

## Customers' Bank Selection, Awareness and Satisfaction in Islamic Banking: Evidence from Turkey

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### Abstract

*Since their inception in the mid-1980s, Islamic banks (IBs) or Participation Banks (PBs) have not yet become one of the primary aspects of the Turkish financial system, reaching only a market share of five percent in the Turkish financial system. This research aims to examine the development of the Islamic banking sector in Turkey, considering the internal dynamics of the sector such as customers' bank selection criteria, awareness and satisfaction towards Islamic banking products. To be able to achieve this aim, two data sets from the years of 2004 and 2009 in a longitudinal manner were to be used, and statistically analysed, so as to give some meaning to the sources of the observed change with the objective of analysing the changing nature of behaviour and the attitudes towards Islamic banking in Turkey.*

**Keywords:** Islamic banking; bank selection criteria; customer awareness, satisfaction, Turkey

### 1. Introduction

Since its inception in the mid-1980s, interest-free banking or Islamic banking (IB) has not yet become a major factor within the Turkish financial system. Given the developments in other regions such as South East Asia and the Gulf, the market share of the interest-free banking sector has been marginal, only attaining the level of 6% in the Turkish financial system. For an international comparison, the Islamic financial assets of Turkey, within a series of twenty-five leading countries, ranked eighth with a market share of 3% in the global Islamic finance industry (TKBB, 2014, p.34). Turkey's minute market share and sluggish growth since the early 1980s can be somewhat explained through a political economy and behavioural approach.

Following the liberalisation process carried out for the Turkish economy in the early 1980s, the financial sector was structured through a process of deregulation that also brought innovations to those markets. Correspondingly, IB was introduced to the Turkish financial markets with a particular name of Special Finance Houses (SPH) and from 2005 onward Participation Banks (PBs)<sup>1</sup> with the objective of avoiding 'Islamic' in the terminology to fit into the secular political culture of the country.

The first IB operating in compliance with Islamic principles started in 1985 alongside its conventional counterparts. The introduction of IB products to Turkish markets was perceived as a political strategy rather than a religious move at the time, since it was an effort to expand the improved economic relations between Turkey and the Middle East as a result of the economic conditions of the mid-1980s (Baldwin, 1990). Moreover, it is commonly believed that the effort was the need to prove to Europe that Turkey could, if necessary, easily turn towards to the East. Some politicians claimed that this was a form of retaliation against the European Union (EU) attitude towards Turkey at that time (Okumus, 2005).<sup>2</sup> A further motivation is related with financial inclusions, as the government of the time aimed at 'financial deepening' in the economy through internalizing the fund kept away from the financial system due to religious concern that banking and finance involves 'interest' (Asutay, 2010; Asutay, 2013).

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<sup>1</sup>In consistent with the international literature, this paper will use Islamic Banks (IBs) and Islamic Banking (IB) in the text rather than PBs or PB.

<sup>2</sup> For more information on this issue see: Ozal (1991); Baldwin (1990); McGhee (1990); Redmond (1993); Ludlow (1994).

Despite Turkey's Muslim identity, the attitude of the Turkish government towards Islamic banking can historically be defined as 'hesitant' or 'timid'. Though the current government's regulatory provisions have contributed to the development of Islamic finance to some extent in recent years, it is expected that it would undertake further expansionary policies and attract more Islamic finance into the country. Besides, having a number of specialists in the economic and financial bureaucracy of the country, it seemed that the long-awaited positive environment for the development of IB has been established (Asutay, 2013). To this end, it appears to be that the external political reasons that once hampered the development of the IB sector have been eliminated for some time in Turkey. Therefore, to assess the development and/or slow growth of the IB sector, it is worth noting that there is a need to consider the internal dynamics of the sector alongside with the political and economic environment in the country.

