

In Malaysia and elsewhere, the success of commercial banks depends on bankers' ability to understand and satisfy customers' needs.

Bank Patronage Factors of Muslim and Non-Muslim Customers

Sudin Haron, Norafifah Ahmad and Sandra L. Planisek

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Introduction

The rapid expansion in economy with an average gross national product of more than 5 per cent annually since the 1960s has transformed the Malaysian banking system from the role of mainly financing trade to one of mobilizing and channelling resources more effectively. These changes were indicated by the emergence of many new financial institutions, the introduction of new financial instruments and services, the securing of financial operations, and the elimination of strict demarcation lines among different types of financial institutions.

The changes in the banking system have created a new dimension in the banking industry within which the institutions in the banking system have to compete, not only with financial institutions outside the banking system, but also with themselves to remain in business.

Indeed, the fiercer level of competition is not only faced by the banking industry in Malaysia, but also it is becoming the most influential factor in the structure and activities of the banking system around the globe. In the UK, for example, increasing competition has pushed British banks into much greater customer-oriented, and competitive behaviour. In other countries, the industry has been transformed from its traditional staid image to that of a vibrant and dynamic environment (Turnbull and Gibbs, 1989).

Malaysian commercial banks face even more challenges than most with other financial institutions. Not only have they to compete among themselves and other institutions within and outside the banking system, but also they have to compete with the new competitors which offer similar services but are based on Islamic principles. The first Malaysian commercial bank which fully operates based on Islamic principles is Bank Islam Malaysia Berhad (BIMB).

The Islamic principles which govern the operations of Islamic banks are also known as *Shariah* principles. The applicable principles are called *Mudharabah*, *Musyarakah*, *Murabahah*, *Al-Bai Bithaman Ajil*, *Al-Ijarah*, *Al-Takjiri*, *Qard Hasan*, *Al-Wakalah*, *Al-Kafalah* and *Wadiah*.

- *Mudharabah*: This is basically an agreement between a lender and an entrepreneur, in which the lender agrees to finance the entrepreneur's project on a profit-sharing basis according to a pre-determined ratio agreed on in the negotiation between the two parties. The lender will bear any loss incurred.
- *Musyarakah*: This is a partnership for a specific business activity with the aim of making profit, whereby the lender not only provides the capital but also may also participate in the management. As in the case of *Mudharabah*, all parties agree, through negotiation, on the ratio of distribution of profits generated from the business activity, which need not coincide with the ratio of participation in the financing of the activity. However, in the event of a loss, all parties bear the loss in proportion to their shares in the financing.
- *Murabahah*: This is basically the sale of goods at a price covering the purchase price plus the profit margin agreed on by both parties concerned, which transforms a traditional lending activity into a sale and purchase agreement, under which the lender buys the goods wanted by the borrower for resale to the borrower at a higher price agreed on by both parties.
- *Al-Bai Bithaman Ajil*: This is a variant of the concept of *Murabahah*, whereby the borrower is allowed to defer settlement of the payment for the goods purchased within the period, and in the manner, determined and agreed on by both parties.
- *Al-Ijarah*: This is the *Shariah's* concept of leasing finance whereby the bank purchases the asset

required by the customer and then leases the asset to the customer for a given period, the lease rental and other terms and conditions having been agreed on by both parties.

- *Al-Takjiri*: This is a variant of the concept of *Al-Ijarah* which, however, provides for the acquisition of the leased asset by the lessee.
- *Qard Hasan*: This is a "benevolent loan" which obliges a borrower to repay the lender the principal sum borrowed on maturity of the loan. However, the borrower has the discretion to reward the lender for his/her loan by paying any sum over and above the amount of the principal.
- *Al-Wakalah*: This is an agreement between a customer and his/her bank in which the former appoints the latter as his/her agent in undertaking a certain transaction on his/her behalf.
- *Al-Kafalah*: This is an agreement between a customer and the bank whereby the latter guarantees the fulfillment of the obligation of the former to a third party.
- *Wadiah*: This is an agreement to deposit an asset, excluding immovable fixed assets, in the custody of another party who is not the owner, or any such asset deposited with a non-owner for custody.

