer oriented, efficient, friendly and courteous bank, and hence judged it on value oriented and functional dimensions. Certainly this is true with many bank services, but more so with Islamic bank services, for logic and evidence of this survey suggest that an Islamic bank is not only selling "financial services" but also a philosophy.

Because this idea is so important to customers, it can be suggested that there is an important component to be added to the marketing mix. It may be called the "Islamic institution". It includes not only the information obtainable on the services offered but also the mental image and the philosophy behind those services and the server since they are so intimately related.

The results of this study suggest therefore, that the bank is marketing a concept which in turn is marketing an institution that brings satisfaction. When it is so successful that the institution and the concept become the service, this is the ultimate in non-price competition and is pre-eminent in the market place.

Market segmentation was frequently alluded to in Chapter Eight. This usually involves a thorough market analysis by the seller and selection of these segments of the market to which he should appeal. Services are then adapted or developed to meet those segmental demands. The results of this study suggested that demographic and socioeconomic variables are of

limited use as bases for segmenting the market. It is obvious that the bank appeals primarily to the strict Moslem wishing to adhere to the tenets of Islam regarding economic relationships. However, on the basis of the results it appears that one possibility for FIB and other Islamic banks is to enlarge the age base of their market. An appeal could be made to those at the younger and older (50 years plus) ends of the age spectrum, explaining how the bank caters to people in their specific circumstances. If clear cut market segments exist special accounts could be developed and promoted. The opportunities are clearly there. Thus, much service planning and development are necessary. Promotional activity in this case would have the more subordinate role of merely informing the segmented markets of the services' existence.

There is a second area of application of promotional activity. It was found that a few of the bank's array of services were used. Although more information will have to be gathered here, two possible interpretations of this non-use seem feasible. First, is the possibility that the market for these services will never be larger than indicated, in which case some of these services might be dropped. On the other hand, and this seems more likely, some of the services may have much larger potential markets and the way to enlarge them may be via market or service differentiation. The domestic and international transfer may be used as an example. Few respondents indicated that they used this service. Thus a service differentiation policy promoting this service for segments of the market which could use it with advantage would be useful. The bank would

demonstrate to each segment how the facility is to its particular advantage to use.

It is not suggested here that a reasonable market potential does actually exist for every service presently offered by the bank. The data gathered do not provide such information. At the very least, however, the results suggest the desirability of investigating differentiation-segmentation strategies.

In summary it can be said that the findings of this study indicate that:-

(a) there are some different marketing concepts and procedures required for different types of banks however,

(b) one can apply certain concepts and procedures universally.

As such the study provides a workable hypothesis for the future study of Islamic bank service marketing. The study further aids the marketing scholar in his understanding of consumer behaviour in different cultural/religious settings for the influence of these variables as buying forces are here strengthened.

On the basis of the information gathered then, we can also determine the causal relationship between customer and Islamic bank, for there are many indications in the Survey that customers of FIBS are attracted to the bank because of its established reputation suggested merely by the title "Islamic".

The most significant finding on FIBS is that results demonstrate that Islamic bank executives attach great importance to marketing research. This represents a first step toward a

marketing orientation and is corroborated by their positive appraisal of the consumers' role in the banks existence, growth and stability and point moreover to their recognition of the necessity of researching consumer behaviour banking needs and wants.

Other findings prove the favourable attitude of bank executives toward the idea of having bank officers participate in the establishment of bank objectives. Indeed, it is essential that the bank's Sharia Board consider and approve various implications of the bank's intended policy. Thus, they approve the fact that actions of individual departments have inter-departmental implications. These findings throw further light on their attitude toward the marketing concept.

One must conclude that though partially and informally implemented, marketing has been effective for FIBS as exemplified by growth over the past three years and that the process undertaken was consistent with a limited view of the marketing concept. Partly and informally marketing oriented now, the total and formal acceptance of the marketing concept as now accepted by Western bankers, may be an evolutionary process for Islamic banks. It might therefore, be most useful at a later date, to compare the present performance of the marketing concept with performance when the full concept is formally implemented or at another evolutionary phase of the bank's marketing process.

The situation analysis of FIBS revealed that the bank is affected by a number of external forces which affect the structure, conduct and performance of its marketing strategy.

These are the "uncontrollable" variables to which the bank has adapted very well to the present date. The key implication for FIBS however, is that they must invest to keep ahead of significant economic and social changes and be prepared to adapt to changes at an accelerating rate. Indeed, as events in British banking have demonstrated, the bank that survives is the bank that is fine-tuned to its environment. Given the seriousness and suddenness of environmental changes any bank should carry on a programme of continuous analysis which some call "threat" [1] analysis, consisting of identifying, appraising and reacting to threats. Appraising the threat will involve forecasting the character and estimating the rate of progress of the expected trend or development. This will involve technological, political and cultural forecasting on a continuous basis.

10.4 Implications for Theory

This section will briefly discuss the implications of both the research findings and the whole concept of Islamic banking for the theories of consumer behaviour and the firm. The theory of consumer behaviour developed in the west essentially stresses economic rationalism and utilitarianism. Economic rationalism interprets human behaviour as being founded on, according to Weber:-

[1] Cooper, Arnold C. (1968) "Identifying, Appraising and Reacting to Major Technological Change" in *Changing Marketing Systems... Consumer, Corporate and Government Interfaces*, Reed Moyer (ed.), Chicago: American Marketing Association, pp.93-97.

"a rigorous calculation directed with foresight and caution toward economic success;" [1]

economic success being measured by the acquisition of wealth whether in terms of money or in terms of commodities. Utilitarianism concerns the maximization of utility as a sole aim of the consumer or maximization of economic acquisition as measured by a sense of money.

Commenting on both concepts Margolis [2] states:-

"At the heart of economic theory is an abstract model of rational choice. Highly idealized actors (consumers) and producers (households and firms) operate in a highly idealized setting (perfectly efficient markets) exchanging highly idealized objects (pure private goods). Each actor seeks to maximize an index known as a utility function, whose value depends on the vector (list) of goods possessed by that actor... Yet this highly artificial scheme turns out to be a powerful aid to understanding what happens in the real world, where all of its special assumptions are at best only crude simplifications. Further, this highly idealised model provides the point of departure for more realistic analyses that relax the various 'perfect' assumptions." (p.6)

The findings of this study and the concept and realities of Islamic banking, clearly demonstrates however, that departure from this idealized model is not only possible but necessary given particular social standards and cultural contexts; that many so-called general economic models are often based on a set of implicit assumptions about human motivation, behaviour and economic relationships that have little or no connection with the realities of different economies and different cultural

[1] Weber, Max (1904) *The Protestant Ethic and the Spirit of Capitalism*, New York; McGraw Hill.

[2] Margolis, Howard (1982) *Selfishness, Altruism and Rationality: A theory of Social Choice*, Cambridge: Cambridge University Press.

contexts. Consumer investigations and analyses therefore, cannot be lifted out of their institutional, social or cultural contexts.

The choice behaviour of Islamic bank customers appears to be dominated by the general desire to maximise social welfare and not in the accumulation of personal wealth, via the positive use of human capabilities and resources given by Allah. This includes the full use and exploitation of personal wealth already bestowed upon individuals by Allah. Further, the individuals involved need not be less rational than the individuals treated by economic theory, since the Islamic bank customer is, in terms of the general economic definition of rationality, behaving in accordance with a systematic set of preferences.

Consumer behaviour of Islamic bank customers can therefore be described as maximisation of success and not just of the individual but of society. The decision to seek the services of an Islamic bank, which searches out efficient ways to use resources, appears therefore, completely unrelated to the decision to hoard wealth. This is exemplified by the Islamic bank customers' decision to forego earning interest on investments in favour of profit (or loss) sharing; not profit or wealth maximisation. Rather, consumers (and Islamic institutions) are satisfied to realise a "reasonable" or "fair" level of profit.

This satisfaction to realise reasonable or fair levels of profit brings us to a consideration and application of the modern theories of "satisficing" to the consumer. According

to the theory of the firm, firms constantly scan available alternatives and ultimately choose the most profitable ones, that is, they seek to maximize profits. A number of criticisms have been put forward to this assumption [1] [2] [3], the most applicable in relation to this study, being that expounded by Professor Herbert Simon [4] who maintains that the firm's goals should not be expected to be one of maximizing profits but of attaining a certain level or rate of profit, holding a certain share of the market or a certain level of sales. He explains this as follows:-

"In most psychological theories the motive to act stems from drives, and action terminates when the drive is satisfied. Moreover, the conditions for satisfying a drive are not necessarily fixed, but may be specified by an aspiration level that itself adjusts upward or downward on the basis of experience.

