Strategic marketing management: the case of Islamic banks

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Banks set up to operate in accordance with the Islamic *Sharia'h* principles have mushroomed in the last two decades. The basic difference between Islamic and non-Islamic banks lies in the fact that the former operate on an equity-participation system in which a predetermined rate of return is not guaranteed, whereas the latter's operation is based on both equity and debt systems that are driven by interest. This essential difference, resulting from the implementation of the Islamic *Sharia'h* principles, provides the incentive for Islamic bankers to search for different products/services to offer. Now the Islamic banking system is facing stiff competition not only from similar Islamic banks but also from Western banks disposed to modify their activities in accordance with Islamic *Sharia'h* principles, and is confronted with progressive forces pushing towards change. Change can be achieved by employing an effective marketing strategy. Assesses the effectiveness of marketing strategies by drawing on quantitative characteristics derived from a sample of Islamic banks from among a list of the top 100 Arab banks. Provides recommendations as to the measures to be adopted in order to improve the marketing effectiveness of the Islamic banks.

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Introduction

For the first time since the principles of Islamic finance were laid down in the Holy Quran 14 centuries ago, a global network of Islamic banks and other financial institutions started to take shape only in the 1970s. In that decade, many Islamic oil exporting countries experienced a tremendous growth in their economies following the 1973 sharp rise in oil prices. Most of the earnings from the sale of crude oil was surplus to the immediate needs of these countries for internal capital and recurrent spending. The surge of domestic capital expenditure led to an increase in the circulated currency and commercial activity.

The increase in the surplus of earnings coincided with the growth in religious fervour in many Islamic and Arab countries calling for reform and a return to basic Islamic principles. Recent examples include the emergence of fundamental Islamic movements in Egypt, Iran, Syria, Sudan, Morocco, Tunisia, Algeria, Jordan, Lebanon and Palestine. The idea of Islamic banking itself grew out of an increasing desire to conduct financial activities in accordance with Islamic *Sharia'h* principles. In this regard, Abdel-Magid (1986) indicates that the resurgence of Islamic movements resulted in three major tendencies in Islamic countries, which can be summarized as follows:

1. To call for a unified Islamic political and economic system that could have a significant impact on the patterns of international trade.
2. To create a "pure" Islamic system in Islamic countries.
3. To adopt the Islamic *Sharia'h* law as a foundation for business transactions.

Islamic banks have similarities with the non-Islamic commercial banks in that both offer similar services and play a major role in the economic development of their societies. However, unlike non-Islamic banks, Islamic banks operate within the boundaries of the Islamic *Sharia'h*, which strictly emphasizes the following in addition to the prohibition of interest:

1. Because the Holy Quran prohibits the consumption of alcohol and pork, Islamic banks do not deal with organizations trading in these products.
2. Islamic banks should avoid any form of involvement with gambling. However, it is important to recognize that this specifically relates to direct exposure to casinos, horse racing, and betting and not to the taking of business risks as in dealing with stocks and shares on the stock market.
3. Most of the banks' activities should be directed towards financing socially productive activities.

Consequently, the Islamic bank considers business operations relating to the first two issues as unholy and so seeks to avoid them. It can, therefore, be said that the purpose of Islamic banks is to employ funds in accordance with the Islamic *Sharia'h* towards the development of the societies (Islamic and non-Islamic) in which they operate. According to Siddiqui (1985), compared with non-Islamic commercial banking, Islamic banking seeks a just and equitable distribution of resources. In a non-Islamic commercial bank, if a borrower makes a loss on a project financed by a bank loan, the borrower is obliged to pay all interest due on the loan. On the other hand, if the interest rate falls and the borrower secures a high profit, other savers in the commercial bank will not benefit from such a profit. This very specific type of risk taking, which is one of the non-Islamic banking principles, is against the tenets of Islam.

Although the underlying concepts of the Islamic banking system are not similar to the non-Islamic banking system, Islamic banks face strong competition from both Islamic and non-Islamic banks. Hence, it is of paramount importance to assess the marketing effectiveness of the Islamic banks.

The remainder of this paper is organized in seven sections. Section 2 considers reasons behind the prohibition of riba (interest). Section 3 discusses the advantages of Islamic banks. In Section 4, the Islamic banking system and marketing strategy are analysed. Section 5 reviews previous studies on marketing effectiveness. Section 6 describes study

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methodology and data collection. Results are provided in section six. This is followed by the conclusion.

Reasons behind the prohibition of riba (interest)

The Quran prohibits Muslims from paying or receiving interest. The rationale behind this prohibition remains ambiguous, as the Quran itself does not articulate the specific reasons for such a prohibition. Be it as it may, however, it is evident that the concept of interest is rejected on the grounds of equity. It is the poor and the needy who are most often forced to borrow money, whereas the rich have surplus money to save. Interest, therefore, penalizes the poor and rewards the rich. Moreover, interest is seen as a predetermined percentage payable by a borrower whether profit or loss is incurred as a result of the use of the borrowed funds. What is condemned in Islam is the guaranteed (risk-free) nature of interest. Hence, Islam is concerned with the injustice in a system which divides the role of money between the provider of capital and the entrepreneur, guaranteeing the lender's return at the expense of the borrower who assumes all the risk. Thus Islam regards the accumulation of wealth through interest as a reward without productive effort, and, therefore, selfish when compared with the accumulation of wealth through hard work and personal activity. Furthermore, a powerful incentive for saving may result in under-consumption and a lack of effective demand in the economy. Saving is seen as hoarding which is prohibited by Quran as it could lead to under-consumption and idle capacity.

Advantages of Islamic banks

According to Siddiqui (1985), compared with the non-Islamic banking system, Islamic banking results in a more just and equitable distribution of resources. In a non-Islamic bank, if a borrower incurred a loss on a project financed by a bank loan, he/she will still be obliged to pay all interest due on the loan. On the other hand, if the interest rate dropped and the borrower secured high profit, other savers in the commercial bank will not be equitably rewarded. Additionally, it is often argued that the involvement of the Islamic bank in profit sharing forges closer ties between the bank and its customers, resulting in a better understanding by the bank of its customers than is reached by a non-Islamic bank. Further, interest charges may bring financial problems to borrowers. If a company is already engaged in high levels of borrowing, the consequential high interest charges may be sustainable and may produce negative implications on the company's gearing ratios. Finally, high interest rates may cause a serious problem in periods of recession, as has happened in the UK where high interest rates have forced thousands of companies out of business.