The establishment of BIMB in 1983 marked a milestone in the Malaysian banking system as it provided an alternative to the existing conventional system. Having operations based on Islamic principles which prohibit interest, it is able, therefore, to fulfil the needs of the Muslim population. At present, BIMB offers services which are similar to those services available at other conventional commercial banks. BIMB accepts savings and demand deposits under the principle of *Wadiah*. It also accepts time deposit which is known as "investment deposit" under the principle of *Mudharabah*. It grants credit facilities such as project financing under principles of *Mudharabah* and *Musyarakah*, lease financing under the principles of *Al-Ijarah* and *Al-Takjiri*, hire-purchase financing under the principles of *Al-Bai Bithaman Ajil*, trade financing under the principles of *Mudharabah*, *Musyarakah*, and *Wakalah*, and guarantee under the principles of *Al-Kafalah*.

At the end of 1991, BIMB had 29 branches and total deposits of RM1,270 million as compared with 1,050 branches with total deposits of RM96,018 million for all the commercial banks. The amount of selected items for the past five years for both BIMB and all commercial banks is shown in Table I.

Since its inception, BIMB has succeeded in penetrating the financial market. This is reflected by the increasing amount of its total assets, loans and deposits. At the end of June 1984 (the first year of operation), the total assets were worth RM326 million. This increased to RM1,357 million at the end of June 1991. As for other items, total loans and

total deposits at the end of BIMB's first year of operations were RM162 million and RM241 million, respectively. Both loans and deposits figures increased to RM789 million and RM1,175 million at the end of June 1991. Although the amounts of the selected items for BIMB increased every year, the growth figures declined. However, for the commercial banks, both amount and growth showed an upward trend.

For a clearer picture, percentages of growth of selected items for BIMB and conventional banks were analysed. As evident from Table II, BIMB showed a decreasing growth in assets from 37 per cent to -3 per cent for the five-year period, while, generally, there was an upward trend for the growth in the commercial banks' assets. The same trend was observed for both types of banks as far as loans and advances were concerned. Deposits, a key indicator which reflects a bank's liability, showed a declining growth in BIMB and a relatively small growth in the commercial banks for this period.

Owing to the highly competitive environment, it is essential for both the bankers of commercial and Islamic banks to obtain information concerning customers' patronage factors towards a specific financial institution. The bankers must also know the degree to which various product or service characteristics are important and how these factors influence customers' choice of their banker. This information is needed prior to the introduction of any

Table I. Selected Items for BIMB and Conventional Banks as at 30 June (RM million)

	1987	1988	1989	1990	1991
<i>Assets</i>					
BIMB	916	1,134	1,368	1,396	1,357
Commercial banks	81,195	85,836	104,664	116,779	137,893
<i>Loans and advances</i>					
BIMB	430	611	670	812	792
Commercial banks	51,234	54,199	61,029	71,440	88,682
<i>Trade bills</i>					
BIMB	1	2	4	4	3
Commercial banks	4,333	5,129	6,512	7,668	9,750
<i>Loans</i>					
BIMB	429	609	666	808	789
Commercial banks	46,901	49,070	54,517	63,772	78,93
<i>Deposits</i>					
BIMB	809	1,022	1,229	1,221	1,178
Commercial banks	56,453	56,737	63,146	70,491	79,455
<i>Source:</i> Bank Negara Malaysia, various issues; BIMB, various issues					

Table II. Growth for Selected Items for BIMB and Conventional Banks

	1987	1988	1989	1990	1991
<i>Assets</i>					
BIMB	37	24	21	2	(3)
Commercial banks	9	6	22	12	18
<i>Loans and advances</i>					
BIMB	8	42	10	21	(3)
Commercial banks	1	6	13	17	24
<i>Trade bills</i>					
BIMB	(12)	77	11	(16)	(30)
Commercial banks	7	18	27	18	27
<i>Loans</i>					
BIMB	9	42	9	21	(2)
Commercial banks	0	5	11	17	24
<i>Deposits</i>					
BIMB	43	26	20	(1)	(4)
Commercial banks	10	1	11	12	12

new product or service. Hence, understanding customer characteristics is very important to the bankers since they relate to these critical factors which determine bank selection.