"If we seek to explain business behaviour in the terms of this theory, we must expect the firm's goal to be not maximizing profit, but attaining a certain level or rate of profit, holding a certain share of the market or a certain level of sales. Firms would try to 'satisfice' rather than to maximize." (p.262-63)

It is therefore not difficult to see that the satisficing goal is appropriate for a behavioural theory of the Islamic financial institution and the customer of such an institution, who appears satisfied to maximize wealth only to a particular point after which social and moral values play a more important part in preferences. While, for example, Weston [5] argument that

[1] Solomon, *op.cit.*, p.17.

[2] Hunt, Pearson, *op.cit.* p.310.

[3] Brown, Alvin (1957) *Financial Approach to Industrial Operations*, New York: Society for the Advancement of Management.

[4] Simon, Herbert A. (1959), *op.cit.* pp.262-63.

[5] Weston, J. Fred (1966), *op.cit.* pp.14-16.

satisficing is primarily a short-run search strategy relating to the research cost of information, may be an important qualification to the theory as applied to Western firms, this is not applicable to Islamic banks, for, as stated earlier, if Islamic banks can be said to have a satisficing goal this is a long-run goal embodied in their founding aims and objectives. A further extension of the satisficing theory advanced by Richard Nelson and Sidney Winter of Yale University [1] also seems applicable to Islamic banking, although with some qualification. These writers argue that firms do not - indeed, could not - behave as profit-maximizing theory predicts, for although they accept that firms desire profits and strive for profits, they deny that firms maximize profits globally or locally. The main tenets of the argument advanced here constitutes the evolutionary theory, which shows that tradition seems to be the norm in firms' planning. Indeed, Winter speaks of firms "remembering by doing" according to repetitive routines which is a real restriction to profit maximization if firms tend to take courses of action regarding financial matters which have proved successful in the past and "play it safe" for the sake of survival. However, while this is again a tenable criticism to the profit maximization hypothesis for Western firms, in the case of Islamic institutions the motives of management to maximize profits to a fair or reasonable level though a long-term strategy, is not a "playing it safe" strategy, but is again, a strategy in the quest of other "higher order"

[1] Nelson, R. and Winter, Sidney.

objectives.

How can this be reconciled with the notion of rational, self-interested firms and individuals, which proves so potent in analysing economic behaviour? Here it is not hard to see that some departures from the conventional economic notions of utility-maximizing and profit maximizing are likely to be required.

It poses a model of rational choice in which self interest and public interest are interrelated, and as a result at least one change in the traditional economic model becomes important. This involves what might variously be called altruism or the sense of social responsibility or the sense of community which has appeared in this study as "socially responsible orientation" of Islamic banks and customers. No normative content should however be read into the concept as used here.

The notion that human beings might possess the kind of dual preference structure posited by this study is nevertheless very old, going back at least to Plato's distinction between man as a private individual and man as citizen. More recently, Harsanyi [1] proposed that each individual possess both the set of personal preferences ordinarily assumed by economists plus an additional set of preferences that concern not himself but his judgement about social welfare. Harsanyi calls this second set of preferences the individual's social welfare

[1] Harsanyi, John (1955) "Cardinal Welfare, Individualistic Ethics, and Interpersonal Comparisons of Utility", *Journal of Political Economy*, August, pp.309-21.

function (SWF).

In short, behaviour of Islamic banks and customers means that there is something real in human motivation which does not fit the conventional utility calculus that accounts for the observed behaviour. They might be said to be reaping some sort of psychic income (serving social and moral goals) in a sense that the individual feels better about himself by behaving in such a manner which brings a sense of well-being that accompanies satisfaction of one's sense of duty or doing good to please Allah.

According to Samuelson [1]:-

"Interest is the price or rental of the use of money".

It is the price at which the "producers" of money sell their "output". Indeed, the liquidity preference theory of interest justifies the charging of interest as a means whereby individuals can acquire a compensation for the sacrifice of liquidity.

As interest is prohibited in all forms under the Islamic banking framework, there is instead a partnership between capital and enterprise, which pertains to the investment account deposit in traditional banks. However, the motive of the Islamic bank customer making fixed and savings account deposits with an Islamic bank is not compensation for the sacrifice of liquidity, but a desire to afford others a part to trade-in provided that the profit is shared between both parties. Thus under the Islamic banking framework, partnership between capital and

[1] Samuelson, Paul (1958) *Economics* (4th Ed.) New York: McGraw Hill.

enterprise is achieved. Banks cease to be lenders and become partners in enterprise.

Under the Islamic framework, no-one is entitled to gain or reward without exerting a productive effort and shouldering the subsequent risk. Thus, any gain realised by any person earned without work is not legitimate. Muslims are expressly required by Koranic injunctions to "spend" without cessation and never to hoard or keep money idle. To spend in the correct manner is to spend on legitimate consumption or in productive investment, or in social welfare.

While the research findings do not provide a final answer to the question of buyer differences between Islamic and "Western" banks services, they do provide a starting point. If the conclusions are correct, the task of the marketing theorist is easier. Instead of searching for a universally applicable marketing concept and procedures for different types of services, he can focus on concepts and procedures which are appropriate to the specific organisation and cultural setting.

The concept of value oriented services and consumer behaviour, clarifies some of the inconsistencies with respect to consumer behaviour. The study findings present a more understandable picture of consumer behaviour in different circumstances and as such, provide a workable hypothesis for future studies of Islamic financial service marketing.

10.5 Implications for Management

The overall results of this study indicate some important implications for marketing management.

At the outset it can be said that although there were significant observed differences between the marketing orientation of Islamic and Western bankers, marketing know-how utilised by Western bankers can be applied to Islamic bank service marketing with significant adjustments. However, specific marketing techniques and personnel are transferrable across socio-cultural and religious lines only when adjustments are made in assumptions about consumer attitudes and behaviour, and institutional goals.

At present there is considerable controversy in the practice of marketing concerning whether or not advertising and other elements of the marketing programme can be standardised across a number of cultures or whether it must be localised for each culture. The findings of this study indicate that management generally, must be adaptive to those elements of the marketing programme that are localised and others that are standardised. Marketing strategy that is not built upon an understanding of cultural or philosophical realities will have unpredictable outcomes. [1] Thus, generally speaking, managements should give high priority to developing their ability to conduct systematic cross-border analysis, for such analysis can help in the avoidance of standardising when markets are significantly

[1] See, for example, Sommers, Montrose and Kernan, Jerome (1967) "Why Products Flourish Here, Fizzle There", *Columbia Journal of World Business*, Vol.2, pp.89-97, March-April 1967.

different and on the other hand excessive custom-tailoring when markets are sufficiently similar to render standardised programmes feasible.

Whilst the reign of the expatriate manager in Middle Eastern banks appears to be virtually over as more and more efforts are being now made to improve the depth of management in Arab and Islamic banking by organisations such as the Arab Banker's Association and the Bahrain Bankers Training Centre, which specialises in domestic banking, the results of this study indicate that more managerial skills and sophistication are required by Islamic bank management. The most striking areas of improvement are in the performance, organisation and administration of marketing activities.

Obviously, various forces impinge on management's ability to plan and control the performance of activities. Among the forces beyond its control are the internal organisational hierarchy, physical limitations, lack of materials, amounts of available finance, and the manpower situation. They are nevertheless factors which Islamic bank managers will have to give serious consideration if they are to achieve a complete interplay between the acceptance of the marketing concept and performance of marketing activities.

The application of a dynamic marketing approach within these banks will not however be easy nor can it be achieved overnight. Marketing specialists must therefore, recognise the constraints and problems which their management faces and develop their programmes and admixtures to accommodate the

needs and objectives of the bank's management.

It will be absolutely vital from the earliest stages that those directly responsible for introducing formalised marketing techniques to the bank should build up strong lines of communications with all significant levels of management and staff, for the human implications of introducing marketing techniques and the changes that these are intended to bring about over a period of time may be misunderstood or even resented unless a great deal of patience, tact, skill and understanding are exhibited by the marketing specialists.

Indeed, it is the researcher's view that the worst service that marketing, as perceived by Western bank marketers can do for these banks, which after all are steeped in religion, is to press for the introduction of new styles and systems which are likely to confuse or de-motivate managers and staff. Management must therefore be committed to the approach but at the same time not expect that line staff will immediately exhibit the same degree of commitment - especially when they do not understand it. Top management will thus, have the initial duty of motivating and educating employees.

Although consumer interest in this service appears high in Middle Eastern countries, management must indicate to salesmen that it is their function to introduce the service to the consumer rather than expect the consumer to request the service from them. In other words, management need to organise the dissemination of knowledge about the service. Whilst consumer attitudes and motivation cannot be controlled by management, they may

be stimulated and understood, and management may work within the framework of existing attitudes and motives.

Like any other body within an organisation, the marketing division requires a hierarchy of authority and a channel of communication up and down the line so that effective decision making may proceed. In addition, it needs flexibility in order to adjust and adapt to changing conditions. The results of this study indicate that the marketing manager must take a firm lead in giving other line personnel a clear statement of their specific assignments whilst permitting them to use discretion in creating additional strategy.