Whatever the theoretical arguments for the Islamic banking system may be, Islamic banks find themselves competing with well established conventional banks and with each other, and as competition grows tighter, a firm’s life span becomes shorter. As such, the Islamic bank should be able to mobilize its resources to achieve the necessary competitive advantage. This can be dealt with through the formation of realistic business and management strategies where management accounting can play a significant role by providing the related parties with the required information.

The Islamic banking system and marketing strategy

Although the idea of the Islamic banking system is still in its infancy, it has nevertheless attracted the attention of many investors around the world. From a strategic point of view, this could be both advantageous and disadvantageous at same time.

Being a nascent idea, Islamic banking has the potential for attracting new customers and, consequently, enhancing a bank’s market share. This phenomenon may explain the increase in the branches of some Islamic banks, e.g. the Faisal Islamic Bank which has established many branches in one country and then moved to expand to other different countries. On the negative side, however, this high potential for expansion would motivate new entrants to the industry, and, as a result, provoke stiff competition. For example, Sudan has more than six Islamic banks.

It is worth noting that very few Islamic countries employ a single Islamic banking system. In fact, most Islamic and Arab countries adopt both the Islamic and the conventional commercial systems of banking. In some cases, a conventional commercial bank may open what is called *an Islamic window*, where Islamic business activities are conducted (this can be seen in Malaysia, the Arab Bank, and City Bank in London). City Bank, for example, is in the process of negotiating with the Sudanese authorities the possibility of launching an Islamic Branch in Sudan conducting its activities in accordance with the Islamic *Sharia’h* principles. More interestingly, in an interview given to the Middle

East Broadcasting Centre TV (MBC), the Chairman of Barclays indicated that the bank intends to open branches in Saudi Arabia and other Gulf countries that comply with the Islamic *Sharia'h* principles. As a result of these developments, the Islamic banking system is expected to face competition emanating from two primary sources. The first source of competition is expected to come from the conventional commercial banks, while the second will be posed by other Islamic banks. Hence, the marketing strategy of the Islamic bank must be concerned with its ability to gaining a competitive advantage and establishing a strong competitive position.

Generally speaking, the Islamic bank is confronted with five forces of competition:

1. rivalry;
2. customer negotiating power;
3. investor and depositor negotiating power;
4. new entrants; and
5. product/service substitutes.

This requires industry and market segmentation through detailed analysis of customers and products/services. De Geus (1989) suggests that an organization can secure a competitive advantage if it has the ability to learn the future faster than its competitors. Lynch and Cross (1991) demonstrated that management in successful Japanese companies takes a balanced view of performance. While they used historic data to measure performance, such as return on investment and change in relative market share, Lynch and Cross supported their analysis with indicators related to existing strategic health, such as the rate of production innovation and the rate of improvement in operational efficiency. Thus, an effective evaluation system could enjoy two main features: being balanced; and self-corrective. To design an effective performance evaluation system, the Islamic bank can include the following aspects of performance:

1. *Islamic business ethics:* Is the bank observing the Islamic *Sharia'h* principles in conducting its activities?
2. *Customer satisfaction*: Is the bank maintaining customers' loyalty in relation to competitors?
3. *Innovation of products/services:* How well is the bank doing in innovating new products/services and exploring new markets?
4. *Financial position:* Are the banks generating enough cash and profit to secure its competitive advantage and attract new investors?
5. *Operational improvement:* How quickly is the bank improving the operation efficiency and effectiveness of its value measurement process measured by cost and time?

Previous studies on marketing effectiveness

Marketing effectiveness is a complex subject. As far as its measurement is concerned, marketing effectiveness remains one of the most under-studied areas in the field of marketing. According to Bonoma and Clark (1988); Greenley (1984), measuring organizational marketing effectiveness has remained problematic for researchers. Limited information is available from the existent body of marketing literature. However, Greenley (1987) focused on some of the major approaches to defining effectiveness which involved:

1. Analysis of the end results, which is impaired by the difficulty of determining the cause of the results and whether planning had any effects on the outcome.
2. The multi-dimensional approach, which involves examining the attributes of the planning system itself; and
3. The assumption approach, which holds that planning is of benefit merely because it is used.

In reality, all of the approaches to marketing effectiveness remain problematic, and none of them are considered to be totally satisfactory. An approach to evaluate the relative effectiveness of various decision aids in marketing practice was proposed by Wensley (1989). Breaking the decision-making process into three stages (identifying options, forecasting outcomes and evaluating outcomes) and classifying marketing problems as operational decisions or investment decision could, according to Wensley, assist marketeers. However, analysis indicates that decision aids would have limited applications in marketing.

Since marketing executives track market shape, sales volume, and profit contribution margins, a decline in these areas can cause desperate short-term activity. Such short-term actions include:

1. Raising or lowering prices suddenly; and
2. Increasing advertising or sales activity.

Although firms should keep track of such traditional marketing measures, marketers need new creative measures of marketing effectiveness to provide critical feedback about business activities. Marketers also need to monitor causal factors which lead to customer satisfaction, loyalty, retention and good financial performance.

On the other hand, marketing scholars have emphasized the need to incorporate cultural

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concepts in marketing models and selling effectiveness (Weitz *et al.* 1988), and to examine culture alongside structure to explain managerial effectiveness (Parasuraman and Deshpande, 1984). A study carried out by Dunn *et al.* (1994) examined the relationship between organizational values, corporate goals, and climate and marketing effectiveness within the manufacturing sector. The results revealed that those companies which demonstrate superior marketing effectiveness also have distinguishing value profiles and goal orientations. The findings have also demonstrated the need to develop an environment that is supportive of marketing-oriented strategies. Marketing effectiveness is related to the cultural variables of customer closeness, key corporate values and market orientation. This seems to follow the logic of both the "excellence" writers (Peters and Waterman, 1982), and the available empirical and conceptual literature (Bonoma, 1985; Deshpande and Parasuraman, 1986; and Webster, 1988).