This study was undertaken to determine the factors considered important by customers in selecting their financial institution. Specifically, the study was designed to determine:

- the selection criteria used by Muslims and non-Muslims in a dual banking environment;
- the differences between Muslims and non-Muslims relating to factors which influence their selection decision;
- the perceived usefulness of services offered by the commercial banks.

This study will also gauge the knowledge of Muslims and non-Muslims of the existence of the Islamic bank and their perception towards this bank. It is hoped that the finding presented in this article will provide some useful and pertinent information for both conventional and Islamic bank managers in formulating their marketing strategies. A recent study indicated that Muslims patronized Islamic banks not so much because of the religious factor, but more because of the returns they would receive from their investments (Erol and El-Bdour, 1989). Customers in Islamic countries also did not differentiate between the services offered by conventional and Islamic banks (Erol *et al.*, 1990). Since religion is no longer the main factor in attracting customers, Islamic banks should recognize that customers view them just like any other commercial bank.

Hence the quality of service, and products and services offered must be compatible with those offered by the commercial banks.

An important development in the Malaysian banking system was the introduction of banking services based on the Islamic principles by three major commercial banks in March 1993. Although there is no evidence that the introduction of the Islamic counter by the commercial banks will pose a threat to the Islamic bank, nevertheless, Islamic bank should recognize that the Muslims now have an option when seeking banking services based on Islamic principles. The management of the Islamic bank must also acknowledge that they can no longer depend on Muslims as their source of deposits or as their funds users. They have to expand their customers' base by including non-Muslims as potential customers.

Literature Review

Various empirical research using different methodologies and approaches has been applied in various parts of the world to examine the criteria which motivate clients in selecting their bank. Anderson *et al.* (1976) used "determinant attribute analysis" in a survey in the USA and stratified their samples according to convenience and services. Based on 15 selection criteria, convenience customers selected "recommendation by friends" as the most important factor, followed by "location", "reputation", "service charges" and "friendliness of bank staff". The service customers ranked "availability of credit" as the most important factor, followed by "reputation", "recommendation by friends", "friendliness of staff" and "interest charged on loans".

The findings by Anderson *et al.* (1976) are supported by Tan and Chua (1986). In their research in Singapore, Tan and Chua found that advice of friends, neighbours and family members has a stronger influence on customers' decisions, compared with other variables in selecting financial institutions. This finding is consistent with the ethos of oriental culture which emphasizes social and family ties.

A study by Javalgi *et al.* (1989) in the USA, using "analytic hierarchy process" to determine the bank selection criteria, reported that "safety of one's funds" to be the main criterion followed by "paying highest interest rates on savings", "location", "reputation", "availability of loans", "low interest rates on loans", "ease of qualifying for current account by maintaining a minimum balance" and, lastly, "Saturday banking".

Investigating services used and factors considered important in bank selection on 140 Canadian households, Laroche *et al.* (1986) found that "friendliness of staff" was the primary choice determinant followed by "hours of

operations", "size of waiting lines", "convenience of location", "efficiency of personnel", "speed of processing items", "parking facilities and accessibility", "availability of credit", "bilingualism of staff", and "interest on savings".

Kaynak (1986), who also conducted research in Canada, divided his sample into two groups, bank customers and bank managers. These two groups were asked the same question, "What is the most ideal bank according to your perception?" The customers preferred a bank with "fast and efficient service", while the managers chose "reputation" as the main factor.

Riggall (1980) surveyed 250 customers who had just opened accounts six months before, and found that location was cited as the key factor in selecting a bank. Evans (1979) investigated the influence of situation on an individual's choice of a bank. He divided selection criteria into two factors, i.e. "service factors" and "situational factors". Factors such as near and convenient location, waiting line, pressure owing to time, depositing and withdrawing money, loan transactions, and portfolio services were considered "situational factors", whereas factors such as free chequing service, adequate drive-in service, and accurate bank statement service were considered as "service factors". The findings showed that each of the factors had not indicated the same degree of importance in influencing an individual's behaviour in his/her selection of a bank.

