



A study of Islamic banks in the non-GCC MENA region: evidence from Lebanon

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Abstract

Purpose – This purpose of this paper is to investigate the status of Islamic banking in Lebanon, through addressing the perceptions of existing and potential clients. The study has two objectives: one is to identify and measure the factors that clients perceive as important in deciding to patronize an Islamic bank, and the other is to draw a client profile for Islamic banks operating in Lebanon.

Design/methodology/approach – The literature review provided the theoretical framework this study builds on. A survey instrument was developed and the data were analyzed using SPSS (19.0). To draw the client profile, the researcher conducted cluster analysis followed by discriminant analysis. To identify and measure the Islamic bank selection criteria, the researcher used factor analysis followed by regression analysis.

Findings – Findings show that clients consider five variables in deciding whether or not to patronize Islamic banks. These variables are trust in Islamic banks and their true compliance with Sharia, customers' familiarity with Islamic modes of finance, cost of financing and other transactions, accessibility of Islamic banks, and the quality of service offered by those banks. The study was also able to delineate the significant attributes of IB clients, raising the issue of changing the target market segment.

Research limitations/implications – This study employed a usable sample size of 199 questionnaires collected from one MENA region nation, Lebanon. It may be useful to probe the research questions of this study using a larger sample size collected from several MENA region nations, in order to reach a more validated conclusion. In addition, it may be equally useful to assess other demographic and psychographic variables as distinguishing factors among client clusters, for the purpose of reaching a deeper understanding of Islamic bank clientele in this region.

Practical implications – It is suggested that Islamic banks consider the five factors identified in this study, while preparing their marketing strategy, for the purpose of increasing their market share in the non-GCC MENA region. It is also suggested that Islamic banks approach the so far neglected market segments, rather than sticking to their traditional clients.

Originality/value – This paper is the first to investigate the status of Islamic banks in Lebanon. The findings of this study will help refocus the marketing strategies of Islamic banks in Lebanon. They may also apply to other developing non-GCC countries in the MENA region.

Keywords Perceptions, Selection, Banks, Quantitative techniques, Customer behaviour, Customer profiling

Paper type Research paper

1. Introduction

Over the past two decades, Islamic finance has witnessed unprecedented growth. According to Shoaib (2007), the field of Islamic finance is developing and rapidly expanding, with banking assets growing at 15 to 20 percent annually to reach about \$750 bn (Shoaib, 2007). In Malaysia, Islamic banking assets have grown at an average annual rate of 18 percent since 2000 (Aziz, 2006). Even in non-Moslem countries, the growth of Islamic finance is on the rise, since Islamic banking is emerging as a rapidly growing industry, receiving wide recognition by both Muslims and non-Muslims alike (Iqbal and Molyneux, 2005).



Though few Moslem countries (namely Pakistan, Sudan, Iran) have completely Islamized their economies, most other Moslem nations follow a dual banking system with both conventional and Islamic financial institutions (Zaher and Hassan, 2001), thus appealing to different customer preferences. It is important to mention that Islamic banks perform the same essential functions as conventional banks; however, they do so in accordance with the rules and principles of Islamic Sharia (Iqbal and Mirakhor, 2007), thus providing an alternative to finance that addresses the religious orientation of large segments of the population.

Despite all signs of progress and growth related to Islamic banking and finance around the world, this area of finance has not witnessed the same growth signs in Lebanon, a developing middle-eastern nation enjoying a relatively advanced, well-managed banking system. Lebanon has, so far, adopted the dual banking system with conventional and Islamic banks, though conventional bank deposits (\$115 bn) exceed by far those of Islamic banks (\$300 million). Out of 54 financial institutions in Lebanon, only four are Islamic in nature, and one of the four is said to be closing down next year. It seems evident that the demand for Islamic banking and finance is not on the rise in Lebanon, though this country is perceived as the financial hub of the Middle East, and an open market to any new financial innovation or trend.

Therefore, the question that begs itself is: why is it that Islamic finance is not flourishing in Lebanon while it is growing almost everywhere else? This is an issue that requires some investigation since there have been no published studies about it. Though the author was able to find some studies about Islamic finance tools available in Lebanon, no published studies were found that address the reasons behind Lebanese customers' preference of conventional vs Islamic banks, nor was the author able to find any published studies that delineate the characteristics of Islamic bank clients in Lebanon.

Hence, the questions addressed in this paper are:

- Q1. What are the factors that cause Lebanese clients to prefer patronizing an Islamic bank as opposed to a conventional bank?
- Q2. What is the general profile of Islamic bank clients, and how is it different from that of conventional bank clients?

By addressing these two questions, the researcher hopes to figure out why demand for Islamic banks in Lebanon is not prospering as it is in other middle-eastern countries, and furthermore, investigate the characteristics of Islamic bank clients, and how they differ from their conventional counterparts. This would help Islamic banks better understand the concerns and priorities of Islamic bank clients, as well as figure out how to market to them better.