Marketing effectiveness could also be related to the formalization of marketing in terms of the chief marketing executive responsibilities, marketing information use and explicit strategy awareness. In this connection, the prevalent argument is that the formalization of marketing in various organizational terms has both a substantive impact on effectiveness related to organizational efficiency, and a symbolic impact, representing to members of the organization those activities, values and goals considered important by the powerful (Pfeffer, 1981). Some of these studies suggest concrete management agenda to be addressed both in terms of some of the organizational variables which can be manipulated – CME responsibilities, marketing information systems and strategic awareness which should impact both directly on marketing effectiveness, and indirectly through the cultural variables of customer orientation, corporate values and market orientation. On the other hand, Dunn *et al.* (1985a) argued that successful marketing performance relies on managerial concern for both customers and employees.

In recent years, several studies have pointed to the importance of marketing to company performance, and in the UK, considerable emphasis has been placed on improving the marketing performance of small and medium-sized enterprises. Brooksbank *et al.* (1992) found that the most successful companies are those which are marketing oriented. Nevertheless, several traditional tenets of marketing are questioned by the findings, and it would seem that the traditional marketing model, as developed for large companies, is neither entirely necessary nor applicable to small companies.

The sole criterion for measuring marketing effectiveness is profitability, if improved sales performance is achieved. Expectations must be set for the outcomes attributable to the confirmation of marketing activities employed to attract business. This involves measuring sales ratios and trends (Melchinger, 1992).

Lai *et al.* (1992) examined marketing effectiveness by assessing the relative performance of companies based on responses concerning profitability, sales volume, market share, brand awareness, return on investment and coverage of market segment. The results indicated that the top performers consistently give more support than less successful companies to statements that are indicative of a genuine marketing understanding. Top performers also tend to be associated with more efficient and effective organizational structures and operating systems. They have more aggressive marketing objectives and a greater input from marketing to overall and long-term strategic planning. They are prepared to attack the whole market, to take on any competition as a calculated risk, to adopt a value-for-money positioning strategy and to be more active in product development to lead their market.

Hagborg and Mitchell (1987) have attempted to look at each input in the marketing mix and measure it in terms of the amount of budget it consumes. Another study by Bhargava *et al.* (1994) examined the multi-dimensional aspects of performance measures, specifically examining variables related to marketing effectiveness. The results confirmed earlier findings that the dimensions of performance can be mutually exclusive, leading to confusion as to the appropriate means of resolving trade-offs. Data envelopment analysis based on the performance measures allows the creation of a performance frontier that inherently recognizes the trade-offs. The model incorporating profitability, market growth, and adaptability was the cost consistent in both productive and concurrent validity checks.

Gatignon and Hanssen (1987) introduced a general class of marketing interaction models, distinguishing between market response functions and marketing parameter functions. They argued that these models can be estimated by the standard general least squares procedures on pooled time-series and cross-sectional data. Macroeconomics variables were found to play an important part, in addition to the company's decision variables, in the determination of the level of sales. An attempt to study the relationships between the marketing mix variables of a company, taking into consideration the macroeconomics setting in which that company operates has been made by Brissimis and Kioulafas (1987).

A study by Huszagh *et al*. (1992) explored whether there are differences in marketing actions and performance, between companies in the manufacturing and non-manufacturing sectors. The findings indicated that marketing decisions in the manufacturing sector show more sensitivity to macroeconomics conditions than the service sector. The manufacturing sector adjusts pricing, product and research and development strategies more extensively than do non-manufacturers. Moreover, the non-manufacturing sector showed comparatively more extensive changes in credit decisions. Both sectors agree that target markets customer service and inventory policies and tactics must be changed in response to stag-flation.

"...Innovation is generally considered vital to the survival and growth of companies. A major issue facing companies is the appropriate posture to adopt..."

Howard *et al*. (1988) conducted a study to demonstrate the design and application of the ABC measure (consumer's attitudes, brand recognition and confidence) by analysing the experience of managed cash accounts at four financial institutions. The ABC measure was developed to replace market share in the measurement of marketing effectiveness.

Unfortunately, despite the importance of assessing the effectiveness of all the marketing variables taken together so far, there are no indexes of model(s) that could be used to handle this critical aspect of marketing planning. Obviously, each industry or sector are likely to have different average values of marketing effectiveness, and, therefore, a similar measure of marketing effectiveness which reflects the average performance in the relevant industry sector should be determined if the calculated value of marketing effectiveness (ME) of a company is to be meaningful. Based on this, a standardized performance scale could be established to indicate the company's relative level of marketing effectiveness.

Innovation is generally considered vital to the survival and growth of companies. A major issue facing companies is the appropriate posture to adopt. Manu's (1993) study identified different innovative types from a sample of businesses in the PIMS database competing in European markets. Marketing strategies and performance levels were compared. Key findings from the study indicated that marketing strategy and performance effects depend on the type of innovative posture. In particular, extreme product innovativeness leads to negative financial and marketing performance but high rates of market share growth. Pioneering a market leads to superior performance, whereas late entry results in poor performance. Findings indicated that European marketing environments may not necessarily impact on innovation as a strategic orientation in a manner different from US markets.

On the other hand, in his article "From sales obsession to marketing effectiveness", Philip Kotler (1977) suggested a method for auditing marketing effectiveness. He presented the questions that should be asked in auditing the marketing effectiveness in a confirmation of five principal activities. These were: customer philosophy; integrated marketing organization; adequate marketing information; strategic orientation; and operational efficiency. This group of activities was validated by a number of recent empirical studies (Birley *et al*. 1987a, 1987b; Dunn *et al*. 1985a, 1985b). The questions would be scored and the final score would determine the company's marketing effectiveness. In his method, Kotler avoided the use of any quantitative measures, such as profitability, market shape, growth, etc. He argued that the use of these measures would undermine the true performance of the marketing division. However, the ultimate aim of performing marketing activities effectively is to boost the sales, profit or market shape of a company. A measure which attempts to assess marketing effectiveness, but lacks the perspectives on these areas, is viewed as inadequate. It is measuring the efficiency but not the effectiveness of the marketing activities. Most of the past or recent research in this subject area focuses on effectiveness of specific marketing functions, e.g. sales, advertising, promotions, marketing mix allocations, etc., as elaborated below.