While Erol and El-Bdour (1989) compared Islamic with conventional bank customers, no one has compared the Muslim and non-Muslim bank customers' perception towards their bankers in a banking environment where both Islamic and conventional banks operate. Such a comparison is considered important because the information obtained from such a study could be used to help both banks enlarge their customer base.

Methodology

A sample of 301 Muslim and non-Muslim commercial bank customers in Alor Setar, Sungai Petani, and Kangar towns was surveyed. The population for each town is about 100,000 and half of the population in each town comprises Muslims. The selection of the samples was based on convenience and these customers did not have any banking relationship with the Islamic bank. These towns were chosen because they represented a competitive banking environment compared with other towns in the states (Kedah and Perlis). Customers had a wide range of banks and other non-bank financial institutions from which to choose. The data for this study were collected through self-administered questionnaires distributed by student workers. The questionnaire contained three sections: the first section was designed to gather information about the

sample's personal, demographic and economic characteristics. The profile of the sample's characteristics is shown in Table III.

In the second section of the questionnaire, the respondents were asked to indicate, on a five-point Likert-type scale, ranging from "very important" to "not important at all", how they viewed a series of factors in selecting a commercial bank. Many of the factors were adapted from Anderson *et al.* (1976), Kaynak (1986), Laroche *et al.* (1986) and Erol and El Bdour (1989).

The final section of the questionnaire was designed to generate data concerning the usefulness of products or services offered by the commercial banks for their customers. The perceived level of usefulness of these products or services was also measured on a five-point Likert scale. The scale ranged from "used all the time" to "never being used". The bank product or service choices were derived from Laroche *et al.* (1986), and Erol and El-Bdour (1989). The questions which measure the perception of respondents towards the Islamic bank were placed in this section.

Data analysis included both univariate and multivariate statistics. Univariate techniques were used to identify the overall attitudes of bank customers towards commercial banks and the usefulness of bank services. The primary tool of multivariate statistics was a principal component analysis with Varimax rotation used to cluster bank selection criteria.

Findings

Determinants of Bank Selection

Except for a few differences in terms of order of importance, both the Muslims and non-Muslims valued the same traits when selecting their banks. The most important factor considered by Muslims when selecting their financial institutions is "fast and efficient service" and this factor was ranked second by non-Muslims. "Friendliness of bank personnel", considered as the most important factor by non-Muslims, is ranked third by Muslim customers. Non-Muslims considered "reputation and image of bank" and "reception received at the bank" as third and sixth important factors respectively, but Muslims ranked these factors as seventh and fourteenth, respectively. The list of score and rank of all factors is shown in Table IV.

A *t*-test was used to test the statistical differences between the means for selection factors between Muslim and non-Muslim customers and significant difference occurred for some of the factors. At the 0.01 level, factors of which both samples had variation were "interior comfort", "offer service on financial counselling", "internal appearance of bank", "impression of manager", "hours of operations", "a wide range of service offered", "fast and efficient service",