It is well known that the practices of the PBs in Turkey arise some doubts in religious people's mind in the sense that they simply repackaged conventional banking products as *Shari'ah*-compliant. In this regard, such products and/or services have never been welcomed by some groups of conservative investors yet (Okumus *et al.*, 2003). More importantly, collapse of İhlas Finance, as an IB, in the late 1990s when Turkey experienced a deep financial crisis gave negative impact to the culture of Islamic finance in Turkey (Ali, 2007). As such, the negative perception among the Turkish people combined with adverse effects of collapsing of İhlas Finance made a detrimental effect on the demand of the interest free products/services, leading to hampering the expansion of the sector domestically. This failure also highlighted the importance of the shortcomings in the regulative environment in relation to IBs, as their deposits were not insured as opposed to the conventional banks.

As of 2013, the banking community in Turkey comprises 45 banks with 32 deposit banks, 13 non-deposit banks and 4 IBs. IBs are the only financial institutions operating in compliance with Islamic principles in Turkey, as there are not any Islamic windows operated by conventional banks.

In terms of the size of the IBs, the total assets of the PBs were about USD 45.400 million compared with USD 768.230 million for the conventional banks, constituting 5.54 per cent of all banks as of 2013. In the same year, the aggregated loans of the four PBs were about USD 31.550 million, which represents about 6.41 per cent of the total banks' loans. For the same period, the market share of the PBs in terms of funds collected constituted at the level of 6.50 per cent with a total deposit volume of USD 28.870 million. As for the branch network, the total number of branches in the conventional banks reached to 11023 with 197.263 staff whereas the PBs had 913 branches with 11.754 staff, representing almost 5.5 per cent of the total banking sector in the end of 2013 (for all the statistics, see: BDDK, 2013; TKBB, 2014).

By setting aside adverse political attitude dynamics that might (have) contributed to the underdeveloped level of the sector, this has been the main aim of this study in an attempt to consider the internal dynamics of the sector to understand the sluggish development of the sector.

It is well known that a vast number of empirical studies in the Islamic finance literature have dealt with bank selection criterion, products/service quality, satisfactory relationships and their effect on bank image and loyalty as well as customer awareness. However, those dealing with the practices of Turkish Islamic banks are very limited. In addition, there is no longitudinal study to empirically capture the changing dynamics of demand side.

The study structured as follows: the following section identifies the aim and objectives of the study, and Section III concentrates on literature review which are mainly in the related areas of Islamic banking and financial services demand, customer selection and satisfaction. In the following, data and methodology explained in detail. Section V is allocated to the presentation of the empirical results, resulting in some conclusions.

## **2. Aims and Objectives**

This study aims to explore and examine the demand conditions for IB in Turkey by using two data sets in a longitudinal manner to determine the potential changes, if there is any. To fulfil this aim the following objectives are developed:

- (i) to collect data through questionnaire<sup>3</sup> survey collected in two times period: 2004 ( $t_1$ ) and 2009 ( $t_2$ );
- (ii) to utilise statistical methods to determine the change in the demand conditions over the period of 2004-2009.

### 3. Literature Review

Based on the review of IB related demand conditions oriented studies in the early 1990s, it appears that the factors such as provision of a fast and efficient service, the bank's reputation and image, higher rate of return, friendliness of staff, and confidentiality of the bank were among the most important factors used to measure customers' selection criteria (Erol & El-Bodur, 1989; Erol *et al.*, 1990; Sudin, *et al.* 1994; Haron *et al.*, 1994; Hegazy, 1995; Gerrard & Cunningham, 1997)<sup>3</sup>. However, a further review of studies in the late 1990s and afterwards produced evidence in general that religious beliefs, the image of bank and rate of return served as main motivations to select IBs by customers (Metawa & Almossawi, 1998; Naser *et al.*, 1999).

Contrary to the findings of some earlier studies, there has been a dominant point of view in very recent studies that religious beliefs are not one of those most important factors in customers' bank selection in IB. Among others, for example, Dusuki & Abdullah (2007) investigated the main factors motivating customers to deal with IBs in Malaysia. Being the first nationwide study, the study revealed that the selection of IBs appeared to be predominantly a combination of Islamic and financial reputation and quality of services offered by the banks.