2. Literature review

Islamic finance has its roots in Islamic Sharia (code of law), instituted with the birth of Islam some 14 centuries ago. However, it has never witnessed such attention or demand as it does today. After a pioneering attempt in Egypt in 1963, Islamic banks started spreading in Moslem countries like Sudan, KSA, Kuwait, UAE, Qatar, and Bahrain among others. However, the practices of Islamic banks in the 1980s were not transparent enough to sustain the trust they first received. For example, a landmark event in Egypt formed a setback to Islamic finance, not only in that country, but in

neighboring middle-eastern countries as well. The rise and fall of Egypt's IMMCs (Islamic Money Management Companies), constitutes the best example. IMMCs were initially declared to be compliant with Sharia in their practices, but later went on to diverge from the principles of Sharia in that they directed most of their domestic deposits to foreign conventional banks, which pay interest on deposits (Mohieldin, 1997), thus violating one of the basic principles behind Islamic finance and raising doubts about the true compliance of the sector. By the late 1980s, most IMMCs had liquidity problems that reflected negatively on clients' funds (Warde, 2000), and further contributed to the damage done to the image of Islamic financial institutions.

Lebanon is not the only middle-eastern country where Islamic banks have a miniscule share in the banking market. According to Galal and Mouawad (2009), the shares of Islamic finance in the Egyptian economy are modest compared with their conventional counterparts. This means that most customers in Egypt prefer patronizing conventional banks to their Islamic counterparts. So it is deemed important to identify the factors that affect customers' decision as to what kind of bank to patronize.

The theoretical foundation of this study is based on three theories: the economic man, the theory of trust, and the theory of competition. The first theory highlights the concept of utility maximization, and a person's desire for more of a good at a lower cost, making finance, and transaction costs at Islamic banks an important variable under study. The theory of trust highlights the customer's need to perceive the organization as trustworthy before deciding to patronize it. According to this theory, trust plays a fundamental role in consumer behavior (Urban *et al.*, 2000). The third theory is the theory of competition which identifies the factors that help organizations compete in order to win over more customers. This suggests that competing banks offer and advertise a variety of services that are valued by clients in order to win them over, so these services have become a deciding factor in bank selection. It follows that customers must have some degree of awareness of these services and of the organizations that provide them. It is this awareness that can influence the decision-making process of bank clients, and is therefore an important variable affecting brand preference (Berry, 2000). Furthermore, previous literature seems to point to empirical evidence that supports the above-mentioned theories. For example, previous literature related to the determinants of bank selection criteria focusses on the importance of customer awareness of Islamic banks and their products, the extent to which customers trust Islamic banks and perceive them as truly compliant with Sharia, customers' perceptions of service quality and transaction costs associated with Islamic banks, in addition to certain demographic attributes that may influence the patronage decision. The relevant theories and selection criteria are discussed in more detail in the next section.

2.1 The variables under study

2.1.1 The patronage decision as the dependent variable. It is not easy for an individual, or a small business, to choose a bank to do business with, let alone, to make a preference between a conventional and an Islamic bank. Many factors go into that choice such as the client's awareness of the bank and its products, their perceptions of its trustworthiness, service quality, pricing, and Sharia-compliance to those who are religiously inclined. In addition, clients' demographic attributes may also influence the patronage decision as evidenced by previous research. The choice of a bank, whether Islamic or conventional, may depend on any one, or combination, of the

above-mentioned factors. Thus, the dependent variable in this study is: the decision to patronize an Islamic bank as opposed to a conventional bank. Below is a description of each of the independent variables considered in this study.

2.1.2 Awareness of Islamic banks and their products. Awareness refers to the ability of a potential consumer to recall and recognize the brand, and link the brand to a certain product class (Aaker, 1991). To decide to purchase a good, one needs to know that this good exists, and that its specifications meet one's needs. An increase in brand awareness is conducive to a higher chance for the product of entering the consideration set of the consumer (Nedungadi, 1990). According to Berry (2000), brand awareness is one of the major antecedents of consumer brand preference. This might explain why consumers are likely to buy a recognizable brand rather than a brand that is unfamiliar to them (Macdonald and Sharp, 1996). Hence, the awareness and familiarity of Islamic banking are considered an important variable to study in determining the factors that influence the patronage decision.

Research shows that the degree of Moslem, let alone non-Moslem, customer awareness of Islamic banking and finance products is very low. It seems that Moslems, both residing in their countries or in foreign countries, are not very well educated about the financing tools available at Islamic banks. For example, while Malaysian Muslims and non-Muslims were aware of the existence of Islamic banks, they were usually uninformed of specific Islamic financing methods (Erol *et al.*, 1990). Along the same lines, Ahmad and Haron (2002) recommended that Islamic financial institutions in Malaysia needed to better market their products and services. Moreover, in a survey of 300 Muslims in the UK on their patronage factors and awareness of Islamic financing methods, it was found that a high level of ignorance prevailed among Muslims in the UK concerning Islamic finance principles (Omer, 1992). In Singapore, Gerrard and Cunningham (1997) also considered attitudes toward Islamic banking. While their survey results showed, as expected, that non-Muslims were completely unaware of Islamic methods of finance, Muslims fared little better. So it makes little sense to expect clients to patronize an organization they are unaware of, or to seek a service they are unfamiliar with. Hence, the first hypothesis in this study is:

- H1.* Customer awareness of Islamic banking products and modes of finance has a significant effect on their decision to patronize an Islamic bank.