Table III. Respondents' Characteristics

	Muslim <i>n</i> = 150 (%)		Non-Muslim <i>n</i> = 151 (%)	
<i>Age</i>				
<20 years	3	2.0	12	7.9
20-29 years	45	30.0	82	54.3
30-39 years	72	48.0	36	23.8
40-49 years	20	13.3	16	10.6
>50 years	10	6.7	5	3.3
<i>Level of education</i>				
Nil	1	0.7	5	3.3
Primary	7	4.7	16	10.6
Secondary	105	70.0	89	58.9
University/college	31	20.7	31	20.5
Professional	3	2.0	10	6.6
Missing value	3	2.0	–	–
<i>Type of employers</i>				
Private	26	17.3	78	51.7
Government/public agency	98	65.3	27	17.9
Self-employed	26	17.3	46	30.5
<i>Type of job</i>				
Professional	12	8.0	16	10.6
Management	7	4.7	3	2.0
White-collar	60	40.0	61	40.4
Blue-collar	35	23.4	19	12.6
Own business	26	17.3	46	30.5
Missing value	10	6.6	6	3.9
<i>Years on job/business</i>				
<5 years	38	25.3	84	55.6
5-9 years	33	22.0	38	25.2
10-14 years	36	24.0	14	9.3
15-20 years	27	18.0	5	3.3
>20 years	15	10.0	10	6.6
Missing value	1	0.7	–	–
<i>Monthly income (Ringgits)</i>				
<\$1,000	74	59.7	77	73.4
\$1,000-\$1,995	36.3	24	22.9	
\$2,000-\$2,999	5	4.0	2	1.9
\$3,000-\$3,999	–	–	–	–
>\$4,000	–	–	1	0.9
Missing value	–	–	1	0.9
<i>Monthly sales (own business)</i>				
<\$15,000	18	69.2	30	65.2
\$15,000-\$29,999	4	15.5	5	10.9
\$30,000-\$44,999	2	7.7	5	10.9
\$45,000-\$59,999	–	–	2	4.3
>\$60,000	1	3.8	4	8.7
Missing value	1	3.8	–	–

“able to fulfil individual and personal needs”, “speed of transactions” and “overdraft privileges”. At the 0.05 significant level, there were variations for factors “reception received at the bank”, “lower service charges”, and “inter-branch facilities”.

There are many similarities and differences between the findings of this research and the findings of earlier research. The selection of “fast and efficient service” as one of the important factors in selection decision by Muslims and non-Muslims is consistent with the findings by Kaynak (1986), Erol and El-Bdour (1989) and Turnbull and Gibbs (1989). “Friendliness of bank personnel” which is also ranked highly in this research is considered the most important factor by Laroche *et al.*'s (1986) respondents. “Recommendation by friends and relatives”, which was considered the most important factor by Anderson *et al.* (1976) and Tan and Chua's (1986) respondents, is ranked twenty-third in this research. The inconsistency between the findings of this research and Tan and Chua's (1986), as far as recommendation is concerned, is rather strange, considering that the respondents from both countries have many similarities. Like Singaporeans, Malaysians also have strong social links and close family ties. In oriental culture, where people still maintain strong traditional values, friends' and relatives' advice still has a strong influence on someone's decision-making process.

Convenient location, or location being near home or office, which was found to be important in earlier researches (Kaynak, 1986; Laroche *et al.*, 1986; and Riggall, 1980), is found to be unimportant in this research. This can probably be explained by the clustered location and hence equivalent convenience of all banks in the cities sampled. Apart from “recommendation by friends and relatives”, other unimportant factors in selection decision are “external appearance of bank”, “size of bank”, “mass media advertising” and “interior comfort”.

In an effort to delineate patterns more clearly, a Varimax-rotated factor analysis was run on the 26 selection criteria. Statements were accepted as “loaded”, if the loading factor value was equal to or greater than the absolute value of 0.6. Using SAS programme, seven factors emerged from the analysis for the Muslim customers (see Table V). Factor 1 can be labelled as bank product and services. This can be used as an indicator of Muslim customers' concern about the facilities offered by their bank, which include type of products and services, and the availability of inter-branch facilities. Factor 2 concerns the image of the bank. The image indicators include appearance of the bank, both internal and external, and the mode of information carriers. Recommendation by friends and mass advertising were grouped in this cluster. Factor 3 deals with staff quality involving the friendliness of the bank personnel, their efficiency and effectiveness in handling any transaction. Factor 4 concerns the financial charges imposed by the bank. Factor 5 comprises both bank image and staff quality whereas factor 6 relates to the salient

features of the bank and factor 7 deals with locality. For non-Muslims, the first factor can be labelled as image. Factor 2 is a combination of facility and staff quality. Factor 3 deals with services offered by the bank. Charges imposed by the bank can be assigned to factor 4. Factors 5 and 6 are for bank image while factor 7 is about convenience. Factor 8 is concerned with the size of bank.

The results for these factors can be seen in Table VI.