Life does not stand still. Neither does the state of business. To meet the conditions that may develop in the future these banks must plan ahead on the basis of current knowledge; and all planning activity begins with some kind of forecast. Forecasting is essential to the realisation of long-range objectives. According to Donald Cowan [1], the nature of management is to look forward; to forecast.

The results of this study indicate that Islamic bank management could play a more significant role in this activity for this appears essential in an ever-changing unstable economic environment. This could be achieved by the development and testing of more reliable techniques for forecasting economic and industrial growth.

[1] Cowan, Donald R. G. (1980) "Management and Business Forecasting", *Journal of Marketing*, Vol. 15, No. 2, October.

The major strength of Islamic bank management, however, appears to be committed efficiency; for the profit sharing arrangement requires continued interest of the financier in the performance of enterprise. Management examines projects and assesses productivity selecting those projects which promise the highest rate of return. Bad management seriously jeopardises the achievement of Islamic banking objectives, the chances of getting more funds and hence continuing in business. It would appear therefore, that top management of these banks have from the outset realised that research management is one of today's greatest management opportunities, whereas Western firms still appear to be slowly realising the benefits and advantages of research as a partner of management rather than an exotic phenomenon.

There is absolutely no implication here that research is a universal panacea. Some organisations admittedly, because of the restricted character of their markets, peculiar nature of their product or services, or small number of media alternatives available, require minimal and relatively infrequent investigative efforts. But they are clearly in the minority, especially in the field of financial services.

The points of view referred to in this section may be summed up very simply:-

- (i) management requires systematic descriptions of marketing goals;
- (ii) why the practices being pursued seem the best way to achieve them, and
- (iii) reliable measurements of accomplishments and potential

accomplishments.

The major implication for marketing management in the West is that on the surface, services offered by them, and especially their major services, appear standardised and indistinguishable from one bank to another. There is thus an acute need for them to consider new approaches to their marketing techniques to arrive at strategies and tactics that will communicate uniqueness and superiority.

The study supports the general view that Western banks are now implementing the marketing concept more fully than in previous years and present practices show a marked change from historical patterns. Western banks are becoming more interested in marketing research and in the use of marketing mix tools, major activity appears to be taking place in distribution and promotion, especially advertising, particularly in the household market. Might they not however use advertising more aggressively in the business market?

10.6 Recommendations for an Islamic Bank Marketing Strategy

Using the marketing-mix concept and a synthesis of the above findings, it is now possible to suggest a marketing strategy for Faisal Islamic Bank of the Sudan on serving its personal and business customers. The approach will be to use the major controllable facets of the marketing-mix as presented and discussed in Chapter Three: services, promotion, research and information, distribution and pricing.

In attempting to develop a marketing mix strategy, the

essential assumption is that all programmes or strategies will be derived from the "grand design" or overall objectives of the bank laid down by top management. The strategy thus assumes the existence of a formal corporate planning system which provides a clear statement of marketing objectives within the framework of corporate policy. It is assumed that in the short- and long-term, the guiding principle of the bank will be the maximisation of aggregate social welfare whilst performing all banking services and in the short-term at least, to achieve growth, increased share of the market, increased profitability and growth of deposits, investments and lending. It is further assumed, that primarily, Islamic bankers are concerned with meeting the needs of the market place, wherever it is located. It will be top management's responsibility, aided by inputs from the various departments, including marketing.

Every organisation needs to review its basic operations from time to time to make sure they are attuned to the changing environment and opportunities. Marketing is one of the major areas where rapid obsolescence of objectives, policies and programmes is a constant possibility. Thus, the point to bear in mind when formulating any strategy is that management may not be able to hold marketing to a set formula. On occasions the formulae must be changed to meet changing conditions and to make optimum use of resources. The results of marketing strategies will never be entirely predictable and it is extremely important that activities are monitored so that if they are not achieving specified aims they can be amended. There must, in addition, therefore, be a feedback mechanism which facilitates

a review of marketing objectives, strategies, etc.

Service Offerings

The study suggests that at present customers have specific banking needs for current account, savings and investment. As the economies of those developing countries in which most Islamic banks are now situated take an upturn however, and personal customers' needs develop in a more sophisticated direction, these needs will have to be met. For both personal and corporate customers, these banks will have to make genuine attempts to improve services, to innovate and not allow government constraints always to come first at the expense of the public.

The offering of a wide range of services under one roof, however, may not have the desired effect with non-customers entering the bank market for the first time. Indeed, from research it has been concluded that when trying to stimulate the demand of non-customers, selling the concept of a "wide range of services" may create a reaction of complexity and confusion. Only when customers become more sophisticated and have a deeper experience of banking can this appreciation be developed. For such customers, loyalty could be increased through cross selling of other services. For example, a customer holding only a current account can be encouraged to take an investment account.

Customers of FIBS considered such variables as efficiency and the speed with which transactions could be made, significant. To aid customers wishing to effect quick transactions, the bank could establish a quick service counter, plus related

promotional efforts, for simple transactions, especially during peak hours. This would also present the bank as a progressive, innovative institution. Obviously, these banks are striving to adhere to a philosophy. They must therefore do so in every aspect and in every element of the marketing mix. In service policy, the idea of Islamic and community minded must permeate the banking procedure.

In offering a new service, the banks must communicate the benefits to the customer in simple jargon-free terms and in considering customers unfulfilled financial needs the banks will have to engage in informal dialogue sessions with customers. These dialogue sessions could be thought of as "focus group" research. [1] For best results, the focus group on any one date would be comprised of certain kinds of people, for example, college students, newcomers to the community, local executives. Importantly, the purpose of such sessions as these would be to ask participants to focus discussion on their financial management circumstances in such a way that a creative and innovative banker can begin to see new service opportunities for the bank, and those which require deletion.

Bearing in mind that the comprehensive "product line" of financial services of the future is going to be largely computer based and computer distributed, it appears that competition in the bank services field will be distinguished

[1] See, for example, Berry, L. L. and Donnelly (1975) *Marketing for Bankers*, New York: American Institute of Banking, pp.93-117.

by both aggressive marketing and computer-based technologically oriented approaches to basic services. This will however require a major change in the philosophy of Islamic banks. For example, these banks will not be able to adhere to the traditional concept of personal, one-to-one sales and marketing efforts if they want to lead in the new, competitive era they are rapidly entering.

However, the study results suggest that customer-bank personnel contact is an important feature of banking procedure. For this reason, it is not recommended that in the short-term FIBS should install automatic cash dispensing and teller equipment in the bank before taking certain preparatory measures, as not only will such new products minimize personal contact with the customer but may also result in psychological discomfort to the customer who will be required to make major behavioural shifts. There is no denial that computer-based, technologically oriented bank service systems will in the long-term offer many opportunities to the bank. However, the bank will need to aid understanding and knowledge of how to use such new products and could do this by engaging in dialogue with customers on a formal and informal basis and where necessary, launch an educational campaign explaining the use of the advantages of such systems. Once installed, the depersonalisation effects of mechanisation and computerisation could be counteracted by instituting a cadre of "personal bankers" at some larger branches, who once given specialised training, could be on hand to give personal and professional advice, deal with routine matters, complaints and where necessary prepare the way for customers to be referred to an appropriate specialist. Such

a service would be offered free of charge and emphasised as such in the promotional literature.

In view of the expressions regarding loan periods, it is important that the bank make efforts to offer more medium and long-term loan facilities. This is an excellent case in point where imagination allows for a widening of the service offerings of the bank. More imagination might allow additional types of loans and financing arrangements to be offered to personal and corporate customers which are in line with Shariaa Code.

The Promotion Mix

In its broadest form a promotional strategy must choose and combine the proper methods. The results of this study suggest that the most important methods here are mass communication - advertising in its various forms, and personal communication. As has been stated earlier, the Islamic Bank is selling a particular image/philosophy. It is the image of a socially responsible, facilitating, supportive, efficient institution. The bank must thus develop its promotional programme around this philosophy. There is a need to promote the financial soundness and expertise of the bank through efficiency, friendliness, clarity and distinctiveness. Aside from a Public Relations Agency, suitable additional mediums are the bank's staff, its correspondence, its premises and its printed matter. It is therefore directly related to the personnel function, to recruitment, training and supervision. It is a combination of all these factors which will provide persuasive communication in marketing the services of this bank.

Persuasion can be achieved by:-

1. Providing information re existence of the service and the underlying principles.
2. Stimulating interest.
3. "Proving" a point as to the merit/superiority of this form of banking.
4. Answering charges and objections (particularly regarding deviating from Islamic banking).
5. Conciliating the suspicious or sceptical.
6. Arousing want/need.
7. Stimulating action.

In order to achieve the above, the bank must establish contact and communicate with the customer/potential customers as via this approach even non-Moslems can be persuaded to change attitudes.