2.1.3 Trust. Trust is the willingness to be vulnerable to the actions of a trustee, and it is displayed by actions taken despite perceived risk, uncertainty, and/or vulnerability (Jevons and Gabbott, 2000). When it is said that someone is trustworthy, it is meant that there is a high enough probability that he will perform an action that is beneficial, or at least not detrimental, to us to consider engaging in some form of cooperation with him (Gambetta, 2000). With the economy becoming increasingly service-oriented, relationship marketing, as a discipline and practice, is becoming a widely accepted approach (Sheth and Parvatiyar, 2002). Closer interactions between customers and sellers make customer-seller relationships more critical, and the intangibility of the offering makes the benefits of trust more important (Palmatier *et al.*, 2006). On the basis of research grounded in social exchange theory, it is argued that relationship commitment and trust represent the key elements that explain a relationship's impact on performance (Morgan and Hunt, 1994). This makes trust one of the most important factors affecting consumer behavior and preference, as trust was found to be a factor in making the purchasing decision (Urban *et al.*, 2000).

The literature shows that customers' perceptions about the vendor (including whether they trust it or not) influence their decision to patronize it (Grewal *et al.*, 1998). A study based in Jordan found that 73 percent of customers agreed or strongly agreed that reputation was a key factor in their choice of an Islamic bank (Nasser *et al.*, 1999). Similarly, in a more recent study, it was found that trustworthiness and reliability, as evidenced by customers' confidence in the bank play a major role in the decision to patronize it (Ahmad *et al.*, 2011). Thus it seems reasonable to consider trust as a potential antecedent to patronizing an Islamic bank, and so the second hypothesis in this study is:

H2. The degree of trust that customers feel toward an Islamic bank has a significant effect on the decision to patronize it.

2.1.4 Service quality. Financial services, especially banks, compete in the marketplace with generally undifferentiated products and services, thus making service quality a key competitive weapon for them (Stafford, 1996). This is consistent with the competition theory which suggests that firms try to win the patronage of customers through service excellence and meeting customers' needs. It follows that organizations that offer essentially similar products are able to compete if they offer a superior service that differentiates them from their competitors (Holstius and Kaynak, 1995).

Service quality is defined as the "degree and direction of discrepancy between customers' service perception and expectations" (Parasuraman *et al.*, 1985). The gap analysis model developed by these authors starts from the supposition that the quality of a service is expressed according to a disconfirmation paradigm (Oliver, 1980), that is to say the discrepancy between the customer's expectation and the customer's perception of the service. The model identifies the main determinants of service quality such as reliability, competence, courtesy, and accessibility among others (Parasuraman *et al.*, 1985). In this sense, customers of Islamic banks compare their perception of service quality at Islamic banks with their expectation derived from their experience of service quality at conventional banks, the one and only benchmark. Financial intermediaries, and banks especially, compete in the financial services market with generally undifferentiated services and products, thereby service quality becomes a key competitive weapon (Stafford, 1996) for banks, and a key factor influencing choice for clients.

According to recent research, the quality of the services offered at Islamic banks seems to have an important effect on the patronizing decision. In a study of Moslem and non-Moslem customer preference criteria, service ranked first as a selection factor. Both types of customers felt that fast and high-quality bank services are the deciding factor in patronizing a bank (Erol *et al.*, 1990). In fact, a recent study recommended that banks have a service-minded personality, and should place a special emphasis on hiring competent and friendly personnel and on training employees, in order to increase their efficiency of completing banking transactions and developing interpersonal communication skills (Amin *et al.*, 2009). Therefore, it seems appropriate to investigate the influence of customers' perceptions of service quality on the customers' decision to patronize an Islamic bank. So the third hypothesis in this study is:

H3. Customers' perceptions about the quality of services offered by an Islamic bank significantly affect the decision to patronize it.

2.1.5 Price of financing. Based on the economic man theory, early research regarded man as entirely rational and self-interested, making decisions based upon the ability to maximize utility while expending the minimum effort possible (Persky, 1995). Additionally, cognitivism assumes that the consumer is rational, discerning, logical, and active in decision making (Solomon *et al.*, 2006). Therefore, it is reasonable to expect that customers consider price to be a factor in the purchase decision. Later, the concept of the reference price, as opposed to absolute price, represented the pricing factor incorporated in the purchase decision. Consumers use past price levels and other context variables for a product in order to form an internal reference price that is used to judge the current actual product price level... and thus influence consumer purchasing behavior (Putler, 1992). Previous research shows that customers prefer banks, whether conventional or Islamic, that offer products and services at lower prices. For example, Polish customers consider financing costs and service charges to be primary factors in choosing a bank (Kennington *et al.*, 1996). Similarly, customers of Islamic banks in the UK perceive low service charges to be the top selection criterion (Mansour *et al.*, 2010). In Malaysia, the price of financing played an important role in deciding which bank to patronize (Amin *et al.*, 2011). Lower financing rates and service charges were found to affect the customers' bank selection process significantly (Haron *et al.*, 1994). Therefore, it seems reasonable to expect a relationship between price of financing and a customer's decision to patronize a bank. So the fourth hypothesis in this study is:

H4. The price of financing has a significant effect on a customer's decision to patronize an Islamic bank.