Study methodology and data collection

The above review of the literature indicates a lack of consensus on the instruments to be used to assess marketing effectiveness. A notable shortcoming in the literature is a failure to link the analysis of marketing effectiveness to the banking industry. Moreover, most of the studies referred to above adopted qualitative techniques to measure effectiveness, which necessarily entails a degree of subjectivity. To avoid possible subjectivity, this study relies on quantitative characteristics. These characteristics are size, strength

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and soundness, and profitability and performance of Islamic banks. These variables represent three financial components that reflect the prime concern to investors in the equity capital of banks.

One may argue that inconsistencies in measuring performance in Islamic and non-Islamic banks may result in a misleading comparison. Although this argument has some justification, the choice in the conventional accounting measurement and disclosure (different approaches used to account for: bad debt, short-term and long-term investments, depreciation and foreign currency translation) makes consistency in measuring and reporting profit, even within conventional banks, difficult to attain. Hence, the measures employed in this study are already recognized in the literature (see for example: the Banker annual ranking of the top 100 Arab Banks; Murinde *et al.*, 1995). The Banker conducts a yearly ranking exercise to the top 100 Arab banks where Islamic and commercial banks appear on the list. Murinde, Naser and Wallace used the return on investment, as a performance measure, for a sample of Islamic and non-Islamic banks to examine whether the Islamic banks can make prudent investment decisions without the interest rate instrument.

Bank size

The bank size is measured in this study by the bank's total assets. It is assumed that larger banks are more likely to survive, everything else being equal, because they possess more flexibility in financial markets and are able to diversify credit risk. In addition, holding company affiliation enhances financial measures available to a subsidiary bank and can mitigate the cost of introducing effective marketing strategy.

An increase in the bank assets is achieved by an increase either in investment or in the bank's reported earnings, which could signal an increase in the bank operations. However, using an Islamic bank's assets without reference to the country's average bank assets might provide a misleading signal. Hence, it is important to this study to compare the Islamic bank's assets with those of other Arab banks that appear on the list of the top 100 Arab banks operating within the same country. This step is necessary in order to place the Islamic bank within the country of its operation and to identify the bank's competitive position.

Strength and soundness

Strength and soundness are measured by the bank's capital/assets ratio. Capital serves as a buffer between losses incurred by the bank and losses imposed on deposit insurance fund. In practice, there is no consensus on a safe and sound ratio. However, the individual bank's strength and sound ratio can be compared with the industry's average ratio. A capital/assets ratio equal to or more than the industry's average ratio reflects a healthy financial standing and may suggest an effective marketing strategy adopted by the Islamic bank under examination.

Profitability and performance

Profit is the lifeblood of the firm. The survival of a firm and the accomplishment of its goal are entirely dependent on its profitability. Continuous losses reduce the firm's capital, drain its assets and leave it vulnerable to the mercy of lenders and creditors.

The bank's profitability and performance ratios used in this study are measured by the reported profit, return on assets and return on capital. Strong profit enables the bank to boost its capital and signals to investors, creditors and clients that the bank is viable. Consequently, a high profit before tax (PBT)/assets or PBT/capital ratios, in comparison with the average ratios of the industry implies an effective marketing strategy.

Data collection

To identify the position of Islamic banking within the Arab banking industry, data have been collected from the bank's annual reports for the period between 1985-1994 and the Banker's annual ranking of the top 100 Arab banks. The top 100 Arab banks ranking has been used for three main reasons. First, the vast majority of the Arab countries are Muslims. Second, the creation of Islamic banks was encouraged and sponsored by Arab oil exporting countries. Third, the emergence of fundamental Islamic movements calling for reforms and a return to Islamic principles was concentrated in Arab countries. Thus, we expect that the idea of Islamic banking to be well received by Arabs. This would suggest that the Islamic banking system would have a competitive advantage over other banking systems in the Arab world.

Results

First, the study examined the number of Islamic banks that appeared on the list of top 100 Arab bank (by capital) over the last ten years. The outcome of the analysis is summarized in Table I.

The Table indicates that although all the Islamic banks that appear on the list over the period of study (ten years) were established before 1984, only the Faisal Islamic Bank of

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Table I
Islamic banks ranking out of the top 100 Arab banks

The bank	Year founded	Rank (assets) 1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Jordan Islamic Bank & Investment										80	83
Bahrain Islamic Bank											100
Al-Rajihi Banking & Investment Corp.	1983							6	6	6	6
Dubai Islamic Bank	1975						84		71	73	74
Albaraka International Bank	1982						66	59			
Qatar Islamic Bank	1983					85	95	72	79	94	87
Faysal Islamic Bank of Bahrain	1981					89	97	81		68	69
Dar Al Maal Al Islami	1981					32	29	69			
Albaraka Islamic Investment Bank	1983					84	84	76	84	82	85
Faisal Islamic Bank of Sudan	1977				99	100		100	70		
Faisal Islamic Bank of Egypt	1977	47	43	48	79	59	59	50	53	55	59
Kuwait Finance House	1977	34	36	28	42	46	46		44	42	45

Source: Annual ranking by the banker

Egypt and the Kuwait Finance House have been consistently included in the list of the top 100 Arab banks. The Table also reveals that Islamic banks had a slow start, since only two of them appear on the list of the top 100 Arab banks between 1984 and 1987. Since then, the number of banks on the list has changed, reaching a peak in 1994 when nine Islamic banks made it to the list. By all measures, this number is not significant when compared with other Arab banks.

The Table also points to the fact that after seven years very few Islamic banks qualified for the top 100 Arab banks. The inconsistency in the number of Islamic banks on the list may highlight the need for more coherent marketing strategy.