The literature on the attitudes, perceptions and knowledge of Islamic financial products and services in comparison with those of conventional banks empirically analysed and extensively surveyed by Gaith & Worthington (2008). They found out that while religious conviction was a key factor in the use of Islamic products/services, consumers also identified bank reputation, service quality and pricing as being relevance.

In Hoq *et al.* (2010) study, by using the data from IBs and IB windows in Malaysia, they examined the role of customer trust, satisfaction and image in enhancing Malaysian Islamic customers' loyalty, which showed that there were no significant difference between Muslim and non-Muslim customers in terms of customer satisfaction, image, trust, and customer loyalty toward Islamic banks. Their study also revealed that image was found to be positively significant to trust, and the highest level of trust leads to enhanced customer loyalty.

In Haque *et al.*'s (2009) study confirmed that in the case of Malaysia, there was a significant positive relationship among the quality of services, availability of services, social and religious perspective and confidence in bank with customers' perception about Islamic bank.

In a similar line, Al-Tamimi *et al.* (2009) found that most UAE customers preferred banking with Islamic banks; however, they were not satisfied with the product and service quality. The most important reason for selecting IBs was the quality of products, followed by service quality and religious factor. In the case of Bahrain, Al-Ajmi *et al.* (2009) founded that Islamic religious belief and social responsibility were the two most important factors that determine bank selection. Being the first study in its kind in Bahrain, the study included three types of bank clients: those who bank with Islamic banks, those who bank with Islamic banks and those who prefer to deal with both Islamic banks and conventional banks.

Ahmad *et al.*'s (2010) study examined the relationship between service quality and customer satisfaction in relation with Islamic and conventional banks in Pakistan, who found that there was a positive relationship between service quality and customer satisfaction for both Islamic and conventional banks, even stronger positive relationship between service quality and customer satisfaction for Islamic banks over traditional banks. In a further study on Pakistan, Farooq *et al.* (2010), they suggested that the regulators of IB should concentrate on the socio-demographic factors when it comes to establishment of a new branch. According to this study, the aspiration and preferences of the educated class shall be taken into consideration and products and services should be designed in such a way to cater to the needs of the subscribers.

In one of the few studies regarding the Iranian banking sector, Estri *et al.* (2011), by measuring customer service quality using SERVQUAL instrument, found that service quality in the given banking sector adopting the commercial format of Islamic services resulted in two-factor structure consisting of value proposition quality and service delivery quality.

Nayyap *et al.* (2011) investigated the impact of demographical factors on bank selection criteria in the case of six fully-fledged Islamic banks operating in Pakistan.

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<sup>3</sup>It is important to note that in the majority of the questionnaires used in these studies there was no explicit question directed to the Islamic bank' customers on whether or not their religious beliefs were one of the reasons for dealing with an Islamic bank.

Empirical results indicated that religion was not the only reason to choose the IBs, but there were other factors such as convenience, cost and benefit, and corporal efficiency backing up the findings of Awan and Bukhari (2011).

However, in Lee & Ullah's (2011) study of the motivational factors that led to customers' Islamic bank selection decision in Pakistan *Shariah* compliance factor in banks' selection was found to be very vital to the selection process. Convenience, advancement in IT and security were found to be of almost equal importance.

Ahmad *et al.* (2011), in a similar research, found that there was a weak relationship between customer satisfaction and Islamic banks' performance, suggesting that bankers should introduce new, diversified and marketable products to meet the needs of their customers coming from the different segments of the society.

In a similar study, Taap *et al.* (2011) revealed that the expectations on competence and convenience were significantly different between conventional and Islamic banks. Likewise, the perceptions on tangibility and convenience were found to be significantly different between the two types of banks in Malaysia.