2.1.6 Perceptions about bank Sharia-Compliance. When Moslems seek an Islamic bank rather than a conventional bank, they usually do so because of a religious motive. They want to adhere to the principles of their religion and one of its basic tenets: refraining from dealing with interest. Islamic banks declare that they follow Islamic principles in all of their activities, thereby offering clients a service that complies with Sharia (Islamic law) and begets them profit, not interest, on their money – an attractive option for devout Moslems. The only problem, however, is whether Islamic banks can be trusted to stand behind their claims, and indeed engage only in activities that generate profit, not interest.

This notion of trust is very much the same as the basic notion of trust which, by definition, suggests that trusting others reflects our trust in the intentions of others not to cheat us, and in their knowledge and skill to perform adequately over and above their intentions (Gambetta, 2000). Since it is important for devout Moslems to ensure that their actions comply with Sharia, they will try to make sure that the bank they select demonstrates true compliance with Sharia, especially in its most important tenets: transparency and interest-free transactions. Gambetta (2000) suggests that trust may emerge as a by-product of moral and religious values which prescribe honesty and mutual love. Yet, he goes on to say that personal bonds and values cannot be trusted as the foundation of cooperation in complex societies....because they necessarily operate on a limited scale: I may believe in God, but I can still have my doubts as to whether you do too (Gambetta, 2000), thereby suggesting that clients' doubts regarding Islamic banks' true compliance are justified or, to say the least, recognized. What strengthens those doubts is the history of Islamic banks in the 1970s and 1980s.

Unfortunately, not all banks with an Islamic label necessarily followed Sharia principles. In fact, some Islamic banks actually violated Sharia principles in the mid-1980s, raising serious doubts about the whole sector's compliance. In Egypt for example, most of the domestic deposits were directed to conventional banks, which paid interest on deposits. More specifically, Islamic banks invested 20 percent of their deposits in *murabaha* contracts, and deposited the rest in conventional banks (Mohieldin, 1997). The basic Sharia principle of prohibition of *riba* (interest) was clearly violated. Such practices have negatively affected public perception, due to their inability to differentiate between Islamic products and conventional ones (Galal and Mouawad, 2009). Unfortunately, doubts regarding true compliance are not limited to Islamic banking in Egypt, but rather extend to neighboring middle-eastern countries as well. Thus it seems appropriate to investigate the relationship between customers' perceptions of Islamic banks' Sharia-compliance and their willingness to patronize an Islamic bank. Thus the fifth hypothesis in this study is:

H5. Customers' perceptions of Sharia-compliance at an Islamic bank affect their decision to patronize it.

2.1.7 Demographic factors. As stated in the introduction, the second question in this study involves drawing a client profile for Islamic banks. In doing so, it was deemed appropriate to investigate demographic attributes of Islamic bank clients in order to identify their main characteristics, and approach them effectively. For example, gender, age, or income may influence customers' patronage of Islamic banks. Theory suggests that men and women process information differently while making purchasing decisions. For example, it was found that males were more likely to adhere to self-relevant information than women are. It was also suggested that men and women may have different roles in the purchase decision, with males seeking immediate personal consequences and females seeking harmony in relationships (Meyers-Levy, 1988). Similarly, age is an important demographic factor that influences the decision-making process (Gardner *et al.*, 1989). Studies have also indicated that the differences in the income level of people can influence people's behaviors and lifestyles (Peter and Olson, 1996). Thus, the role of demographic factors in the decision-making process cannot be undermined and is worthy of examination.

Previous literature provides plenty of evidence about the importance of demographic factors as a bank selection criterion. However, due to the variation between and within cultures, it is understandable that the influence of those demographic factors is not constant across cultures. In a Qatar-based study, the researchers found that women, the elderly, and customers with low income and moderate level of education were more likely to patronize Islamic than conventional banks (Metwally, 2002). Metawa and Almoossawi (1998) suggested that religion is the predominant factor influencing the choice of a bank.

To the knowledge of the author, there have been no published studies about the effect of demographic factors as bank selection criteria in Lebanon, making it necessary to investigate the relationship between demographics and bank selection in this study. Therefore, the sixth hypothesis is:

H6. Demographic factors have a significant influence on customers' decision to patronize an Islamic bank.

3. Methodology

The researcher developed a two-part questionnaire comprised of a total of 38 items. The first part (31 items) addressed the respondents' perceptions about Islamic banks, while the second part (seven items) addressed the demographic attributes of the respondents. The questionnaires were distributed among clients of both Islamic and conventional banks following the non-probability convenience sampling approach due to the difficulty of using probability sampling techniques in the Lebanese work environment. The adopted convenience sampling method is cost-effective and easy to conduct (Zikmund, 2000). The researcher followed a recommendation by Hair *et al.* (2008) suggesting a sample size that is at least five times the number of items in the questionnaire. The study was able to successfully collect a total of 199 usable questionnaires, deemed appropriate considering the number of items. (This instrument of 38 questions warranted a minimum of 152-190 usable questionnaires.) The questionnaires were distributed by research assistants who waited for the respondents to complete the surveys and then collected them in person, thus obtaining a 99.5 percent response rate. The items were measured on a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). Each item was presented in both languages: English and Arabic since not all respondents were proficient in English.

Reliability measures the internal consistency of the scale, and Cronbach's α is used as an indication of reliability. An $\alpha > 0.7$ is recommended (Nunnally, 1978), but an $\alpha > 0.6$ is acceptable for exploratory research (Hair *et al.*, 2008). For this study, Cronbach's α was 0.94 which is indicative of the high consistency of the scales used in this study (Table I).