To provide an insight into the Islamic banking size within the country of operation, country analysis is conducted and reported in Table II. Each Islamic bank on the list of the top 100 Arab banks is compared with the

Table II
Country analysis in terms of size (assets)

The bank	Total assets 1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	Average
Jordan Islamic Bank & Investment									750	813	
Jordan (Total)									16,880	17,253	0.05
Bahrain Islamic Bank										348	
Faysal Islamic Bank of Bahrain					1,093	140	140	197	273	417	
Albaraka Islamic Investment Bank					328	240	221	281	147	163	
					1,421	380	361	478	420	928	
Bahrain (Total)					41,830	35,802	35,691	43,004	35,577	28,866	0.02
Al-Rajihi Banking & Investment Corp.					6,554	4,943	6,199	7,083	13,980	7,711	
Saudi Arabia (Total)					69,152	71,837	78,704	84,476	85,282	88,434	0.10
Dubai Islamic Bank						888	888	1,329	1,329	1,527	
UAE (Total)						28,679	30,029	30,604	30,452	25,694	0.04
Qatar Islamic Bank					562	562	638	638	884	876	
Qatar (Total)					4,261	4,513	4,592	5,935	6,389	6,669	0.13
Dar Al Maal Al Islami					391						
Bahamas (Total)					391						100
Faisal Islamic Bank of Sudan				160	206		334				
Sudan (Total)				160	206		334				100
Faisal Islamic Bank of Egypt	1,862	2,056	1,905	714	1,689	1,831	1,950	1,869	1,632	1,658	
Egypt (Total)	39,885	32,649	32,376	26,677	30,802	29,022	36,925	43,004	45,563	49,177	0.04
Kuwait Finance House	2,778	2,949	3,916	2,873	3,877	3,877	-------	3,877	3,874	4,273	
Kuwait (Total)	34,772	41,615	47,999	43,796	51,428	43,967		33,357	32,042	44,125	0.09

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other Arab banks on the list that operate within the same country.

It could be noticed from the Table that the size of the Islamic banking ranges from up to 100 per cent of the country's private banks assets in the case of Sudan to as small as 2 per cent in the case of Bahrain. None of the Islamic banks on the list showed steady growth in assets in comparison with the country's average private bank assets. The outcome of the analysis may emphasize the need for an effective marketing strategy to attract more users of the Islamic banking facilities as well as investors and depositors.

The strength and soundness of the Islamic banks were tested by comparing their capital with that of the country within which they operate. Details of the individual Islamic bank's capital and country's total private banks capital are summarized in Table III.

> *"…The comparison of the Islamic banks' size with the country's private banks on the list of top 100 Arab banks, revealed that the average assets of both Al-Rajihi Banking and Investment Corp. and Dubai Islamic Bank exceeded that of the country…"*

Table III reveals that the average capital reported by Al-Rajihi Banking and Investment Corporation reached 14 per cent of the country's average private banks capital. The average capital of Qatar Islamic Bank also reached a sizeable proportion of 9 per cent of the country's average private banks capital. The lowest proportion was scored by the Bahrain Islamic banks. The analysis also indicates that Islamic banks in three countries, namely, Bahrain, Saudi Arabia and Kuwait experienced continuous growth in their capital during the 1990s. Yet, none of the Islamic banks on the list of the top 100 Arab banks maintained continuous growth in the proportion of its capital to the country's private banks capital.

The profitability of the Islamic banks as well as of other Arab banks on the list of the top 100 Arab banks is summarized in Table IV.

What draws one's attention is that none of the Islamic banks on the list reported any losses over the period under investigation. In addition, the Jordanian, Bahraini, Saudi and Kuwait Islamic banks showed continuous growth in their profit.

The Islamic banks that consistently appeared on the list of 100 Arab banks were operating in seven Arab countries. Table V was prepared in order to investigate the size, strength and soundness and performance of these banks.

The comparison of the Islamic banks' size with the country's private banks on the list of top 100 Arab banks, as reflected by assets, revealed that the average assets of both

Table III
The capital of Islamic banks in comparison with other Arab banks appeared on the list of the top 100 Arab banks

	Capital										
The bank	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**Average**
Jordan Islamic Bank & Investment									56	56	
Jordan (Total)									1,213	1,351	0.05
Bahrain Islamic Bank										35	
Faysal Islamic Bank of Bahrain					48	51	55	72	85	92	
Albaraka Islamic Investment Bank					54	53	51	53	54	54	
					102	104	106	115	139	181	0.04
Bahrain (Total)					2,718	3,308	3,779	3,562	3,649	3,189	
Al-Rajihi Banking & Investment Corp.					822	812	891	943	1,017	1,091	
Saudi Arabia (Total)					5,857	5,964	5,341	6,901	8,812	9,273	0.14
Dubai Islamic Bank						62	62	85	71	74	
UAE (Total)						3,278	3,362	3,483	3,657	3,628	0.09
Qatar Islamic Bank					53	53	59	59	43	52	
Qatar (Total)					472	523	599	676	738	812	100
Dar Al Maal Al Islami					286						
Bahamas (Total)					286						100
Faisal Islamic Bank of Sudan				30	35		30				
Sudan (Total)				30	35		30				100
Faisal Islamic Bank of Egypt	46	97	98	46	109	109	109	132	132	132	
Egypt (Total)	2,385	1,885	2,209	1,393	1,455	1,000	1,941	2,156	2,282	2,630	0.06
Kuwait Finance House	115	72	159	188	175	175	–	175	197	229	
Kuwait (Total)	2,782	4,153	4,453	4,173	5,098	5,552	–	2,903	3,057	4,113	0.04

Al-Rajihi Banking and Investment Corp. and Dubai Islamic Bank exceeded that of the country (see Table V). It should be borne in mind that the Islamic banks are dominant in Sudan since the country's banking system is strictly conducted in accordance with Islamic *Sharia'h* principles. However, the findings imply that the Islamic banks may still need to go a long way before reaching the average size of the industry, which may require an effective marketing strategy.

The strength of Islamic banks is measured by capital in comparison with the country average capital of banks on the list of 100 Arab banks. Of the seven countries investigated in this study, only the capital of Al-Rajihi Banking and Investment Corp., operating in Saudi Arabia, exceeds that of country (see Table V). This lends support to the previous finding and may indicate that the Islamic banks are still at their developing stage.

The soundness of the Islamic banks is measured by the capital/assets ratio. The Islamic banks' average capital/assets ratio is compared with the average ratio of the country's banks that appear on the list of the 100 banks. It can be noted from Table V that the ratio of average capital/average assets of banks operating in Jordan, Bahrain, Saudi Arabia and Egypt exceeds that of the country. Soundness, as such, seems to be well observed in conducting the activities of the majority of the Islamic banks. The analysis of the performance of Islamic banks, measured by the ratios profit before tax (PBT)/assets and PBT/ capital, reveals that the ratios scored by banks operating in Bahrain, Saudi Arabia and Kuwait exceeded those achieved by the country in which they operated (see Table V). A summary of the study finding is reported in Table VI.