Muhamat *et al.* (2011) in their study on Malaysia concentrated on measuring the sensitivity of the banks' customers, they could not reach a firm conclusion that whether the Arabic terminology should be maintained. The study recorded that most of the respondents agreed that the use of the Arabic terminology gave a competitive edge to the Islamic banks but they also expressed their concern on obtaining fast information and comprehension about the products due the Arabic terminology was used in their descriptions.

In a recent study, the perception of non-Muslim customers towards Islamic banking products in Malaysia was investigated in the study of Abdul Aziz *et al.* (2012). Based on the findings, the study revealed that Islamic banking sector was making headway among non-Muslim customers. Most of the respondents, however, recorded that they were not sure of increasing popularity of Islamic banking products among non-Muslims in Malaysia. In a similar study, Echchabi & Olaniyi (2012) found that the preference of Islamic banking attributes in Malaysia was a combination of service quality and convenience associated with it. Based on the findings of the qualitative analysis, they, however, concluded that religious belief was the main factor for selecting an Islamic bank in Malaysia.

Ahsan *et al.* (2014) study examines the customer satisfaction regarding Islamic banks and conventional banks in Pakistan. By emphasizing the fact that Islamic banking in Pakistan in its premature stage, they compared the customers' satisfaction from the financial products/services provided by Islamic banks and conventional banks. Based on the statistical results, the study concluded that the customers of conventional banks appeared to be more satisfied in comparison with that of Islamic banks. There is another study aiming to investigate the bank selection criteria of customers dealing with Islamic banks in Pakistan showing that Islamic banks in Pakistan preferred to operate in low cost products as compared to that of the conventional banks as well as providing a wide range of products at a competitive prices and rates (Ullah, 2014).

The empirical researches on interest-free banking in Turkey are few and far between although the studies dealing with customer satisfaction and customer loyalty in Turkish banking have amounted to significant numbers, even dating back to early 1990s (see; Kaynak *et al.*, 1991; Yavas *et al.*, 1997; Okumus *et al.*, 2003; Okumus 2005; Çaliket *et al.*, 2006; Starr *et al.*, 2007; Bilir & Özgen, 2010).

Most of the studies cited until now in this section utilised primary data collected through questionnaire surveys. This study adopted the same research method, as explained in the following section.

#### **4. Data and Methodology**

The most important aim of this study is to investigate the development of IB in Turkey in considering the internal dynamics of the sector taking as well as reflecting on its performance. To achieve this, an attempt is made to empirically investigate the following research questions:

*Research question 1:* Is there a change in the profile of IB's customers in Turkey?

*Research question 2:* Is there a change in bank selection criterion of IBs customers?

*Research question 3:* Is there a change in the perception of IBs customers' awareness towards IB products and services?

*Research question 4:* Is there a change in IBs' customer satisfaction from interest free products/services?

In responding to these research questions, this study relies on the data collected through a field survey among customers of the IBs. To obtain the primary data, a structured questionnaire survey was used. The items and measures that have been used frequently used in both academic and practitioners of customer awareness, selection and satisfaction in IB field were also used in this study (For a comprehensive literature survey, see: Astrom, 2013).

The questionnaire is designed in six sections: Section one includes socio-demographic information of the customers of IBs such as gender, age, level of education, types of employees/business, years in business, monthly income and information on type of financial institution where respondents hold their accounts. In the following section, the main reasons behind not solely dealing with IBs are assessed with nine items. Section three comprises of questions related to the awareness of Islamic financial products/services utilised by IBs' customers when chose to deal with an IB and a conventional bank (if there is the case). In Section four items are selected to determine IBs' customer awareness and their use of interest free products/services provided by IBs. Section five includes questions and statements related to motivational or patronage issues in dealing with PBs in order to detect customers' selection criteria by using seventeen selection criterion. Section six evaluates PBs on fifteen items in order to determine the main drivers of customers' satisfaction towards the financial products/services offered by IBs.