The data were subjected to several statistical tests. Factor analysis was conducted as a data reduction technique to identify the small number of factors that may have some influence on the decision to patronize Islamic banks in Lebanon. Later, regression analysis was run on the identified factors to assess their importance in predicting Islamic bank patronage.

To draw a profile of the clients of Islamic banks in Lebanon, cluster analysis was conducted to classify individuals into mutually exclusive and collectively exhaustive groups, with high homogeneity within clusters and low homogeneity between clusters (Zikmund, 2000), and as a result, two major customer clusters were identified. The researcher used these clusters in the discriminant analysis that ensued, for the purpose of delineating the basic characteristics of existing and potential Islamic bank clients. The Statistical Package for Social Sciences (SPSS 19.0) was used for data analysis, whose results will be displayed in the next section.

To the best knowledge of the author, all previous studies conducted in Lebanon were merely frequency statistics that did not address correlative relationships between variables. Furthermore, though there were numerous previous studies about criteria selection of Islamic banks in developing countries, as evidenced by the above literature review, none of those studies addressed the Lebanese market, despite the fact that the banking industry in Lebanon is among the most sophisticated in the region, and is considered to be the financial hub of the MENA region; hence the originality and value of this particular study.

Cronbach's α	No. of items
0.943	30

Table I.
Reliability statistics

4. Data analysis and findings

4.1 Frequency results delineating the profile of the respondents

The respondents of this study were mostly female (63 percent), with a mean age of 37, and holders of a bachelor degree (60 percent). The vast majority (77 percent) of them were Moslem as far as their religious orientation was concerned, and most of them were employed in the private sector (52 percent). About half of the respondents (48.2 percent) earned a monthly income that ranged between \$1,000 and \$2,000, with only 5 percent earning over \$4,000.

4.2 Factor analysis

Factor analysis was used to identify the factors that most affect a Lebanese client's decision on whether or not to patronize an Islamic bank. To confirm that sample adequacy was appropriate for factor analysis, the Kaiser-Mayer-Olkin (KMO) and Bartlett's sphericity tests were conducted. A value of $KMO > 0.5$ shows that factor analysis is appropriate since correlations between pairs of variables can be explained by other variables. Furthermore, Bartlett's sphericity test is used to examine the correlation of the variables in the population. The result for Bartlett's sphericity test should be statistically significant. For this study, the KMO was 0.87 which is considerably greater than the threshold of 0.5. Moreover, Bartlett's sphericity test was highly significant (significance = 0.000), so it is concluded that the data in the sample is suitable for factor analysis. Table II presents the results of KMO and Bartlett's sphericity test.

The survey instrument items were factor analyzed using principal component analysis followed by varimax rotation. Six factors were generated that had eigenvalues > 1 , one of the factors was eliminated, and the resulting five-factor solution accounted for 65 percent of the variance. Thus, factor analysis allowed for the reduction of 31 items into five dominant factors that respondents considered most important in their decision to patronize Islamic banks. Table III clearly presents the variance explained by the identified factors.

It is worth noting, however, that the respondents considered "Trust in Islamic banks" and "Trust in true Sharia-compliance" to belong to the same factor, perceiving

Table II.
KMO and Bartlett's test

Kaiser-Meyer-Olkin measure of sampling adequacy		0.874
Bartlett's test of sphericity	Approximate χ^2	3076.786
	df	300
	Sig.	0.000

Table III.

Total variance explained **Note:** Extraction method: principal component analysis

Component	Total	Rotation sums of squared loadings % of variance	Cumulative %
1	6.753	27.011	27.011
2	2.672	10.687	37.698
3	2.670	10.679	48.377
4	2.293	9.170	57.547
5	1.882	7.530	65.077

them as one and the same. In contrast, respondents seemed to perceive service quality of the Islamic bank as a separate variable from accessibility and convenient location of the bank. Hence, the five factors delineated through factor analysis were named:

- (1) trust in Islamic banks and their true compliance with Sharia (trust);
- (2) customer awareness and familiarity with Islamic banking products and services (awareness and familiarity);
- (3) price of financing and other transactions (price competitiveness);
- (4) islamic banks' accessibility and convenient locations (accessibility); and
- (5) the quality of service offered by Islamic banks (service quality).

The results are thus saved to be later used in regression analysis for the purpose of determining their relative importance in predicting Islamic bank patronage.

4.3 Regression analysis

The five factors generated by factor analysis influence the respondents' decision as to whether or not to patronize an Islamic bank. However, the magnitude of that influence varies to the extent that some are more important than others. The purpose of conducting regression analysis is to determine the importance of each of those factors in predicting the dependent variable: Islamic bank patronage. The model summary indicates that adjusted R^2 is 0.7, which means that the suggested model is able to predict 70 percent of the change in Islamic bank patronage. As a result, it is reasonable to conclude that the suggested model possesses strong predictive power (refer to Table IV).

Moreover, a large F -statistic ($F = 47$) that is highly significant (significance = 0.000) shows that the suggested overall model is significantly different from zero (refer to Table V).