It is evident from Table VI that the Islamic banks showed success in their performance compared with the other banks that appeared on the top 100 Arab banks. What attracts attention is the fact that Al-Rajihi Banking and Investment Corporation was superior to other Arab banks in its size, strength and soundness and performance. The above analysis revealed that the Islamic banks are still in the development stage. The limited number of Islamic banks appeared on the top 100 Arab banks and unsteady growth in the banks assets and capital may imply that the demand for the Islamic banks' products is still limited. The Islamic banks are advised to adopt an effective marketing strategy taking into account competition coming from similar Islamic banks and conventional banks. On the other hand, the Islamic banks seem to have no problem in observing soundness in their investment and operation and this has been reflected through the steady reported profit.

Table IV
Profit of Islamic banks in comparison with other banks appeared on the list of top 100 Arab banks

	Profit before tax									
The bank	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**
Jordan Islamic Bank & Investment									6	8
Jordan (Total)									191	228
Bahrain Islamic Bank										4
Faysal Islamic Bank of Bahrain					0	6	1	11	11	15
Albaraka Islamic Investment Bank					<u>4</u>	<u>3</u>	<u>6</u>	<u>1</u>	<u>1</u>	<u>3</u>
					4	9	7	12	12	22
Bahrain (Total)					179	(844)	232	307	480	325
Al-Rajihi Banking & Investment Corp.					402	290	187	172	214	262
Saudi Arabia (Total)					785	677	707	1,005	1,384	1,312
Dubai Islamic Bank						8	8	85	5	5
UAE (Total)						312	339	387	461	467
Qatar Islamic Bank					15	15	9	9	9	12
Qatar (Total)					80	60	118	112	98	103
Dar Al Maal Al Islami					17					
Bahamas (Total)					17					
Faisal Islamic Bank of Sudan				1	3		7			
Sudan (Total)				1	3		7			
Faisal Islamic Bank of Egypt	8	10	10	1	13	13	6	NA	7	NA
Egypt (Total)	824	331	132	89	202	176	118	261	255	254
Kuwait Finance House	61	NA	19.3	28	114	114	–	114	131	176
Kuwait (Total)	210	250	129	175	363	310	–	(126)	456	524

Table V
Country analysis of Islamic banks' size, strength and soundness and performance

Country	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	Average
Egypt											
Size											
Islamic bank assets	1,862	2,056	1,905	714	1,689	1,831	1,950	1,869	1,632	1,658	1,658
Islamic bank rank within the country (assets)	8	7	7	6	7	6	9	7	8	8	8
Average assets – country banks appeared on the list of the top 100 Arab banks	2,436	2,720	2,698	2,223	2,369	3,225	3,077	3,584	3,797	4,471	3,051
Number of the country banks appeared on the list of top 100 Arab banks	17	12	12	12	13	9	12	12	12	11	12
Strength and soundness											
Islamic bank capital	46	97	98	46	109	109	109	132	132	132	101
Islamic bank rank within the country (capital)	10	5	6	10	4	3	8	7	7	8	7
Average bank(s) capital – country	140	157	184	116	112	111	162	180	190	239	159
Islamic bank(s) capital / assets ratio	0.02	0.05	0.05	0.06	0.06	0.06	0.06	0.07	0.08	0.08	0.06
Average capital / average assets ratio – country	0.06	0.06	0.07	0.05	0.05	0.03	0.05	0.05	0.05	0.05	0.05
Performance											
Islamic bank profit	8	10	10	1	13	13	6	NA	7	NA	9
Islamic bank rank within the Country (profit)	13	8	7	12	8	7	2	NA	8	NA	8
Average bank's profit – country	48	28	11	7	16	20	10	22	21	23	21
Islamic bank(s) profit before tax / assets ratio	0.004	0.005	0.005	0.001	0.008	0.007	0.003	NA	0.004	NA	0.005
Average profit before tax / average assets ratio – country	0.02	0.01	0.004	0.003	0.007	0.006	0.003	0.006	0.006	0.005	0.006
Islamic Bank(s) profit before tax / capital ratio	0.17	0.10	0.10	0.02	0.12	0.12	0.06	NA	0.05	NA	0.09
Average profit before tax / average capital ratio – country	0.34	0.18	0.06	0.06	0.14	0.18	0.06	0.12	0.11	0.10	0.14
Kuwait											
Size											
Islamic bank Assets	2,778	2,949	3,916	2,873	3,877	3,877	–	3,877	3,874	4,273	4,273
Islamic bank rank within the country (assets)	7	7	6	7	6	6	–	4	4	4	6
Average assets – country banks appeared on the list of the top 100 Arab banks	4,987	3,783	4,364	4,866	4,675	3,997	–	4,765	4,577	5,516	4,612
Number of the country banks appeared on the list of top 100 Arab banks	7	11	11	9	11	11	–	7	7	8	9

(Continued)

Table V

Country	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	Average
Strength and soundness											
Islamic bank capital	115	72	159	188	175	175	–	175	197	229	165
Islamic bank rank within the country (capital)	7	11	9	7	10	10	–	7	7	8	9
Average bank(s) capital – country	397	378	405	464	463	505	–	415	437	514	442
Islamic bank(s) capital / assets ratio	0.04	0.02	0.04	0.07	0.05	0.05	–	0.05	0.05	0.05	0.05
Average capital / average assets ratio – country	0.08	0.10	0.09	0.10	0.10	0.13	–	0.09	0.10	0.09	0.10
Performance											
Islamic bank profit	61	NA	19.3	28	114	114	–	114	131	176	95
Islamic bank rank within the Country (profit)	2	NA	2	2	2	2	–	2	2	2	2
Average bank's profit – country	30	28	12	19	33	28	–	(18)	65	66	29
Islamic bank(s) profit before tax / assets ratio	0.02	NA	0.005	0.01	0.03	0.03	–	0.03	0.03	0.04	0.02
Average profit before tax / average assets ratio – country	0.006	NA	0.003	0.007	0.007	0.007	–	(0.003)	0.01	0.01	0.005
Islamic bank(s) profit before tax / capital ratio	0.53	NA	0.27	0.15	0.65	0.65	–	0.65	0.66	0.77	0.54
Average profit before tax / average capital ratio – country	0.08	NA	0.03	0.04	0.07	0.06	–	(0.04)	0.15	0.13	0.07
Bahrain											
Size											
Islamic bank assets					1,421	380	361	478	420	928	665
Islamic bank rank within the country (assets)					11,6	14,16	15,17	12,15	14,12	13,8,13	13,12,13
Average assets – country banks appeared on the list of the top 100 Arab banks					2,988	2,238	2,099	2,867	2,541	2,220	2,492
Number of the country banks appeared on the list of top 100 Arab banks					14	16	17	15	14	13	15
Strength and soundness											
Islamic bank capital					102	104	106	115	139	181	125
Islamic bank rank within the country (capital)					12,14	14,15	14,15	14,11	13,10	12,9,10	13,12,10
Average bank(s) capital – country					194	207	222	237	261	245	223
Islamic bank(s) capital / assets ratio					0.07	0.27	0.29	0.24	0.33	0.20	0.23
Average capital / average assets ratio – country					0.06	0.09	0.11	0.08	0.10	0.11	0.09