Bank Product Usage

The type of products or services used by the respondents is shown in Table VII. Since 76 per cent of the samples were wage earners, the findings highlighted in Table VII concerned services frequently used by the retail customers rather than services used by the commercial customers. As can be seen, the facility most frequently used by both

Muslim and non-Muslim customers was savings account, followed closely by the automated teller machine (ATM). This situation indicates that retail customers prefer banking facilities which carry some kind of return and that these customers also make full use of the ATM facility because of convenience and limited amount of withdrawal. Other facilities such as travellers' cheques, foreign exchange, safe deposit boxes, personal overdrafts, housing loans, personal fixed loans are seldom used by the respondents.

Since a full range of products seemed to be the key to attracting new bank customers, particularly the Muslims, respondents were given the choice of 15 products and were asked to rate the frequency with which they used each. Results showed that almost all products were used significantly more by Muslims than non-Muslims. The sole

Table IV. Ranking Importance of Selection Factors

	Muslim		Non-Muslim		<i>t</i>
	Mean	Rank	Mean	Rank	
1. Fast and efficient services	1.240	1	1.437	2	-2.674 ^b
2. Speed of transactions	1.393	2	1.589	4	-2.578 ^b
3. Friendliness of bank personnel	1.427	3	1.424	1	0.972
4. Confidentiality of bank	1.547	4	1.649	5	-1.139
5. Knowledgeable about your business	1.600	5	1.682	7	-0.901
6. Lower interest charges on loans	1.627	6	1.682	7	-0.561
7. Impression of manager	1.627	6	1.967	14	-3.666 ^b
8. Inter-branch facilities	1.627	6	1.808	11	-1.961 ^a
9. Reputation and image of bank	1.673	7	1.543	3	1.464
10. Lower service charges	1.727	8	1.960	13	-2.150 ^a
11. Hours of operations	1.733	9	2.046	15	-3.320 ^b
12. Parking facilities and accessibility	1.773	10	1.728	8	0.469
13. Offer service on financial counselling	1.780	11	2.132	18	-3.788 ^b
14. Convenience of location	1.807	12	1.894	12	-0.869
15. A wide range of services offered	1.813	13	2.099	16	-2.905 ^b
16. Reception received at the bank	1.873	14	1.662	6	2.143 ^a
17. Higher interest payments on savings accounts	1.880	15	1.801	10	0.652
18. Overdraft privileges	1.900	16	2.119	17	-2.173 ^b
19. Interior comfort	1.913	17	2.291	20	-3.889 ^b
20. Able to fulfil individual/personal needs	1.913	17	2.179	19	-2.594 ^b
21. Available credit with favourable terms	1.927	18	1.775	9	1.520
22. Internal appearance of bank	2.060	19	2.470	22	-3.679 ^b
23. Mass media advertising	2.313	20	2.490	23	-1.473
24. Size of bank	2.453	21	2.430	21	0.193
25. External appearance of bank	2.567	22	2.695	24	-0.979
26. Recommendations by friends and relatives	2.687	23	2.901	25	-1.731

Notes

^a 0.05

^b 0.01

Table V. Results of Factor Analysis of Selection Factors for Muslims

Muslims	Factor loading
<i>Factor 1 (variance explained 3.897)</i>	
A wide range of services offered	0.634
Offer service on financial counselling	0.631
Overdraft privileges	0.800
Inter-branch facilities	0.757
<i>Factor 2 (variance explained 2.644)</i>	
Recommendation by friends and relatives	0.661
External appearance of bank	0.771
Internal appearance of bank	0.685
Mass media advertising	0.715
<i>Factor 3 (variance explained 2.368)</i>	
Friendliness of bank personnel	0.600
Fast and efficient services	0.684
<i>Factor 4 (variance explained 2.272)</i>	
Lower interest charges on loans	0.772
Higher interest payment on deposits	0.835
<i>Factor 5 (variance explained 2.053)</i>	
Interior comfort	0.781
Knowledgeable about your business	0.635
<i>Factor 6 (variance explained 1.685)</i>	
Hours of operation	0.742
Size of bank	0.679
<i>Factor 7 (variance explained 1.557)</i>	
Convenience of location	0.769

exception was remittance services. The *t*-test for the differences in usage by the two groups confirmed the variations.

