

## Jordanian Criteria for Islamic Banks Selection. Evidence from the Jordanian Banking Sector

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**Abstract** *This study aims to investigate the criteria of Islamic bank selection for Jordanian customers. In order to achieve this goal, the study tested the hypothesis that there is no significant difference in the ranking of banking selection factors as perceived by customers of Islamic banks in Jordan, in order to answer the following questions: what are the criteria that Jordanian customers highly regard when choosing an Islamic bank?, and what is the ranking of importance of the criteria that affect the decision of choosing the Islamic bank in a dual-banking systems as in Jordan?. Using Friedman Test the preliminary data, which were collected using a questionnaire were analyzed. The finding of this study has shown that the selection of Islamic banks seems to be primarily a mixture of all the 12 criteria that have been tested. In terms of importance, the study showed that friendly personnel, Islamic reputation and image, and product price are in the top three, in order, as expressed by the study sample, while factors like location being near home or work, convenience and environmental practice and impact seem to be the least significant factors by participants when choosing an Islamic bank. One of the most important finding of this study is that Islamic banks in Jordan cannot attract their customers by the religion aspect only; it would require Islamic banks to properly understand the needs and expectations of existing and prospective customers.*

**Key words** Criteria, Banking System, Islam, Jordan

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### 1. Introduction

As one of the most important pillars of the financial sector today, Islamic banking is no longer seen as community business seeking only to satisfy the religious promises of the Muslim community, but increasingly, as a business compete strongly to gain the largest possible share of the market through pleasing existing customers, and attract potential customers (Wilson, 1995). In order to achieve this, it would require Islamic banks to properly understand the needs and expectations of existing and prospective customers, to earn their loyalty.

In Jordan the Islamic banking system has appeared as an important element of the Jordanian financial system that is involved in the expansion and improvement of the Jordanian economy. The capability of the Islamic banking system to gain a significant market share in a quickly developing and difficult financial environment mainly in a dual-banking system like in Jordan, to maintain its leading role, dependent on the ability of the strategic planning in the Islamic banking system to maintain a strong and influential competitive, and provide services and products that satisfy their customers' needs.

Accordingly, the main objective of this study is to examine the factors that are taken into account by the Jordanian consumers when choosing a bank, and in order to achieve that, the study seeks to answer the following questions:

- What are the criteria that Jordanian customers highly regard when choosing an Islamic bank?
- What is the ranking of importance of the criteria that affect the decision of choosing the most appropriate Islamic bank in dual-banking systems as in Jordan?

On this ground, this study will be important for Islamic banks that are interested in knowing the rank of selection criteria for banks according to their importance based upon the customer's choice in Jordan. Therefore, this study seeks to test the following hypothesis: "There is no significant difference in the ranking of banking selection factors as perceived by customers of Islamic banks in Jordan."

The analysis is based on a survey questionnaire conducted among customers at 37 different branches of Islamic banks throughout the Hashemite Kingdom of Jordan. The questionnaire has been designed to collect information on the criteria that customers highly regard when choosing for Islamic banks. The Reliability test has been performed to confirm the internal consistency of construct validity, to determine the personal characteristics of the participants, the descriptive analysis has been conducted, and the Friedman test has been performed to rank all of the 12 factors of the study, and to test its hypothesis.

## 2. Literature review

Many researchers concluded that even though the Islamic banks carry out the same functions achieved by conventional banks, their style is totally different (Henry and Wilson, 2004; Iqbal and Molyneux, 2005; Iqbal and Mirakhor, 2007). Some of the most important unique aspects of Islamic banks are stated below:

First, an Islamic bank strives to establish justice, equitable, and balanced society (Mirakhor, 2000; Warde, 2000). For that reason, many restrictions on interest, gambling and similar actions are imposed to ensure the provision of equal opportunities. The matter that will protect the interests of all parties involved in the market transactions and will promote and strengthen social solidarity (Ahmad, 2000; Chapra, 2000). Furthermore, the existing practice of interest in the conventional banks includes unfairness to the borrowers because the interest on loans must be paid regardless of the situation of the borrowing company. Also, interest-bearing financial assets can be unfair to the lenders particularly when their returns on deposits do not proportionate with the real outcomes of the investment (Lewis and Algaud, 2001).