(Continued)

Table V

Country	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	Average
Performance											
Islamic bank profit					4	9	7	12	12	22	11
Islamic bank rank within the Country (profit)					10,NA	6,4	13,7	12,8	14,9	12,6,11	11,7,11
Average bank's profit – country					13	(53)	14	20	34	25	9
Islamic bank(s) profit before tax/assets ratio					0.003	0.02	0.02	0.03	0.03	0.02	0.02
Average profit before tax/average assets ratio – country					0.004	(0.02)	0.007	0.007	0.001	0.01	0.003
Islamic bank(s) profit before tax/capital ratio					0.040	0.09	0.07	0.10	0.09	0.12	0.09
Average profit before tax/average capital ratio – country					0.07	(0.26)	0.06	0.08	0.13	0.10	0.03
Jordan											
Size											
Islamic bank assets									750	813	782
Islamic bank rank within the country (assets)									3	3	3
Average assets – country banks appeared on the list of the top 100 Arab banks									4,220	4,313	4,267
Number of the country banks appeared on the list of top 100 Arab banks									4	4	4
Strength and soundness											
Islamic bank capital									56	56	56
Islamic bank rank within the country (capital)									3	3	3
Average bank(s) capital – country									303	338	321
Islamic bank(s) capital/assets ratio									0.07	0.07	0.07
Average capital/average assets ratio – country									0.07	0.08	0.08
Performance											
Islamic bank profit									6	8	7
Islamic bank rank within the Country (profit)									4	3	4
Average bank's profit – country									48	57	53
Islamic bank(s) profit before tax/assets ratio									0.008	0.010	0.009
Average profit before tax/average assets ratio – country									0.01	0.01	0.01
Islamic bank(s) profit before tax/capital ratio									0.11	0.14	0.13
Average profit before tax/average capital ratio – country									0.16	0.17	0.17

(Continued)

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Table V

Country	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	Average
Saudi Arabia											
Size											
Islamic bank assets					6,554	4,943	6,199	7,083	13,980	7,711	7,745
Islamic bank rank within the country (assets)					4	5	4	5	5	5	5
Average assets – country banks appeared on the list of the top 100 Arab banks					5,317	5,131	6,559	7,040	7,107	7,370	6,421
Number of the country banks appeared on the list of top 100 Arab banks					13	14	12	12	12	12	13
Strength and soundness											
Islamic bank capital					822	812	891	943	1,017	1,091	929
Islamic bank rank within the country (capital)					3	3	2	2	3	3	3
Average bank(s) capital – country					451	426	445	575	734	772	567
Islamic bank(s) capital/assets ratio					0.13	0.16	0.14	0.13	0.13	0.14	0.14
Average capital/average assets ratio – country					0.08	0.08	0.08	0.08	0.10	0.11	0.09
Performance											
Islamic bank profit					402	290	187	172	214	262	255
Islamic bank rank within the Country (profit)					1	1	2	3	3	2	2
Average bank's profit – country					56	48	59	84	112	109	78
Islamic bank(s) profit before tax/assets ratio					0.06	0.06	0.03	0.02	0.03	0.03	0.04
Average profit before tax/average assets ratio – country					0.01	0.009	0.008	0.01	0.02	0.01	0.01
Islamic bank(s) profit before tax/capital ratio					0.49	0.36	0.21	0.18	0.21	0.24	0.28
Average profit before tax/average capital ratio – country					0.12	0.11	0.13	0.15	0.15	0.14	0.13
Qatar											
Size											
Islamic bank assets					562	562	638	638	884	876	
Islamic bank rank within the country (assets)					3	3	3	3	2	2	3
Average assets – country banks appeared on the list of the top 100 Arab banks					1,420	1,504	1,373	1,484	1,597	1,667	1,508
Number of the country banks appeared on the list of top 100 Arab banks					3	3	4	4	4	4	4
Strength and soundness Islamic bank capital					53	53	59	59	43	52	
Islamic bank rank within the country (capital)					3	3	2	2	4	4	3
Average bank(s) capital – country					157	174	150	169	185	203	173
Islamic bank(s) capital/assets ratio					0.09	0.09	0.09	0.09	0.05	0.06	0.08
Average capital/average assets ratio – country					0.11	0.12	0.11	0-.11	0.12	0.12	0.12

(Continued)