Promotion should in every way emphasise the social and individual interest in bank services, especially along the lines of personalised interest. Face to face discourse can easily be supplemented by the mass media.

When a lack of understanding exists, as was discernible from the response to questions asked about the principles of modaraba, musharaka, and morabaha, repetition is possible and more basic information can be presented. In appealing to both individual and commercial customers, it can be initially presumed

that selected printed media in addition to radio and T.V. should be used. A more individualised approach is also possible by use of special market and industry-oriented publications. Mass media and personal selling in combination are mutually reinforcing. Taken together the appeal is both diversified and intensified.

At present there is already a small publication presented by FIBS but the appeal concentrates on the banks' historical development, its size and status in the banking community. It does not suggest reasons why individual or local businessmen should deal with this particular bank, or the benefits they would derive from doing so. Specific suggestions for advertising or personal selling appeal could include the following:-

1. Emphasise the importance of profit-sharing and the benefit the individual and community will gain by dealing with this bank.
2. Emphasise the bank's service to individual customers, firms and businesses.
3. Stress service to firms/businesses in terms of numbers served, number of loans made, number and type of customers serviced in a given period, number of mistakes not made in relation to number of business transactions.
4. Develop the supportive theme by offering and elucidating a complete range of financial and management consulting services.

5. Be more specific regarding location. Stress increase in the number of planned branches, e.g. "further branches are planned at Gezira and Omdurman to ensure that no individual or firm will be more than ... kilometers away from a branch" and "at each branch, the following services will be found..."
6. Much more effort could be devoted to the "expert" on hand for particular types and needs of customers, e.g. the "student expert" and "the cotton industry expert", or the "agriculture expert".

FIBS has already established branches at the main university campuses and this is a good marketing strategy. Student accounts of course, won't support a bank, but today's student is much more affluent than the student of earlier decades. To boost sales to this group of customers the bank could place portable marquees at entrances to campus during registration to inform new students of the services of FIBS.

Further efforts to draw people to the bank could be made by, for example, exhibiting paintings, providing exposure for artists and a cultural channel for the community. Such promotional strategies will attract people to the bank and reinforce the idea that the bank supports the citizens.

It has been pointed out earlier that a main task for Islamic bank management is the opening up of new innovative opportunities for profitable profit-sharing engagements. To aid this process, the bank could better acquaint local entrepreneurs with the services of the bank. They could, for

example, be invited on a Friday afternoon to a luncheon programme with officers of the bank. Talk could centre on items of interest to the guests but any questions concerning services offered by the bank and how an organisation goes about presenting a project to the bank, could be answered.

Public relations skills are not easily acquired of course, and in some cases the bank may have to recruit expert outside help; give platform and media training to senior management and ensure press releases and other literature are thoroughly professional.

There is indeed, a need to encourage and foster regular personal contact at all levels with those who influence public opinion - that is, national and local government representatives, industrial leaders, civil servants, journalists and consumer group leaders. Too often indeed, it is forgotten that government is a major bank customer. At the state level, this includes housing authorities; hospitals; courts; universities; motor vehicle taxes; motor fuel taxes and others. Locally, its counties, cities, townships, villages, sanitary districts, airport commissions and many others. Here again, the leading effort of the bank in explaining to government bodies how the bank can help them, will be personal salesmanship. It should be a very important part of the promotion programme. Folders and other descriptive material may, for example, be distributed to school districts or education authorities telling them how the bank provides the various services available to them.

In brief, keeping the bank in mind will be one of the principal purposes of publicity. It should be planned publicity and not a reaction to something that has happened. Bignational accounts can be won by good publicity in the national magazines. For example, if the bank can publish a sound article on the economics of the region or a new way of handling some operating problem or foreign trade financing, corporate treasurers will be impressed and keep the bank in mind.

Finally, the study indicates that word of mouth recommendation is an extremely important marketing stimulus. Branch staff have an opportunity to actively penetrate groups of families and friends via existing customers. In selling personally to customers, the development of selling skills is profitably employed because it increases the productivity of a very costly resource - staff - at comparatively little extra cost. This does, however, mean that staff will have to be highly motivated and well-trained in the art of personal selling. The projection of the bank's image via its personnel is so important that once it is aware of its image, the information can be woven into management training programmes and sales training programmes for customer contact personnel. The common thread here will be the attitude of the branch manager and his effectiveness as a leader of the branch team. Good leadership in the promotional area is an essential requirement. Staff can further be motivated if they have a good knowledge of the range of bank services and how they compare with the parallel services offered by competitors.

Distribution

A bank can choose from a number of channels to deliver its services: from a single office, or from branches, from its own mobile representatives, from specialist agents, direct mail, or a combination of these. British market research indicates that competition by location is of comparable attraction to the customer as competition by price and in the banking industry, it is a well known fact that locational convenience is of prime importance to the customer.

The study results indicated that consumers believed that the present locations of FIBS were conveniently situated. Indeed, the continued growth of this bank appears to be dependent upon the development of additional service packages as well as construction of new branches to tap new markets. Locating branches to meet convenience is paramount for every growing bank. Though FIBS has already established several branches in the main cities and districts, plans are afoot to extend their branch network. Bearing in mind that banking is essentially a convenience business, the following guidelines can be offered for locating new bank branches.

The first task will be to define a trading area which would be effectively served from the proposed bank office. Several techniques exist for defining a service area. One such method is the method of limiting factors. In this case, the question to be answered is "what factors would limit the attraction of the proposed bank office?" Such factors might include: natural barriers, such as rivers, large parks, etc., man-made barriers typified by major streets, highways, etc.

In addition, alternative retail magnets, particularly those which also include commercial banks, tend to limit the draw to a proposed branch. In this case one would have to exercise great caution and judgement to determine whether the other retail areas are indeed of comparable or greater size or diversity than the one in which the branch would be situated. Socio-economic factors will also tend to limit the draw of particular banking office.

In determination of the market area, an enlarged map should be used to show as much detail as possible. The outer edges of the area which a new branch proposes to serve should be outlined clearly. All competing banks located within the area should be shown on the map. In addition, the map should indicate those banks that are outside the area but which also would compete for the area's deposits. Business, residential, and industrial areas should be designated. Major streets or highways and all other kinds of limiting factors should be noted, as these would have considerable effect on how many customers could be drawn from a given area. Other factors of key importance would be future development plans for these areas.

Data which will be necessary and should be gathered include:-

Population factors - i.e. trading area population, rate of population change, the change in number of households or businesses in the area per year. Has the population of the service area increased, decreased or remained the same during

the last decade?

Economic factors - sometimes the per capita income for the area may be computed, commercial statistics, number of major firms, etc.

Demographic factors - average household size, information about major competitors such as number of bank offices per 1,000 people, specific characteristics of each competitor bank in the service area (general attitude in the community toward these existing banks, age of branch, etc.)

Comparative data - proximity of the existing banks to the sites proposed for a new branch; comparative surrounding road pattern; comparative range of services; comparative facilities (parking, etc.); anticipated new competitive moves.

Site attributes - the traffic pattern, on an enlarged map of the trading area, all major streets and parking facilities should be marked. Attention must be paid to plans for highway construction and for creating one-way streets or establishment of municipal parking lots. It ought not to be neglected to look at the public transport available and the routes. The general attitudes in the trading area towards Islamic banking in general and more especially towards the location of a new branch.

Once the trading area has been defined and the relevant decision variables are known, data can then be collected on the basis of which a forecast of the deposit potential of the new branch can be made.

Once established, the performance of a new branch should be monitored to evaluate current performance and remedial actions pinpointed. Marketing support will have also to be provided, and the effectiveness of a new marketing campaign evaluated. Having undertaken a thorough study of proposed areas for new branches along the suggested lines, making proper allowances for local conditions, evaluating current performance, and providing marketing support, it is unlikely that management will make wrong decisions. Where it has been found that wrong decisions have been made, management will have to be courageous enough to admit it and re-locate unsuccessful branches.

Locational convenience is not the only consideration however, convenience can also extend to times of opening, procedural areas, opening accounts, making deposits, adjusting mistakes, receiving advice on banking procedures, etc. There are other methods of distributing the bank's services than via the branch network: using representatives or agents, for example, in making arrangements with retailers to provide post-sale credit as in the case of the bank credit cards, or merely payment facilities may be made available to the customer throughout the opening period of the retailer, rather than solely branch banking hours.

In any event, not all branches will be able directly to provide the full range of bank services. Not all need to. An agricultural finance service will probably have little demand at a branch located on a housing estate or a university campus. In brief, the methods by which the bank will distribute its

services will depend on the location of its branches, the location of its customers and the nature of the services themselves. The method for a particular service has to be determined considering each of these factors.