A close look at the table of coefficients allows for the identification of the specific factors that have a significant influence on the patronage decision. The β coefficient of each variable is important in showing the significance of the variable and the direction of its effect. The t -statistics for all five factors are statistically significant at (p -value < 0.05). Therefore, this analysis confirms that all five factors are statistically

Model	R	R^2	Adjusted R^2	SE of the estimate
1	0.846 ^a	0.715	0.700	0.73422

Notes: ^aPredictors: (constant) trust, awareness and familiarity, price competitiveness, accessibility, service quality, religion, employment status, gender, education, monthly family income

Table IV.
Model summary

Model	Sum of squares	df	Mean square	F	Sig.
1 Regression	254.132	10	25.413	47.142	0.000 ^a
Residual	101.346	188	0.539		
Total	355.477	198			

Notes: ^aDependent variable: intention to patronize Islamic banks

Table V.
ANOVA^a

significant in influencing the patronage decision, with the first and second factors having a greater predictive power than the rest since their β coefficients are greater. Hence, *H1*, *H2*, *H3*, *H4*, and *H5* are sufficiently supported (refer to Table VI).

However, after the introduction of categorical variables representing demographics, only religion had a statistically significant impact on the patronage decision, thus supporting *H6*. The suggested regression equation is:

$$P = c + b_1\text{trust} + b_2\text{awareness \& familiarity} + b_3\text{pricing} \\ + b_4\text{accessibility} + b_5\text{service quality} + b_6\text{religion}$$

$$P = 4.103 + 0.55T + 0.33AF + 0.091P + 0.104A \\ + 0.411S - 0.184R$$

where *c* is the constant, *b*₁, *b*₂, *b*₃, *b*₄, *b*₅, and *b*₆ are the statistically significant β coefficients for the independent variables in the equation.

4.4 Cluster analysis

Having addressed the first objective of this paper, namely identifying and measuring the factors that influence Lebanese clients' decision as to whether or not to patronize Islamic banks, the study now will try to address the second objective which is to draw a profile for Islamic bank clients in Lebanon.

Cluster analysis was performed on the data in order to see if banking clients in Lebanon can be grouped into clusters having similar characteristics. The resulting Agglomeration schedule allowed for the identification of two major clusters. One-way ANOVA between the two clusters was run to see if they were statistically different. The descriptives table shows that respondents in cluster 1 are more encouraged and willing to patronize Islamic banks (mean = 3.82), than respondents in cluster 2 (mean = 1.6) (refer to Table VII).

The ANOVA table shows a fairly large *F*-statistic with high significance (significance = 0.000). Hence, it seems reasonable to conclude that the differences between the group means are statistically significant, and therefore the two clusters are indeed different in their willingness to patronize Islamic banks (refer to Table VIII).

Model		Unstandardized coefficients		Standardized coefficients	<i>t</i>	Sig.
		<i>B</i>	SE	β		
1	(Constant)	4.103	0.309		13.277	0.000
	Trust	0.737	0.053	0.550	13.854	0.000
	Awareness and familiarity	0.446	0.057	0.333	7.792	0.000
	Price competitiveness	0.122	0.054	0.091	2.260	0.025
	Accessibility	0.139	0.053	0.104	2.606	0.010
	Service quality	0.551	0.054	0.411	10.265	0.000
	Religion	-0.339	0.082	-0.184	-4.125	0.000
	Employment status	-0.067	0.058	-0.046	-1.152	0.251
	Gender	-0.164	0.110	-0.060	-1.496	0.136
	Education	-0.167	0.089	-0.079	-1.873	0.063
	Monthly family income	0.081	0.071	0.049	1.147	0.253

Table VI.
Coefficients^a

Note: ^aDependent variable: I would willingly become a customer of Islamic bank soon

4.5 Discriminant analysis

Now that the previous analysis has shown that there exist two client clusters that are statistically different, it seems necessary to investigate the distinguishing characteristics of these clusters, in an effort to draw a basic profile for the Islamic bank client in Lebanon. For that purpose, discriminant analysis was conducted on the data, and the discriminant function was statistically significant as Wilks' λ was highly significant (significance = 0.000) (refer to Table IX).

In addition, the function's predictive accuracy is relatively high since 74.9 percent of the original grouped cases were correctly classified (refer to Table X).

A look at the tests of equality of group means table reveals that after considering demographic variables such as gender, age, education, employment status, religion, and income, the only variables that were able to predict group membership with high significance were "religion" (significance = 0.000), "age" (significance = 0.042 < 0.05), and "employment status" with marginal significance (significance = 0.053). Other demographic variables such as gender, education, or income were not significant in distinguishing between the two clusters, meaning that clients of Islamic banks were not necessarily of any particular educational level, income level, or gender. The

	n	Mean	SD	SE	95% confidence interval for mean		Minimum	Maximum
					Lower bound	Upper bound		
1	139	3.8201	0.91882	0.07793	3.6660	3.9742	1.00	5.00
2	60	1.6000	0.74105	0.09567	1.4086	1.7914	1.00	4.00
Total	199	3.1508	1.33990	0.09498	2.9634	3.3381	1.00	5.00

Table VII.
Descriptives: I would willingly become a customer of an Islamic bank soon

	Sum of squares	df	Mean square	F	Sig.
Between groups	206.574	1	206.574	273.298	0.000
Within groups	148.904	197	0.756		
Total	355.477	198			

Table VIII.
ANOVA: I would willingly become a customer of an Islamic bank soon

Test of function(s)	Wilks' λ	χ^2	df	Sig.
1	0.861	28.968	6	0.000

Table IX.
Wilks' λ

Original	Count	Ward method		Predicted group membership		Total
		1	2	1	2	
		1	126	13	139	
		2	37	23	60	
	%	1	90.6	9.4	100.0	
		2	61.7	38.3	100.0	

Table X.
Classification results^a

Note: ^a74.9 percent of original grouped cases correctly classified

distinguishing variables were only “religion,” “age,” and to a certain extent “employment status” (refer to Table XI).