Second, Islamic banking system is based on the principle of fraternity and social solidarity. This means that the Islamic banking system stands and is based on a system of sharing risks and benefits between the suppliers and the consumers of the funds (Ahmad, 2000). Third, Islamic banking system is built on the ethical and moral structure of Islam teachings. Consequently, the Islamic banking system is characterized by ethical norms and social commitments (Mirakhor, 2000). As a consequence of that, it is prohibited for Islamic banks to finance any venture that conflicts with the moral value system of Islam teachings or known to be harmful to the society (Ahmad, 2000).

In addition, the teachings of Islam do not treat money as a commodity; while the interest based banking system does (Haroon, and Azim 2005). According to Ahmad, Dent, and Rustam (2011), regardless of the fact that Islamic banks differ from conventional banks, Islamic banks are still facing strong competition by conventional ones.

Awan and Bukhari (2011) concluded that the factors that make the customers select the Islamic banks are two main factors: the first factor is the characteristics and attributes of the services and products offered by Islamic banks, and the second factor is the distinctive service provided by the Islamic banks. These two factors are very important, not only for customers of Islamic banks, but also for customers in conventional banks with subsidiaries for Islamic banking services. Also Amin, Abdul Rahman, Hwa, and Sondoh Jr (2011), Taib, Ramayah, & Abdul Razak, 2008; Ramayah & Suki, 2006 all reached similar conclusions. They concluded that the most two important factors in choosing Islamic banks as a personal financing source is social influence and attitude.

Hamid and Masood (2011) investigated the factors in selecting home financing in Pakistan. They concluded that religion factor is the most important one and the quick and efficient services factor was of less importance. The study also found that product price, reputation of the Islamic bank, and flexible and reasonable terms and conditions were in the third, fourth and fifth positions respectively.

Hassain & Leo, (2009) explained that the high-quality services lead to increase in the level of customer satisfaction and loyalty, and thus help in attracting new customers. Dusuki and Abdullah (2007) concluded that the selection of Islamic banks in Malaysia is a function of Islamic reputation and the services quality offered by the banks. Othman & Owen (2001) confirmed the existence of a strong relationship between service quality and customer satisfaction. They explained that in order to attract new customers, the Islamic banks must provide high quality products and services. Naser et al. (1999) revealed that the most important

criteria to be taken into account when choosing a bank are fast and efficient services, reputation and image, and confidentiality.

### **3. Research methodology**

This study follows the methodology used in (Asyraf and Nurdianawti, 2006) in which a questionnaire was developed and analyzed using SPSS statistical package. The data for this study were obtained through distributing a survey questionnaire to customers at 37 different branches of Islamic banks throughout the Hashemite Kingdom of Jordan. The participant banks in the study are: Islamic International Arab Bank, Jordan Islamic Bank, Jordan Dubai Islamic Bank, and Al Rajhi Bank.

The questionnaire includes two parts: the first part is designed to collect personal information about the participants in the survey, while in the second part, the participants were asked to point out, on a five point Likert scale, factors that are important to them when selecting a bank, these factors are: Knowledgeable and competent personnel, Islamic reputation and image, Islamic working environment, Islamic working environment, Friendly personnel, Economic reputation, Customer service quality (e.g. fast and efficient services), Location being near home or work, Convenience (e.g. available parking space, interior comfort), Product price factor, in community Involvement (e.g. giving donations, scholarships), Environmental practice and impact, and Respect for human rights. Most of these factors have been adapted from previous studies, (Ahmad and Haron, 2002; Abbas et al., 2003), and some additional factors have been included to survey issues such as religion and social responsibility.

#### **3.1. Data collection**

In order to reduce the sampling casing errors and to guarantee the exemplification of the population, participants were randomly chosen from Islamic banks' customers. The sampling methodology surveys the opinion of every fifth bank customer who had finished a transaction during the selected time intervals for the sampling location bank. Following previous studies (Jamal and Naser, 2002; Abbas et al., 2003; Sureshchandar et al., 2003), the questionnaires were diffused during different working hours of the same day, and different days of the week.

#### **3.2. Sample**

In average, 5 to 17 respondents were invited at each Islamic bank's branch, resulting in 424 distributed questionnaires. From this number 409 responses were valid. This number of responses yields a response rate of 96%, which is considered high. Hence the results can be viewed as reliable and can be generalized (Stevens, 2002).