The writer, however, suggests that branch banks should be established in suburban areas. Within these areas, the preferred locations are either in area shopping centres or in commercial business/academic districts both of which are close to home/office/place of study/shopping facilities. The bank should establish branches in new residential areas as they open up (e.g. the housing complex planned for Sudanese nationals returning from working abroad), so that present customers who move into these developments can maintain their relationship with the bank as well as attract additional customers located in these residential areas.

The new branch banks should be tailored to the needs of the locality. A pleasant banking environment is essential and could be achieved through attractive buildings (interior and exterior), friendly, helpful employees and management.

Another approach could be to have the national branch network divided into geographical areas, each of which could contain a central area office, together with a number of satellite or service branches grouped around it. The service branches could report to the area office where the area manager and his management team are located. But in addition to this, the two types of office would perform different functions, and, in particular each cover a clearly defined segment of

the overall business of the area.

The corporate business which is obviously the most important here, could be handled by the management team at area office. The fact that a team of managers is available rather than just a single branch manager means that a higher standard of service could be offered to the commercial sector. Closer links could be achieved via the promotional strategies already mentioned with every businessman in the area, which, in turn, will give rise to a greater number of marketing opportunities and the provision of a higher level of professionalism and skill.

This would leave the service branches to concentrate on the personal customer, transmission of payments business and other related services. Thus, a specialist service could also be offered to the personal customer, since the service branch manager will be available to deal exclusively with the financial needs of the private individual. Therefore, personal and business customers will be divided into two quite different sections requiring them to report for their financial advice and support to two different locations. Such a reorganisation would benefit the bank because of the more efficient ways in which personnel could be deployed, and enhance its chances of obtaining a greater market share of both business and personal accounts.

Marketing Research and Information

As pointed out in Chapter Three, marketing research and information essentially entails 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. They are a direct means of reducing risks associated with managing the marketing mix and long-term marketing planning. In other words, the need for marketing research and information is tied to uncertainty in the decision-making process.

This study indicates that FIBS management is already quite committed to the use of research and information as an aid to decision making. Thus, the following few recommendations are made whilst emphasising that marketing research and information can only provide a more empirical background upon which judgements are made; they are not a substitute for creative marketing mix strategies.

In instigating research, it is crucial for the bank to be sure of the problem(s) that the research is designed to resolve; that data relevant to the problem(s) is accessible; and that this data is capable of deriving answers to specific questions that will enhance the bank's market share, competitive advantage, growth and long-term profitability.

Figure 10.1 below is a possible representation of the research process.

The significance of research for Islamic banks cannot be overstated. Continuing and comprehensive research is the only way to obtain usable information for the marketing task for every successful marketing effort and every sound marketing decision must rest upon research. Undertaking such a process assumes the desire for a disciplined and continuous search

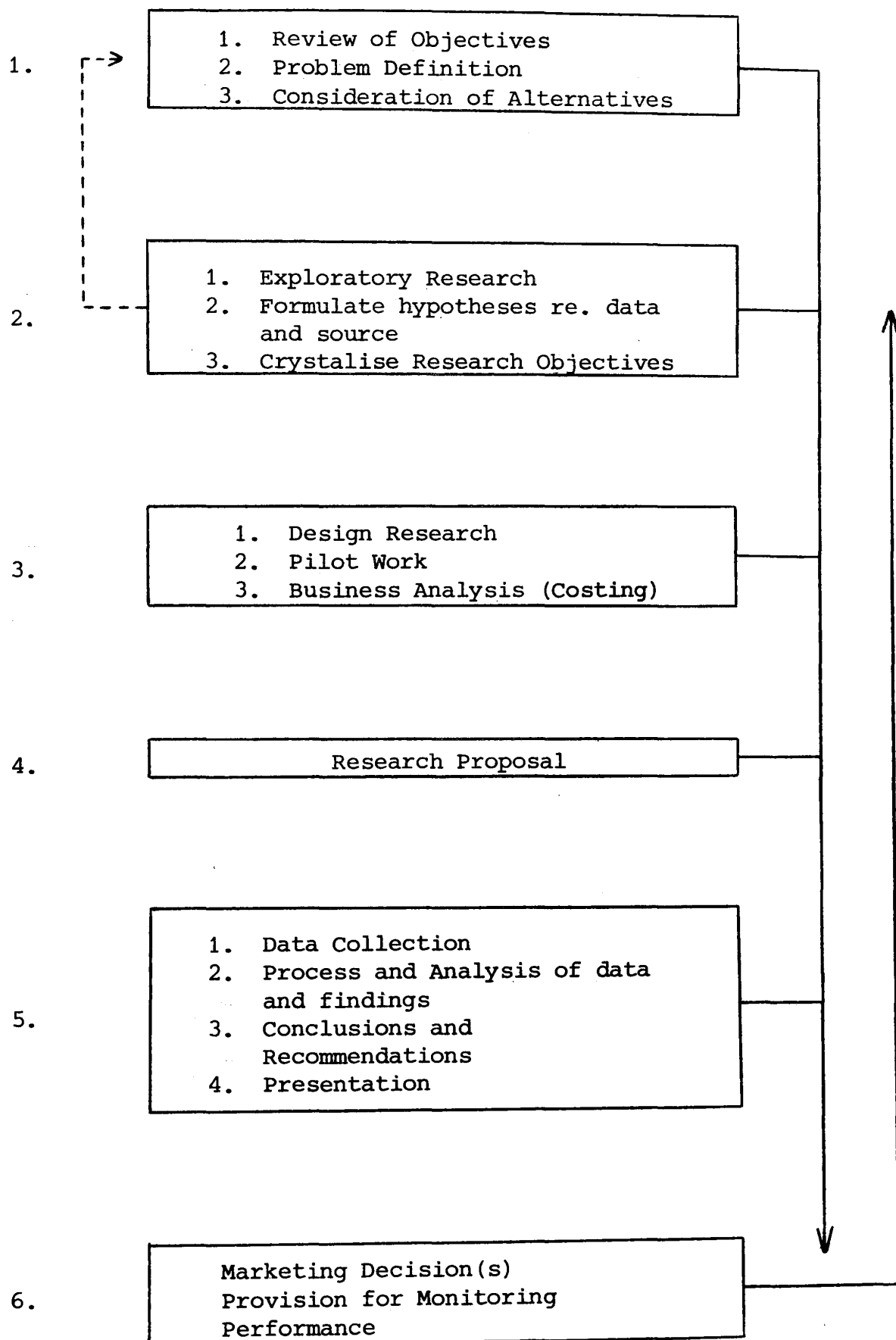


FIGURE 10.1

THE RESEARCH PROCESS AS A FLOW CHART

for new ideas and assessment of the bank's potential and actual performance, which is important to any bank, particularly in its early phases of development.

For example, under the service mix we discussed the possibility of FIBS adopting electronic funds transfer systems in the long-term. This is an area in which research into customer reactions to the concept will be vital. The research methodology could consist of focus group interviewing at the preliminary stage followed by a field experiment comparing consumer perceptions concerning the new service before and after extensive consumer education. This consumer education programme could entail a series of mail brochures discussing the problems associated with current methods and describing the electronic banking facility proposed in general and suggestions of its advantages to bank customers as well as to the industry itself.

This is thus, an example where marketing research can be undertaken in an effort to learn something reliable about a marketing problem facing management. The value of the results will depend upon the skill with which the marketing research project is designed and implemented. Other areas of use might be in learning about the marketing opportunities available within a branch's catchment area; likely future consumer needs, resources and organisational structure required to satisfy them; market share measurement/evaluation; media effectiveness; major market segments.

Pricing

Obviously, Islamic banks do not face the same problems

of pricing in terms of interest rate determination as traditional commercial banks since they do not operate on the payment or receipt of interest. They do however, face the problem of achieving profitable employment of their funds and the financing of entrepreneurial investment projects on a profit (and loss) sharing basis. Whilst conforming to legal profit margins determined by the State, FIBS' management reported in 1981 [1] that 99 per cent of its operations had realised profits, of which customers invariably take the larger portion. The bank takes different profit margins depending on types of customers, commodities and services. However, one of the main problems of implementing the profit sharing formulae is how to evaluate the element of "labour" or management contributed by the partner. At present this appears to be achieved through the formulation of some general rules of thumb relating mostly to the type of operation. It is beyond the scope of this study to consider the intricate details of this and other problems of pricing, simply because lack of specific data. It is however, suggested that more research be done on the determination of Islamic bank "pricing", and recommendations be made thereon.

Marketing Organisation

The concept of a marketing mix and its application to the development of an overall marketing strategy for FIBS has been considered. However, marketing strategies mean little unless accompanied by an organisational framework which

[1] Hamdi, Abdel-Rahim (1981) "The Operations of Faisal Islamic Bank (Sudan) Paper presented at 2nd International Conference on Islam and Banking, Geneva, Switzerland, June.

facilitates their implementation and a vigorous system of marketing administration and control.