To determine how religion, age, and employment status were different among the two clusters, we examined the group statistics table which revealed that members of cluster 1, who were more likely to patronize Islamic banks, were mostly Moslems, employed, and relatively older than members of cluster 2 who were less likely to patronize Islamic banks. Thus the second objective of this paper, namely to draw a profile for Islamic bank clients, has been met.

5. Conclusion and implications

The statistical analyses performed in this study helped achieve its two main objectives: first, to identify the variables that have the most significant influence on the patronage decision of Lebanese clients, and second, to draw a profile of the basic characteristics of Islamic bank clients in Lebanon.

5.1 Implications related to the patronage decision

The findings of the study showed that Lebanese bank clients in general consider the following five factors to be of significant importance in making a decision about Islamic bank patronage, hence requiring the banks to give them sufficient consideration in an effort to address their clients’ concerns:

- Trust in Islamic banks, and in their true compliance with Sharia: the results of this study show that clients want to feel that they can trust Islamic banks with their investments, and at the same time, trust that Islamic banks genuinely comply with Sharia principles which prohibit riba, speculation, and undue risk among others. These results are consistent with theory and previous literature. Trust becomes important because risk is present (Rousseau *et al.*, 1998). The marketing literature shows that general trust is linked to willingness to transact business (Doney and Cannon, 1997). This makes it imperative for Islamic banks to promote an image of trustworthiness in their quest for increased customer patronage. Early communication is recommended as one of the best ways to enhance customer trust. Communication positively affects both the initial level and the velocity of trust. It not only builds initial trust but also helps develop processes and norms that support lasting improvements in relationship interactions (Palmatier, 2008). Therefore, it seems reasonable to suggest that Islamic banks need to utilize effective communication as a means to promote customer trust.
- Awareness and customer familiarity with Islamic banking products and services: the results have shown that the extent to which clients know about the different modes of Islamic finance affects the extent they are willing to patronize

	Wilks' λ	F	df1	df2	Sig.
Gender	0.999	0.287	1	197	0.593
Age	0.979	4.178	1	197	0.042
Education	0.997	0.624	1	197	0.430
Employment Status	0.981	3.792	1	197	0.053
Religion	0.886	25.393	1	197	0.000
Monthly family income	0.995	0.930	1	197	0.336

Table XI.
Tests of equality
of group means

Islamic banks. This is well supported by theory and previous research. According to Blackwell *et al.* (2001), it is important for the potential customer to be aware of the product so that it can become one of the purchasing choices, since the product needs to enter the “awareness set” before it comes to the “consideration set.” Zajonc (1980) suggest that familiar stimuli are better liked than unfamiliar ones, and therefore, familiarity leads to greater liking. In addition, awareness seems to have a positive influence on consumer choice (Hoyer and Brown, 1990). The fact that this study confirms previous literature about awareness and familiarity means that Islamic banks have a vested interest in educating clients, existing and potential, about the various Islamic banking products and services and modes of financing. According to Belch and Belch (2003), advertising can enhance customers’ awareness toward the product, and render the decision to patronize the product more likely. Hoyer and Brown (1990) further show that the need for advertising is augmented, since it may be effective in increasing choice probabilities when focussing on increasing brand awareness. Therefore, it seems imperative for Islamic banks to advertise not only their brand, but also the various modes of financing available in order to increase customers’ awareness and familiarity, and thus promote the patronage decision.

- Price of financing and other transactions: the results of this study have shown that cost of financing and banking transactions has a significant influence on bank patronage. It is common for clients to seek low-cost financing, by comparing this cost at Islamic banks against that at conventional banks. This is consistent with theory (mainly the theory of rational choice), and previous literature. Furthermore, theories on adaptation level (Helson, 1964) suggest that customers have adaptation level prices or a latitude of acceptable prices for a given product category. Customers judge the actual price of a product to be high, low, or fair, in comparison with these internal standards. Thus, price is a determining factor in consumer choice, playing a more complex role than often attributed to it (Monroe, 1990). Since consumers form price expectations and use them in evaluating price information when making a purchase (Winer, 1986), it seems necessary that Islamic banks revisit their pricing strategies, compared to strategies followed by conventional banks, in order to become more competitive in the banking and finance arena.
- Accessibility and convenient location: consistent with previous research, location, and accessibility seem to constitute an important factor influencing customer patronage. An outlet can have quality offerings, excellent personnel, and competitive prices but fail because it is not conveniently located. Store location has a major influence on a store’s success (James *et al.*, 1975). Store location is considered a long-term fixed investment, usually requiring a large budget (Ghosh and McLafferty, 1982). Thus an accessible convenient location, which is an influential variable in the patronage decision, can be easily adjusted in favor of Islamic banks which need to set aside a suitable budget for the expansion of their distribution channels in an effort to become more conveniently accessible to customers at large.
- Service quality at Islamic banks: banking clients seem to appreciate quality in the services they are offered, particularly at banking institutions. Things like time needed for approval of financing, respectful and trained employees, customer request follow-up, transaction speed, among others do matter to

clients. These results are consistent with theory and previous literature. A banking organization can only differentiate itself from competitors by providing high-quality services (Angur *et al.*, 1999). Furthermore, banks that excel at quality services can have a distinct marketing edge since improved levels of service quality are related to higher revenue, higher customer retention (Bennett and Higgins, 1988), and increased market share (Bowen and Hedges, 1993). Hence, banks should focus on service quality as a core competitive strategy (Chaoprasert and Elsey, 2004). This implies that service quality is yet another area which Islamic banks need to revisit in an effort to gain market share.