Knowledge about Islamic Bank

As shown in Table VIII, almost 100 per cent of the Muslim population was aware of the existence of the Islamic bank; the sources of knowledge are mainly newspapers and magazines, television and radio, and family members. Many of the Muslim respondents visit the bank's branch and seek information about the bank services and operations on their own initiative. For non-Muslims, about 75 per cent of the respondents know of the existence of the Islamic bank from information derived mainly from newspapers and magazines. Other sources of information are not so effective for the non-Muslims.

Even though it has been nearly a decade since the Islamic bank was first established in the country, only about 63 per cent of the Muslims have understood either partly, or completely, the differences between the Islamic bank and

Table VI. Results of Factor Analysis of Selection Factors for Non-Muslims

Non-Muslims	Factor loading
<i>Factor 1 (variance explained 2.767)</i>	
External appearance of bank	0.803
Internal appearance of bank	0.781
Mass media advertising	0.688
<i>Factor 2 (variance explained 2.649)</i>	
Confidentiality of bank	0.600
A wide range of services offered	0.600
Inter-branch facilities	0.655
Speed of transaction	0.717
<i>Factor 3 (variance explained 2.333)</i>	
Offer services on financial counselling	0.713
Overdraft privileges	0.747
Hours of operation	0.631
<i>Factor 4 (variance explained 2.162)</i>	
Lower service charges	0.600
Lower interest charges on loans	0.735
Higher interest payment on savings accounts	0.756
<i>Factor 5 (variance explained 2.060)</i>	
Knowledgeable about your business	0.616
Able to fulfil individual/personal needs	0.617
<i>Factor 6 (variance explained 2.038)</i>	
Reception received at the bank	0.743
Reputation and image of bank	0.664
<i>Factor 7 (variance explained 1.543)</i>	
Convenience of location	0.755
Parking facilities and accessibility	0.618
<i>Factor 8 (variance explained 1.295)</i>	
Size of bank	0.743

conventional banks. Non-Muslims showed much less understanding. Only 12 per cent of the Muslims and 32 per cent of the non-Muslims believe that the Islamic bank is for Muslims customers only. In terms of why people patronized the Islamic bank, about 39 per cent of the Muslim respondents believe that religion is the only reason why people patronize the Islamic bank, and, surprisingly, the percentage is much lower for non-Muslims. More than half of both respondent groups have indicated the possibility of establishing a relationship with the Islamic bank if they have a complete understanding about the operations of an Islamic bank.

Concluding Remarks

The purpose of this study is to determine the pertinent factors which Muslims and non-Muslims perceive as germane to their selection of banks. The most significant

Table VII. *Services Utilized*

Services	Muslims		Non-Muslims		<i>t</i>
	Mean	Rank	Mean	Rank	
1. Savings accounts	1.57	1	2.08	1	3.903 ^b
2. Automated teller machine	1.87	2	2.36	2	2.946 ^b
3. Current accounts	2.95	3	2.99	3	0.211
4. Fixed deposits	3.15	4	3.88	5	4.472 ^b
5. Remittance	3.42	5	3.38	4	-0.268
6. Fixed loan – personal	4.01	6	4.39	7	2.621 ^b
7. Overdraft – personal	4.04	7	4.48	9	3.036 ^b
8. Giro	4.04	7	4.33	6	1.876 ^a
9. Safe deposit boxes	4.06	8	4.39	7	2.212 ^a
10. Overdraft – business	4.08	9	4.47	8	2.630 ^b
11. Foreign exchange	4.11	10	4.62	12	4.399 ^b
12. Other facilities	4.15	11	4.54	11	2.691 ^b
13. Fixed loan – business	4.15	11	4.63	13	3.347 ^b
14. Housing loan	4.16	12	4.53	10	2.674 ^b
15. Travellers' cheques	4.32	13	4.77	14	4.031 ^b

Notes:
^a0.05
^b0.01

fact revealed by this study is that there is no significant difference in the selection criteria. In other words, both Muslims and non-Muslims who patronized commercial banks have a common perception in selecting their banks. With this information, the Islamic bank should not over emphasize, and rely on, the religion factor as a strategy in its effort to attract more customers. The Islamic bank should also be aware that only 40 per cent of Muslims believe that religion is the main factor in why people maintain an account with Islamic bank.