#### **3.3. Analysis**

Data obtained through the questionnaire were analyzed using the statistical package for social sciences (SPSS). First, the Reliability test was conducted to test the internal consistency of construct validity. Secondly, the descriptive analysis was conducted to determine the personal characteristics of the participants. Finally, to determine which of the banking selection factors is seen as more or less significant, the Friedman test was performed to rank all of the 12 factors. This test has been selected to test the hypothesis that there is no significant difference in the ranking of banking selection factors as perceived by customers of Islamic banks in Jordan. The Friedman test is a non-parametric test, which is the ideal alternative to the one-way ANOVA when data are in the repeated measures form. Friedman test is more suitable when measurement of the variables is in an ordinal scale and is obtained from the same person (Norusis, 2004).

## **4. Findings and Discussion**

### **4.1. Reliability test**

Before the final questionnaire was distributed, a pilot study was conducted to determine the correctness and significance of the questionnaire in achieving the goals of the study. A total of 57 respondents were invited and participated in the pilot study. A Reliability test was conducted, which referred to the consistency of the measure, meaning that getting the same results using the same instrument under the same

circumstances and conditions repeatedly. In other words, the consistency of the measure is the stability in the results of the questionnaire. Stability of the questionnaire was verified by the Cronbach's alpha coefficient method. Table (1) shows the Reliability test results using Cronbach's alpha coefficient.

Table 1. Reliability test results

No.	Area	Cronbach's alpha coefficient
1	Knowledgeable and competent personnel	0.83
2	Islamic reputation and image	0.71
3	Islamic working environment	0.69
4	Friendly personnel	0.74
5	Economic reputation	0.85
6	Customer service quality (e.g. fast and efficient services)	0.72
7	Location being near home or work	0.84
8	Convenience (e.g. available parking space, interior comfort)	0.79
9	Product price factor	0.82
10	Involve in community (e.g. giving donation, scholarship)	0.81
11	Environmental practice and impact	0.75
12	Respect for human rights	0.79
	All areas of the questionnaire	0.76

Table 1 show that the value of Cronbach's alpha coefficient was high for the individual factors, ranging from 0.69 to 0.85. Also, the value of the alpha coefficient for all factors of the questionnaire was (0.76). None of the reliability coefficients was below the cut-off point 0.60. This means that the reliability coefficient is high indicating that the questionnaire is valid for analyzing the results, answering the questions of the study, and testing its hypotheses.

#### 4.2. Descriptive analysis

Table (2) presents the descriptive analysis for the demographic characteristics about the participants which included five variables: gender, age, marital status, educational level and monthly income.

Table 2. Descriptive analysis for the sample

		%
Gender	Male	84.8
	Female	15.2
Age	Below 21	1.7
	21 - 35	5.1
	35 – 45	50.6
	45 - 55	35.7
	Above 55	6.8
Marital Status	Single	25.2
	Married	74.8
Educational Level	Secondary School	6.4
	Diploma	18.1
	Bachelor	68.5
	Master	6.1
	PhD	0.2
	Other	0.7

Monthly Income (J.D)	%
Less than J.D300	7.0
300 – 349	17.4
350 – 549	22.6
550 – 749	34.7
750 – 999	8.5
1000 – 1500	6.6
More than 1500	3.2

J.D = Jordan Dinar; 1 J.D = 1.412 US \$ as May 03, 2013.

As shown in Table 2, the majority of respondents were Males (84.8%), and 50.6% of the respondents were between 35 and 45 years old. Most of the respondents were married (74.8%). About 69% of respondents were highly educated with Bachelor degrees. Regarding the income level, a major chunk of the respondents (34.7%) earned incomes between J.D550 and J.D750, While 47% of them earned less than J.D550 and 18.2% earned more than J.D750.

#### 4.3. Hypotheses testing

In order to achieve the objectives of the study and test its hypothesis, Friedman test was performed. Table (3) shows the result of Friedman test.

The table shows that the chi-square value ( $\chi^2 = 759.497$ ) is higher than the tabulated chi-square value ( $\chi^2 = 19.675$ ) at  $\alpha = 0.05$  and  $df = 11$ . The Asymp. Sig. value was 0.000, which is lower than the 0.05 significant levels, indicating that there is a statistically significant difference in the ranking of banking selection factors as perceived by customers of Islamic banks in Jordan, consequently, the null hypothesis can be rejected.