5.2 Profile of Islamic bank client

This study has shown that clients of Islamic banks are predominantly Moslems, employed, and in their late 30s on average. Income was not a distinguishing factor between patrons and non-patrons of Islamic banks, nor was education or gender. According to this study, it did not matter whether the client was educated or uneducated, man or woman, rich or poor. What mattered most was his or her religious orientation. Being a committed Moslem contributed to the tendency to become an Islamic bank client. Therefore, it seems reasonable to conclude that the existing and potential clients of Islamic banks in Lebanon are employed, adult, and committed Moslems. This is the market segment that seems to have the most favorable perceptions about Islamic banking, and that is most willing to patronize Islamic banks in Lebanon.

5.3 Implication related to customer profile

Although this may suggest that the best way to market Islamic banks is to target the afore-mentioned market segment (Moslem, employed adults), the researcher begs to differ. Islamic banks in Lebanon have been targeting this market segment since the early 1990s and have not shown any growth in market share to date. In fact, a Lebanese banker at a leading Islamic bank declared in an interview that the objective of the Islamic bank was to maintain presence in the Lebanese market despite the losses incurred annually. It seems obvious that continuing to target the currently targeted market segment will not give the desired results. Using the same failing approach will invariably lead to failure. Instead, Islamic banks could use a different approach. They could try to attract the so far neglected segment: the unemployed, young Moslems, and non-Moslems, those people who are not currently clients of Islamic banks, but might be, if those banks marketed themselves differently.

A similar approach was used by early micro financiers in Bangladesh. Extending miniscule loans to the poor was previously unthought-of and certainly not worth the trouble, until Dr Muhammed Yunus of Grameen Bank gave his famous \$27 loans to Bengal women three decades ago. At that time, those women would never have been even considered for a bank loan, given the small loan size, lack of collateral, and big doubts regarding payback. Those women constituted a market segment that was outside the banks' circle of choice. Today, microfinance has come a long way, and the global microfinance market is expected to grow at the rate of 16.61 percent over the period 2012-2016. One of the key factors contributing to this market growth is the increased focus on the untapped markets (PRWeb, 2013).

Just like micro financiers approached the previously neglected segment, Islamic banks in the MENA region would do well to think outside the box and approach the segment previously neglected; that of young, unemployed non-Moslems. The Islamic

finance paradigm can be offered to all people regardless of religion, age or employment. The two profit/loss sharing (PLS) modes of finance, namely Mudarabah and Musharakah, are the closest to the essence of Islamic finance, for they encourage investment, work, effort, and responsibility. Hence, Islamic banks can market themselves as providers of opportunity to the young and unemployed, in a region predominantly young and plagued by unemployment. This would present unlimited opportunities not only for the young and unemployed, but also for Islamic banks themselves. They would be targeting a previously ignored market segment, badly in need of opportunity, and striving to prove worthy of it. This would be consistent with the old adage that customers do not buy products or services; they buy solutions. According to Wharton's David Bell, the first principle of finding new growth is that you're always better off going after customers who are underserved or neglected (Knowledge@wharton, 2012).

Hence, by attempting to delineate the characteristics of Islamic bank clients in Lebanon, this study was able to shed light on the other side of the coin, namely non-clients who can be approached differently and thus, attracted to the Islamic banking and finance market, as a market that fosters entrepreneurship for all age groups of any religious orientation. The impact of this strategy on Islamic bank marketing in the MENA region is expected to be fundamental. Yet, more fundamental is the implication on research in this field. When no growth is achieved through targeting current clientele with marketing efforts, it may be useful to adjust the targeting strategy, reposition the organization in the market, and start to direct marketing efforts toward non-clients. This is best shown in the discriminant analysis table (Figure 1).

6. Limitations and suggestions for further research

This study employed a usable sample size of 199 questionnaires collected from one MENA region nation, Lebanon. It may be useful to probe the research questions of this study using a larger sample size collected from several MENA region nations, in order to reach a more validated conclusion. In addition, it may be equally useful to assess other demographic and psychographic variables as distinguishing factors among client clusters, for the purpose of reaching a deeper understanding of Islamic bank clientele in this region.

MOSLEM R E L I G I O N N O N- M O S L E M	C U R R E N T : O L D E R E M P L O Y E D M O S L E M	O L D E R A G E Y O U N G E R
	P R O P O S E D : (In addition to current) Y O U N G U N E M P L O Y E D N O N- M O S L E M	
	N O E M P L O Y M E N T S T A T U S Y E S	

Figure 1.
Discriminant
analysis model

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