Another interesting finding from this study is that both Muslims and non-Muslims value their time highly and expect their banking transactions to be completed as quickly as possible. The inefficiency indicators such as long queues in the banking hall, temporary shut-downs in ATM service, unoperational counters during banking hours, unattended enquiries, and delays in making decisions should be addressed immediately. In practice, both conventional and Islamic banks have not given appropriate emphasis to these issues. Beautification of bank premises and the providing of interior comfort seem to have been accorded top priority by the banks although these efforts, according to this study, are not appreciated much by the customers. To be competitive in attracting customers, commercial banks are willing to invest in a large amount of money for advertising, despite the uncertainty of its returns.

Another important issue which requires attention is the way bank personnel handle their customers, which definitely involves quality of service. Quality of service

Table VIII. *Knowledge of Islamic Bank*

	Muslims (%)	Non-Muslims (%)
1. Knowing the existence of BIMB:		
Yes	99.3	74.8
No	0.7	25.2
2. Source of knowledge of BIMB (Respondents can give more than one source):		
Newspapers and magazines	78.0	46.4
Television and radio	58.7	28.0
Friends and family members	50.0	23.2
Meetings (e.g. club, business)	10.7	19.2
Staff of BIMB	8.7	2.0
Went to BIMB and asked	43.9	10.7
3. Understanding the differences between BIMB and conventional banks:		
Complete understanding	27.3	8.6
Partial understanding	36.0	10.6
Not sure	24.0	40.4
Hardly	10.0	27.8
Absolutely not	1.3	12.6
No answer	1.4	–
4. BIMB is for Muslim customers:		
Absolutely	6.0	13.9
Possibly	6.0	17.9
Unsure	19.3	32.5
May not be	54.7	24.5
Absolutely not	14.0	11.3
5. Reasons why people patronize BIMB:		
Strictly religion	38.7	30.5
Profitability	2.0	15.2
Both religion and profit	52.0	29.8
Other reasons	7.3	24.5
6. The possibility of respondents establishing relationship after having a complete understanding of the operations of BIMB:		
Absolutely yes	44.0	15.9
Yes	36.7	37.1
Not sure	17.3	30.5
No	0.7	13.9
Absolutely not	1.3	2.0
No answer	–	0.7

here means more than a smile or a passing greeting to customers. The dress code, customer relations, and the technique of answering the telephone are some of the areas to be emphasized.

BIMB and conventional banks can capitalize on the facilities which are currently available to both Muslims and non-Muslims. Both customers were found to use only the basic commercial facilities in their daily activities. Rigorous efforts should be taken to market products such as travellers' cheques, personal overdrafts or personal fixed loans and housing loans. BIMB and conventional banks would lose this potential and viable markets to other financial institutions, i.e. finance companies and savings banks if they are not aggressive enough in their marketing strategies. As mentioned previously, both Muslims and non-Muslims indicated that they would want to establish a relationship with BIMB if they were given a complete understanding about the Islamic bank and this opportunity should be capitalized on immediately.

The introduction of banking services based on Islamic principles by the three major commercial banks recently brought a new dimension in the Malaysian banking industry. Both conventional and Islamic banks should be information-oriented. Information such as why people patronized the Islamic bank, why people choose products based on Islamic principles offered by conventional banks, and how people differentiate products which are offered by both the Islamic bank and conventional banks are vital to the viability of these two types of banks. These issues are worthy of future research.

In conclusion, top management in the commercial banks should realize that the financial service industry is moving quickly towards a dramatic era. The competitive rules of the game have changed with the advent of deregulation, introduction of sophisticated technology, the internationalization of competitors, and shift of bargaining power to the customers' advantage. Therefore, the success and survival of the individual commercial bank depends on the bankers' ability to understand customers' needs and to find effective ways to satisfy these needs.

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