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Table V

Country	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	Average
Performance											
Islamic bank profit					15	15	9	9	9	12	
Islamic bank rank within the Country (profit)					2	2	2	3	2	2	2
Average bank's profit – country					27	28	15	28	25	26	25
Islamic bank(s) profit before tax/assets ratio					0.02	0.02	0.01	0.01	0.01	0.01	0.02
Average profit before tax/average assets ratio – country					0.02	0.02	0.01	0.02	0.02	0.02	0.02
Islamic bank(s) profit before tax/capital ratio					0.28	0.28	0.15	0.15	0.21	0.23	0.22
Average profit before tax/average capital ratio – country					0.17	0.16	0.10	0.17	0.14	0.13	0.15
UAE											
Size											
Islamic bank Assets						3,278	3,362	3,483	3,657	3,628	3,462
Islamic bank rank within the country (assets)						10	9	8	7	5	8
Average assets – country banks appeared on the list of the top 100 Arab banks						1,593	1,668	1,700	1,692	1,713	1,673
Number of the country banks appeared on the list of top 100 Arab banks						18	18	18	18	15	17
Strength and soundness											
Islamic bank capital						62	62	85	71	74	71
Islamic bank rank within the country (capital)						14	13	11	12	10	12
Average bank(s) capital – country						182	187	194	203	242	202
Islamic bank(s) capital/assets ratio						0.07	0.07	0.05	0.05	0.05	0.06
Average capital/average assets ratio – country						0.11	0.11	0.11	0.12	0.14	0.12
Performance											
Islamic bank profit						8	8	5	5	5	6
Islamic bank rank within the Country (profit)						7	8	13	15	12	11
Average bank's profit-country						0.009	0.009	0.004	0.004	0.003	0.006
Islamic bank(s) profit before tax/assets ratio						0.01	0.01	0.01	0.02	0.02	0.01
Average profit before tax/average assets ratio – country						0.13	0.13	0.07	0.07	0.07	0.09
Islamic bank(s) profit before tax/capital ratio						0.11	0.10	0.11	0.13	0.13	0.12
Average profit before tax/average capital ratio – country											

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Table VI
Summary of the outcome of the analysis

	Size		Strength and soundness		Performance	
Country	**IBZ > CAZ**	**IBZ < CAZ**	**IBSSO > CASSO**	**IBSSO < CASSO**	**IBP > CAP**	**IBP < CAP**
Jordan		√		√		√
Bahrain		√		√	√	
Saudi Arabia	√		√		√	
Qatar		√		√	√	
UAE	√			√		√
Egypt		√	√			√
Kuwait		√		√	√	
Total	2	5	2	5	4	3

Notes:

IBZ = Islamic banks' size measured by average assets

CAZ = Country private banks' size measured by average assets of banks appeared on the list of top 100 Arab banks and operate within the same country

IBSS = Islamic banks' strength and soundness measured by average capital and average capital/assets ratio

CASS = Country private banks' average strength and soundness measured by average capital and the average capital/assets ratio

IBP = Islamic bank performance measured by average profit, average PBT/assets and average PBT/capital

CAP = Performance measured by country private banks' average profit, average PBT/assets and average PBT/capital

Conclusion

For the Islamic bank to survive, it must put a coherent pattern of action to improve its long-term competitive position. Management of Islamic banks is under pressure to shift away from the tactical level to the strategic level. Rapid change in the banking environment requires innovation and creativity through product/services, and market development.

Bearing in mind that Islamic banks must conform with Islamic *Sharia'h* principles, they need to become more involved with the business activities of their customers compared with the conventional banking system which charges interest on loans to customers. Islamic banks often play the role of providing venture capital to customers and are as much in competition with Venture Capital firms, Investment Companies and Merchant banks.

The above analysis indicates that the Islamic banks have not made sufficient use of their natural competitive advantages within the Muslim community. This might be due to issues that relate to cross-cultural differences in organizational behaviour and objectives. Additionally, given the principles with which they are conforming, non-Muslims should also be attracted to the services which they may provide. With increasing worldwide economic growth and a lessening of recessionary problems, Islamic banks should develop an effective marketing strategy aimed at increasing the market share within the Arab banking world if they wish to survive.

Islamic banks must determine the market share non-Arab banks (and associated venture capital companies, investment companies, etc.) have within Arab countries, as this will determine the position of Islamic banks within the overall Arab banking industry. This would be possible through the use of marketing analysis to determine such information. Where appropriate, published accounts should be reviewed and key banking rates for each competitor, the average for non-Islamic banks as a whole, the average for the industry as a whole and Islamic banks (as a whole and individual) compared by region should be made. Such information will enable Islamic banks to establish industry comparisons and the targets to be achieved. Having established targets, Islamic banks must formulate business plans that lay out mission statements, aims, objectives, strengths, weaknesses and financial information (historical and forecasts). Given the *Sharia'h* principles, Islamic banks should aim to build up increased market share in Muslim communities and will need to take strategic decisions regarding additional costs in the short/medium terms as there will be additional expenditure incurred in increasing market share with the eventual aim of long-term profits. In the short term, profitability may not be an important factor or objective, but the business plan must be explicit in aims and objectives to guide banks.

Organizational changes need to be made to develop improved services to customers and the banks need to make strategic decisions regarding the minimum/maximum capital which may be offered to customers and in which regions or industrial/commercial sectors investments may be made. Having established such basic criteria, an investment strategy will need to be formulated within the context of the business plan and will include measurements of whether the customer has the potential to realize the investment granted in a specific time period, whether the customer's business has a profitable track record, and whether the business has management of proven ability, etc. Whether investment will be made to assist with business development, business acquisition, product development, retracting, etc. will also need to be considered.

To ensure compliance with the legal agreement, the bank may decide to take a proactive role in the customers' business affairs and ensure the investment is monitored by means of measuring the financial performance of the business at regular intervals. It will also decide to have regular management meetings to ensure its interests are represented. Additional services (which may be provided at an additional fee or at no charge in order to ensure the success of the investment) will include fund-raising, preparation of business plans and subsequent monitoring, treasury management, provision of legal services, application for government grants, marketing, personal services, cost reduction exercises, training audit, accounting, specialist economic advice. Only by being proactive can the bank be positive that its investment will be repaid and under the terms agreed. Such proactive involvement requires the bank to become involved in the marketing strategy of western banks. When the agreement has been satisfied, the bank may continue to provide such services as outlined earlier at agreed fees and this will assist the bank in its longer-term profitability.

During the next decade , Islamic banks will need to give increasing attention to the following issues:

1 measuring brand equity;
2 measuring marketing's effectiveness;
3 a better new products process; and
4 measuring customer satisfaction.

The above analysis may imply that Islamic banks have succeeded at the tactical level within the marketing process, while strategic issues, such as brand equity, have suffered. Measurement of the long-term value of the Islamic bank brand is crucial and the bank should invent instruments to do so. The true goal for all brands is profitable growth. This is the situation when the marketing mix is working properly. Focused attention on product quality improvement, marketing mix efficiencies and equity measurement are the only ways to obtain profitable growth.

To create loyal customers and achieve long-term competitive advantage, the Islamic banks should ensure the following:

- customer responsiveness;
- fast-paced innovations; and
- flexibility.

New measures should, therefore, continually be created to provide feedback on these sources.

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