Figure 10.2 below represents the researcher's offering on one possible way FIBS might organise its marketing activities. It assumes a marketing process comprising six marketing functions: planning and forecasting, market research and information, product development, public relations and communications, advertising and promotion, sales and sales staff training. Each of these functions would be headed by a departmental head who would report directly to the director of marketing, through whom there would be co-ordination and integration of marketing activities. The researcher also offers a job description for the Director of Marketing. In so doing, he has tried to build a foundation by defining the marketing job's structure including its objectives, authorities, responsibilities, relationships and scope. The aim has been to design a description which provides a standard for the marketing director's individual performance. The decisions involving the description are made in the light of the knowledge gained through this study. However, because the bank faces an atmosphere of constant change, it is important to point out that the recommended marketing organisation and job description will not be immutable. The relative importance of marketing activities will constantly change and the description will also change to reflect this accurately and realistically.

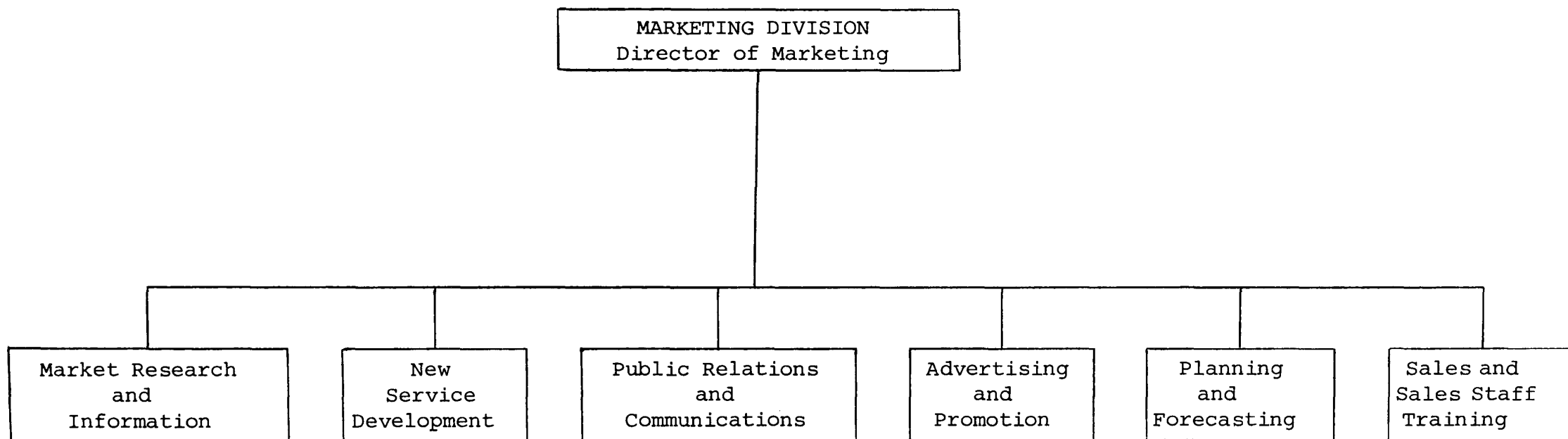


FIGURE 10.2

RECOMMENDED MARKETING ORGANISATION FOR FIBS

Recommended Job Description for Director of Marketing, FIBS

Basic Function: Responsible for efficient, profitable and socially oriented conduct of the marketing function. Develop for approval of Chief General Manager and Shariaa Board, a marketing policy and long- and short-term marketing objectives. Meet the established objectives within approved marketing budgets.

Prime Responsibilities:-

1. Sales:-

- (a) develop for approval by the chief general manager, the bank's sales objectives. Responsible for developing and implementing marketing activities to reach those objectives;
- (b) solicit new business from present personal and business customers and business prospects and develop and maintain their good relations by planning and coordinating an officer sales programme to acquire new business, assist in the solution of financial problems and explain the bank's services;
- (c) plan and implement a continuous sales programme among bank staff members for the acquisition of new business;
- (d) conduct a continuous staff sales training programme.

2. Administration:-

- (a) review and control the performance of the marketing division by evaluating its achievements against its objectives;
- (b) prepare reports on a regular basis to the chief general manager and, upon request, to the board of directors and Shariaa Board and other officers showing the bank's

competitive position and its marketing achievements as compared to the objectives;

- (c) prepare reports for officer sales programmes.

Analyse the information and make recommendations for action to be taken;

- (d) exercise the authority of a department head concerning performance ratings, employment, promotions, salary recommendations and termination of department personnel and coordinating these actions with officer in charge of personnel;

- (e) coordinate the marketing division's activities with the other departments of the bank.

3. Advertising and Promotion:-

- (a) initiate and supervise the programme;
- (b) prepare and implement the budget;
- (c) maintain constant contact with the advertising agency so that the agency's efforts are closely guided in the direction that insures its maximum contribution to the bank's advertising and promotion programmes.

4. Public Relations:-

- (a) plan, coordinate and implement the bank's public relations activities and programmes giving full consideration to the bank's image, standing with employees, shareholders, customers and the community at large;
- (b) supervise, manage and control the bank's contribution and participation in public affairs and emphasise community projects that require leadership and major

problems that require solutions;

- (c) plan and coordinate the bank's active participation in community associations, social groups and commercial organisations.

Secondary Responsibilities:-

1. Research and Information:-

- (a) responsible for developing marketing and market information, which relate to customer and social needs and marketing opportunities;
- (b) conduct a continuous research programme aimed at determining customer attitudes and preferences, the bank's competitive strengths and weaknesses and the bank's market position, ways of solving operational problems encountered when dealing with "interest-based" banks;
- (c) keep abreast of marketing developments through contact with trade and industry associations. Analyse and review their marketing reports and studies;
- (d) when deemed necessary, contract for research by outside agencies.

2. Publicity Press Relations:-

- (a) prepare news releases concerning bank events;
- (b) arrange press conferences for announcements of special events;
- (c) develop and maintain good relations with members of the press, and other media that channel news.

Relationships:-

Accountable to the chief general manager;

Act in staff capacity to other departments on marketing matters including planning, development of new services and innovation of established services;

Delegate to other department members appropriate responsibility and the corresponding authority;

May not delegate overall responsibility for results or any part of accountability.

10.7 Recommendations for Future Research

Due to unavoidable constraints of time and resources, this study merely outlines what has happened, what is happening and whilst reaching some tentative conclusions, suggests what should happen in the field of study. However, several areas of additional research became evident whilst conducting this study, which it is the researcher's regret that he was unable to carry out. He can only hope that in the list of recommended future research set out below, he has isolated some avenues which other individuals or institutions may wish to pursue.

1. Since the initiation of this study, more Islamic banks have been established in Western and Islamic countries. The study's methodology should be applied to banks in other geographical locations other than those of the participating banks for, a comparison of results would provide insight into the appropriateness of generalising these findings.

2. Since Islamic banks do not operate in a purely "Islamic" economic environment - that is, where interest has been abolished completely - but have to face competition with many conventional interest banks, especially in the loan business, a comprehensive study should be undertaken into the problems encountered by these banks from interaction between themselves and the international interest based system and recommendations made as to how these problems can be resolved.
3. The organisation and integration of the marketing effort in Islamic and Western banks need to be probed further. A starting point might be an in-depth case study of one Western and one Islamic bank. Evaluation of the successfulness of these operations and a search of reasons for the achievement of each would add significantly to the sparse body of knowledge in this area.
4. Of major interest to a marketing manager, is the loyalty of customers. A further area of needed research is a consideration of to what extent Islamic bank customers continue to purchase the services of these banks over a period of time - i.e. the degree of patronage stability which exists between customers and bank.
5. There is clearly more research required regarding the practical implications of an Islamic banking system for local and global economic development.

6. Marketing on a global or international basis has increased in importance in recent years, causing a rising concern about the policy of developing strategies and programmes that are appropriate across national boundaries. Cross-cultural marketing research is however still embryonic. Much more could be undertaken; particularly in the field of marketing of financial services.
7. There is a need to ascertain the amount of financial support (i.e. how much revenue spent) is allocated to marketing functions in both types of bank.
8. Whilst personal customer buyer-behaviour research is of importance here, more research is needed into organisation or corporate buyer behaviour - i.e. why, for example, do commercial organisations choose to buy the services of an Islamic bank and to what extent do these organisations use the services of an Islamic bank as their "lead" bank as well as the services of other traditional banks and for what services?
9. Other studies could consider the application of the marketing concept in other Islamic financial services.
10. As Islamic banks continue to increase their presence on the international banking scene, more research will be necessary into the international marketing strategies of these banks; particularly regarding marketing of the services of these banks in non-Islamic countries.

11. Research is required into the determination of Islamic banks' profit-sharing ratios, fees for services such as safe-keeping, etc.