Table 3. Friedman test results

	Mean	Mean rank	Std. dev.	p-value	Importance rank
Knowledgeable and competent personnel	4.181	6.385	0.579	0.000	5
Islamic reputation and image	4.594	8.392	0.676	0.000	2
Islamic working environment	4.044	4.193	0.632	0.000	8
Friendly personnel	4.658	8.655	0.590	0.000	1
Economic reputation	4.059	6.045	0.587	0.000	7
Customer service quality (e.g. fast and efficient services)	4.220	6.681	0.543	0.000	4
Location being near home or work	3.941	5.896	0.847	0.000	10
Convenience (e.g. available parking space, interior comfort)	3.682	4.775	1.037	0.000	11
Product price factor	4.553	8.006	0.632	0.000	3
Involve in community (e.g. giving donation, scholarship)	4.015	6.051	0.857	0.000	9
Environmental practice and impact	3.650	6.323	0.865	0.000	12
Respect for human rights	4.142	6.597	0.888	0.000	6
N.					409
Chi-Square					759.497
df					11
Asymp. Sig.					0.000

Test value = 3; scoring: 1= not important at all; 2= not important; 3= neutral; 4= important; 5= very important; tabulated chi-square value = 19.675 at 0.05 confidence interval and  $df = 11$ .

The results in Table 3 show that the Friendly Personnel factor has a high response values with arithmetic mean of 4.658 and a P-value of 0.000. This indicates that the arithmetic mean of the Friendly Personnel factor differs with a statistical significance than the neutral point of 3 on the Five Point Likert scale. Moreover, the table shows that Friendly Personnel factor is the most important criterion in choosing an Islamic bank as its importance rank was 1.

In the second position on the importance rank was the Islamic reputation and Image with an arithmetic mean of 4.594 and a P-value of 0.000. This P-value indicates clearly that the arithmetic mean of this factor differs significantly from the test value of 3. In the third position came the product price factor with an arithmetic mean of 4.553 where as in the fourth position was the Customer Service quality factor with an arithmetic mean of 4.22. Finally, the last important factor for the customer is the knowledge and competent personnel factor with an arithmetic mean of 4.181.

These results are consistent with the results of Abbas et al. (2003), which concluded that the workforce is one of the most significant factors that affect the choice an Islamic bank, and, in most cases, the main reason for not considering Islamic banks for finance is the lack of efficiency and good manners of bank's workforce. In contrast, the results showed that factors like Location being near home or work, Convenience and Environmental practice and impact seem to be the least significant factors by participants when choosing an Islamic bank.

## 5. Conclusions

This study aims to investigate the factors affecting the decision of choosing a particular Islamic Bank by Jordanian consumers. In order to achieve this goal, 424 questionnaires were distributed, from which 409 were valid for analysis. The Reliability test was conducted to test the internal consistency of construct validity. The stability of the questionnaire was verified by the Cronbach's alpha coefficient, where the results of the analysis showed that none of the reliability coefficients was below the cut-off point of 0.60 for any of the 12 factors. The value of the alpha coefficient for the overall questionnaire was (0.76). Using the Friedman test the null hypothesis was rejected, indicating that there is a significant difference in the ranks among the banking selection factors as perceived by customers of Islamic banks in Jordan. The study showed that the most important factor for the Jordanian customers in choosing the Islamic banks is the friendly personnel factor. Most of the banks customer's first notion comes through getting touch with employees. So that, Islamic bank workforce must be inspired to work on behalf of the customer through knowledge, as the friendly personnel can be achieved through offering guidance and information for the customers, advising the customers about the products, answering any questions that the customers may have, and let the customers feel that the employees are there to serve them. Therefore, in order for Islamic banks to attract customers, their workforce must act friendly, by showing attention to every customer and making him feel important.

Islamic reputation and image factor is very important for choosing Islamic banks as its importance rank comes in the second place. There are many Muslim customers who are interested in issues of faith and religious beliefs when dealing with banks, so that religious faith is an important determinant when choosing an Islamic bank. Islamic bank has been seen as a financial organization that can fulfill the longing of Muslims to live all aspects of their life in harmony with teachings of Islam.

One of the most important conclusions of this study is that Islamic banks cannot attract their customers by the religion aspect only. As a matter of fact, the study showed that the religion factor came second in terms of importance, while friendly personnel factor came first. Moreover, the Product price factor and Customer service quality factor are major factors for the Jordanian customers as they ranked third and fourth, respectively.

It is worth noticing that all the 12 factors contained in the questionnaire were important for Jordanian consumers when choosing an Islamic bank as their arithmetic mean values were greater than the test value at 0.05 significance level.

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