APPENDIX A

BANK EXECUTIVE QUESTIONNAIRE



THE CITY UNIVERSITY

BUSINESS SCHOOL

Postgraduate Research Room 807
Frobisher Crescent Barbican London EC2Y 8HB
telephone: 01-920 0111 telex: 263896

20th May, 1982

Dear

May I ask you to spare some of your valuable time to tick the appropriate boxes in this questionnaire which is an integral part of a study directed towards the application of the marketing concept to the field of banking. Your response is of great importance and will be very much appreciated.

The information requested is for academic and statistical purposes only. Your individual response will not be revealed in any form.

We enclose a stamped addressed envelope for the return of this questionnaire.

Many thanks for your time and effort.

Yours sincerely

E.K. Elzubeir
Postgraduate Research Student

Postgraduate

Research Room 807

Frobisher Crescent Barbican London EC2Y 8HB
telephone: 01-920 0111 telex: 263896

For the purpose of this study, the marketing concept is defined as being a philosophy to which the organisation commits itself, namely:

Customer satisfaction at a profitable volume in an integrated, efficient framework and in a socially responsible manner.

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? (Please tick the appropriate box)

- a. Not applicable
- b. Deputy/General Manager
- c. Public Relations/Advertising Manager
- d. No formal title
- e. Other title (please specify)

Here are some statements which have been made about marketing in financial institutions. Please tick to show how strongly you agree or disagree with each one.

	<u>Strongly</u> <u>Agree</u>	<u>Agree</u>	<u>Uncertain</u>	<u>Disagree</u>	<u>Strongly</u> <u>Disagree</u>
3. Bank decisions, including marketing decisions, must be customer and profit oriented.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Bank decisions, actions and non-actions are closely related to the growth and stability of society.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Market research is used here to identify profitable market potentials.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The implementation of the marketing concept is equally important for banks selling services as for firms selling products.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Decisions made by the marketing department have an influence on decisions of all other departments.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Social responsibility should be part of the training of bank personnel.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. The marketing concept has now been adopted by most bankers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. All bank departments should not make any major decisions without consulting the marketing department.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Market research is used here to identify consumer needs and buying habits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. Does the top marketing executive report to the Chief Executive Officer? (Please tick one box)					

A. Yes ☐

B. No ☐

C. If "No", please give the title of the person to whom he reports.

13. Is your top marketing executive a member of the following:-
(Please tick all that apply)

	Yes	No
a. Not applicable	<input type="checkbox"/>	<input type="checkbox"/>
b. Executive Committee	<input type="checkbox"/>	<input type="checkbox"/>
c. New Service Planning Committee	<input type="checkbox"/>	<input type="checkbox"/>
d. General Management Committee	<input type="checkbox"/>	<input type="checkbox"/>
e. Other Committee(s) (please specify)	<input type="checkbox"/>	<input type="checkbox"/>
.....		

14. In which of the following areas has the adoption of the marketing concept made a significant contribution in your bank?
(Please tick all that apply)

	Yes	No	Uncertain
a. Not applicable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Increasing Organisational Efficiency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Providing better planning and control	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Improving overall bank profitability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Providing better bank services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Improving the bank's competitive position	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Other(s) (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
.....			

15. Please tick in the appropriate box(es) below:-

Through which channels are the following activities performed within your bank? Tick all that apply →	Not performed	Interdepartmental Staff	Marketing Committee	Headquarters Staff	Informal Relations	Periodic Meetings	Special Committee	Line of Authority	Other(s) (specify)
a. Integration of marketing activities within your marketing department									
b. Co-ordination of marketing activities with activities of other departments									

17.

Who Performs the following activities? Tick all that apply	Marketing Function	Chief Executive Officer	Not Performed	Other (please specify)
a. Recommending which new services to offer				
b. Deciding which services to eliminate				
c. Deciding whether or not to pretest different pricing strategies				
d. Collecting information on competitors prices				
e. Developing sales plans				
f. Allocating advertising budget				
g. Selecting potential location for new branches				
h. Deciding on services to be offered				
i. Studying customer needs and buying habits				
j. Forecasting economic and industrial growth				

MANY THANKS FOR YOUR KIND CO-OPERATION

IF THE ENCLOSED ENVELOPE IS MISLAID PLEASE RETURN THE QUESTIONNAIRE TO THIS ADDRESS:-

ELZUBIER K. ELZUBEIR,
POSTGRADUATE RESEARCH UNIT (ROOM 807),
CITY UNIVERSITY BUSINESS SCHOOL,
LIONEL DENNY HOUSE,
23 GOSWELL ROAD,
LONDON EC1M 7BB,
ENGLAND.



Postgraduate Research Room 807

Frobisher Crescent Barbican London EC2Y 8HB
telephone: 01-920 0111 telex: 263896

Dear

A few weeks ago, I wrote to you enclosing a questionnaire on the 'marketing of bank services' for your completion. As you might not have received that questionnaire, please find enclosed a copy, for which I hope you will spare some of your valuable time to complete.

For the accuracy of this important research, it is most essential that all respondent banks complete this questionnaire.

We hope that you will give this matter your kind and prompt attention as this piece of research might have direct implications for the marketing of bank services and may be of benefit to your bank and the banking community generally.

Thank you

Yours sincerely

E.K. Elzubeir
Postgraduate Research Student

APPENDIX B

CONSUMER SURVEY QUESTIONNAIRE

FAISAL
ISLAMIC BANK
(SUDAN)



بَنك فَيْسَل
الْإِسْلَامِي السُّودَانِي

الربيع، ١٩ /
التاسع،

6th. September, 1981

Mr. Elzubeir Khalifa Elzubeir,
43, Despenser Street,
Cardiff CF1 1BRG,
South Wales,
United Kingdom.

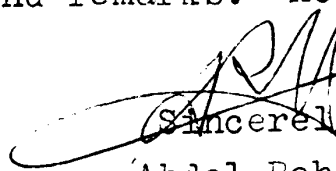
Dear Mr. Elzubeir,

Reference to your letter dated 25th. August, 1981

I am pleased to confirm that :

- (1) We are ready and willing to allow you to undertake Faisal Islamic Bank as a case study for your comperative research on Western and Islamic Commercial banking.
- (2) In this connection we are ready to supply and give access to all information needed.
- (3) Although the date of Nov., 1981 is convenient for us, yet the date and the ensuing analysis of 1981 will not be available. However, if the information of the preceding years may suit your purpose, we are ready to see you at the proposed date.

Before closing, may I take this opportunity to thank you for your most warm and kind remarks. Hoping to see you among us soon, I remain,


Sincerely yours
Abdel Rahim Hamdi
Deputy General Manager

FAISAL ISLAMIC BANK (SUDAN)

CONSUMER SURVEY

1. WHAT IS YOUR OCCUPATION/EMPLOYMENT?
(Please state below)

.....

2. HOW LONG HAVE YOU BEEN AT YOUR PRESENT EMPLOYMENT?
(Please tick one of the following boxes)

Less than one year ☐
3 to 5 years ☐

1 to 2 years ☐
more than 5 years ☐

3. PLEASE INDICATE BELOW YOUR AGE GROUP:-
(Tick one box)

18 to 29 years ☐
40 to 59 years ☐
60 to 69 years ☐

30 to 39 years ☐
50 to 59 years ☐
70 plus years ☐

4. HAVE YOU EVER HAD AN ACCOUNT WITH ANOTHER BANK BESIDES FAISAL ISLAMIC BANK?
(Please tick one of the following boxes)

Yes ☐

No ☐

5. BESIDES FAISAL ISLAMIC BANK, WHICH OF THE FOLLOWING BANKS PRESENTLY SERVE YOU?
(Please tick one or more of the following)

Khartoum Bank ☐
The Unity Bank ☐
Khartoum Commercial ☐
People's Co-operative Bank ☐

El Nilane Bank ☐
A Foreign Bank ☐
None ☐
Other (Please specify) ☐

.....

6. WHAT TYPE OF ACCOUNT HAVE YOU HAD WITH OTHER BANKS, IF ANY?

Current Account ☐
Saving Account ☐
Foreign Currency ☐

Deposit Account ☐
Personal Loan ☐
Other Account (Please specify) ☐

.....

7. FAISAL ISLAMIC BANK OFFERS A WIDE RANGE OF SERVICES, FROM THE LIST BELOW, SHOW THE SERVICES YOU ARE USING AT PRESENT:-

Current Account	<input type="checkbox"/>	Investment Account	<input type="checkbox"/>
Personal Loan Account	<input type="checkbox"/>	Savings Account	<input type="checkbox"/>
Insurance	<input type="checkbox"/>	Domestic and International Transfers	<input type="checkbox"/>
Letters of Credit	<input type="checkbox"/>	Foreign Currency Account	<input type="checkbox"/>
Collection of Bills	<input type="checkbox"/>		

8. WHAT DO YOU LOOK FOR WHEN YOU OPEN AN ACCOUNT WITH A BANK?
Indicate four things you look for, by order of preference by putting a "1" next to the most important and "2" to the second most important, and so on.

Efficient Services	<input type="checkbox"/>	Regular Statements	<input type="checkbox"/>
Prompt Cashing Facilities	<input type="checkbox"/>	Personal Services	<input type="checkbox"/>
Wide Range of Services	<input type="checkbox"/>	Islamic banking	<input type="checkbox"/>
High Rate of Profits	<input type="checkbox"/>	Community mindedness	<input type="checkbox"/>
Fairness	<input type="checkbox"/>	Understanding	<input type="checkbox"/>

9. IF YOU HAD TO CHOOSE BETWEEN TWO ISLAMIC BANKS WHAT WOULD INFLUENCE YOUR CHOICE?
Rank three things in order of importance, putting "1" next to the most important and "2" to the second most important, and so on.

High Rate of Return	<input type="checkbox"/>	Less Risky investments	<input type="checkbox"/>
Free Services	<input type="checkbox"/>	Strict Islamic banking	<input type="checkbox"/>
Wide range of services	<input type="checkbox"/>	Efficiency	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>		

.....

10. HOW LONG HAVE YOU KNOWN ABOUT FAISAL ISLAMIC BANK?
(Please indicate by ticking one of the following boxes):-

Less than one year ☐ 1 to 2 years ☐ 3 to 4 years ☐

11. WAS FAISAL ISLAMIC BANK ABLE TO EXPLAIN TO YOU THE PRINCIPLE OF MODARABA?
(Please tick one of the following boxes):-

Yes ☐ No ☐

12. WAS FAISAL ISLAMIC BANK ABLE TO EXPLAIN TO YOU THE PRINCIPLE OF MUSHARAKA?
(Please tick one of the following boxes):-

Yes ☐ No ☐

13. WAS FAISAL ISLAMIC BANK ABLE TO EXPLAIN TO YOU THE PRINCIPLE OF MORABAHA?
(Please tick one of the following boxes):-

Yes ☐ No ☐

14. DO YOU NOW UNDERSTAND THE MEANING OF MODARABA, MUSHARAKA AND MORADAHA?
(Please indicate by ticking one of the following boxes):-

Yes ☐ No ☐

15. PLEASE TICK IN ALL THE CHARACTERISTICS OF FAISAL ISLAMIC BANK FROM THE FOLLOWING LIST, THAT YOU BELIEVE IT TO HAVE:-

Courteous employees	<input type="checkbox"/>	Small	<input type="checkbox"/>	Discourteous Employees	<input type="checkbox"/>
Large	<input type="checkbox"/>	Easy to borrow from	<input type="checkbox"/>		
New	<input type="checkbox"/>	Efficient Services	<input type="checkbox"/>		
Islamic banking	<input type="checkbox"/>	Community Minded	<input type="checkbox"/>		
Friendly employees	<input type="checkbox"/>	Deviates from Islamic banking	<input type="checkbox"/>		
Convenient location	<input type="checkbox"/>	Difficult to get loans	<input type="checkbox"/>		
Slow services	<input type="checkbox"/>	Profit minded	<input type="checkbox"/>		

16. WHY DID YOU CHOOSE TO BANK WITH FAISAL ISLAMIC BANK?
(Please rank four reasons by order of priority by putting a "1" next to the most important reason, a "2" to the second most important and so on):-

High rate of profits	<input type="text"/>	Courteous employees	<input type="text"/>
Efficient	<input type="text"/>	Islamic banking	<input type="text"/>
Wide Range of services	<input type="text"/>	Community mindedness	<input type="text"/>
Other Reasons (Please specify below):-			
.....			
.....			

17. ARE YOU NOW SATISFIED WITH THE SERVICES AND PERFORMANCE OF FAISAL ISLAMIC BANK?
(Please tick one box below):-

Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
-----	--------------------------	----	--------------------------

18. IF YOU ANSWERED "NO" TO THE ABOVE QUESTION, PLEASE INDICATE THE MOST IMPORTANT DISSATISFACTION YOU HAVE WITH THE BANK:-

Slow counter services	<input type="text"/>	Discourteous employees	<input type="text"/>
Errors in accounts	<input type="text"/>	Inconvenient location	<input type="text"/>
Low rate of return	<input type="text"/>	Needed services not available	<input type="text"/>
High service charges	<input type="text"/>	Deviates from Islamic Banking	<input type="text"/>
Other reasons (please specify below):-			
.....			
.....			

19. PLEASE TICK IN YOUR PREFERRED LENGTH OF TIME*FOR INVESTMENTS

Six months	<input type="checkbox"/>	One year	<input type="checkbox"/>
Two years	<input type="checkbox"/>	Three years	<input type="checkbox"/>
Five years	<input type="checkbox"/>	Seven Years	<input type="checkbox"/>

20. WHAT DO YOU LIKE MOST ABOUT FAISAL ISLAMIC BANK?
(Please state below):-

.....
.....
.....

21. WHAT DO YOU DISLIKE MOST ABOUT FAISAL ISLAMIC BANK?
(Please state below):-

.....
.....
.....

22. HOW DID YOU FIRST HEAR ABOUT FAISAL ISLAMIC BANK?
(Please tick):-

T.V.	<input type="checkbox"/>	Radio	<input type="checkbox"/>
Press	<input type="checkbox"/>	Brochures	<input type="checkbox"/>
Conference	<input type="checkbox"/>	Friends/ relatives, neighbours	<input type="checkbox"/>

Other (Please specify below):-

.....
.....

23. THROUGH WHICH MEDIA DO YOU BELIEVE YOU ARE BEST INFORMED ABOUT SERVICES?

T.V.	<input type="checkbox"/>	Radio	<input type="checkbox"/>
Press	<input type="checkbox"/>	Brochures	<input type="checkbox"/>
Conferences	<input type="checkbox"/>	Friends/ relatives/ neighbours	<input type="checkbox"/>

Other(s) (please specify below):-

.....

APPENDIX C

INTERVIEW SCHEDULE

THE MARKETING PLANNING PROCESS
OF FAISAL ISLAMIC BANK OF THE SUDAN

Questions to FIBS top management:-

1. Does FIBS deal with the following and how?
 - (a) Identifying present and future markets for services;
 - (b) Selecting which markets to serve and identifying customer needs within them;
 - (c) Selecting long and short-term goals for the progress of existing and new services;
 - (d) Managing the services so as to persuade customers to use them.
2. Describe the typical customer or customers of Faisal Islamic Bank:-

i.e. customer categories, characteristics, motivation, loyalty, etc.
3. Please show how FIBS recognises the market segments that it faces as a commercial bank:-

i.e. differences between personal customers v international companies v foreign banks, etc.
4. What problems and opportunities are evident from examining the financial habits of your customers?
5. Rank opportunities and problems of FIBS in order of priority. This will facilitate establishing specific marketing objectives as well as the development of specific marketing strategies.
6. Where do you think FIBS is strong and where do you think it is weak?
7. Does the marketing planning process generate FIBS overall corporate objectives or are marketing objectives developed from the Bank's overall corporate objectives?
8. Are there usually any decisions made about the manner and extent of each of the following controllable marketing decisions variables? and who takes these decisions?
 - (a) product or service design;
 - (b) branching decisions and design;
 - (c) pricing;
 - (d) selling;
 - (e) communications (advertising, direct mail, brochures, etc.;
 - (f) public relations;
 - (g) merchandising;
 - (h) market research.

9. Please explain and show the significance of the following factors which might affect the planning of FIBS:-
- (a) FIBS and its Competitors
 - (i) The relative strengths and weaknesses of FIBS competitors;
 - (ii) The marketing methods of competitors;
 - (iii) Expected development of FIBS.
 - (b) FIBS Constraints
 - (i) Legal and security problems;
 - (ii) Credit or commercial risk factors;
 - (iii) Liquidity problems;
 - (iv) Credit restraint implications;
 - (v) Taxation problems.
 - (c) FIBS Strengths
 - (i) Financial resources;
 - (ii) Credit standing;
 - (iii) Commercial network;
 - (iv) Book-keeping/money transfer system;
 - (v) International resources.
 - (d) FIBS Skills
 - (i) Lending in a variety of fields;
 - (ii) General and personal financial advice;
 - (iii) Cheque processing;
 - (iv) foreign transaction handling;
 - (v) specify any other specialities.
 - (e) Institutional and Environmental Constraints Affecting FIBS' Planning
 - (i) Government directives and guide-lines;
 - (ii) Consumer protection legislation;
 - (iii) Restrictive practices legislation;
 - (iv) Social and religious constraints;
 - (v) Tax considerations;
 - (vi) Contractual arrangements.
10. Do you study potential customers' needs and requirements before approaching them or do you normally wait for potential customers to approach FIBS?
11. (a) Can you see any problems as to the future?
(b) Any opportunities for growth?
12. Is it on issues relating to the receipt and payment of interest alone that FIBS differ from the traditional Western bank?

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