In total, 56 items in the form of questions and statements were included to achieve the aims of the study. All items, except for those in Sections two and four, were measured on five-point likert scales from 1 for 'strongly disagree' to 5 'strongly agree'. In Section four, respondents were invited to express the level of awareness and use of different products/services on the basis of 'Not aware at all', 'Aware and do not use it', and 'Well aware and use it'. In Section two, the respondents were again asked to express their reasons for dealing with conventional banks as well as IBs on three-point Likert scales from 1 (Strongly disagree) to 3 (Strongly agree).

The questionnaires in Turkish were randomly hand distributed to the account holders at the branches of IBs. The first data collection was processed over the period of two months, from May 2004 through June 2004, which, as a period, was defined as  $time_1$  in this study. The second process of data collection, after 5 years from the first time, continued for two months, from January 2009 through March 2009, which is defined as  $time_2$ .

It should be noted that in each data collection process, respondents were selected from customers of IBs visiting branches during the chosen time intervals, in order to eliminate the sampling frame errors and to ensure the representation of the population under study in the sample unit. Although 200 questionnaires were distributed in  $time_1$ , the actual sample size (*i.e.* usable returned and completed questionnaires) accounted for 161 customers with a response rate of 81 per cent, whereas the related figures for  $time_2$  350 were distributed with 281 of them returned, which implies as 80% respectively.

In order to test the reliability of the responses, Cronbah's alphas were computed. The computed Cronbah's alphas of responses are in the range of between 84.5 and 89.4 per cent. This indicates considerable internal consistency of the responses.

In the data analysis univariate and bivariate statistics were used in analysing the data with SPSS v 19.

## 5. Empirical Results

This part provides the results of the analyses of the data collected in two time frames.

### 5.1. The Change in Socio-Demographic Factors

The socio-demographic profile of respondents for  $time_1$  and  $time_2$  are presented in Table I. In terms of gender, religion, and years in business, there is no difference in the profile of respondents between the two time periods. Based on the figures depicted in Table 1, approximately 80% of the respondents are male and 20% are female. More than 95% of the respondents reported themselves as Muslims; and more than 60% the respondents had a working experience of less than 10 years in each time period. However, we observe changes in the rest of the socio-demographic factors.

As can be seen in Table 1, the largest age group is the age group of 36 to 50 years old (43%) in  $time_1$ , whereas the largest age group with 55% is from 26 and 35 years old in  $time_2$ . Hence, the majority of the age group dealing with IBs decreased as in 2009 the majority of the clients are younger.

With regards to education, the respondents with high school degree consisted of 42% of the respondents and followed by those from primary/secondary school in  $time_1$ . However, the respondents holding University or higher degree constituted the highest proportion (62%) in  $time_2$ .

This again indicates an important change in the characteristics of the customers in patronising IBs, as it seems that there had been a shift in the educational profile of the customers towards a higher level. It seems that individuals with high educational background began to show interest and custom with these banks.

As regards to occupational profiles, more than half of the respondents, 52%, claimed to have a job at privately-owned firms, mostly engaging in the trade and service sectors in  $time_1$ . On the contrary, the majority of the respondents in  $time_2$ , 56%, reported that they had a job at state-owned institutions in  $time_2$ . Thus, throughout the five years period, it seems that there has been a shift in the occupational background of the individuals as well.

According to the responses, approximately 40% of the respondents received salary between Minimum Government Salary (MGS) and TL 1000 in  $time_1$ , whereas 41% of the respondents earned in the range of between TL 1000-2000 in  $time_2$ . It is also worth noting that one fourth of the respondents recorded as earning more than TL 3000 on average per month in  $time_2$ . Thus, there is a change in the income levels of the individuals patronising IBs.

To explore the differences (if any) between the two profiles depicted in Table 1,  $\pi^2$  test was used. Before running the  $\pi^2$  test, we also checked whether there was any violation of  $\pi^2$  assumptions concerning 'minimum expected cell frequency', which should be 5 or greater. Also noting that it is acceptable to have up to 20% of expected frequencies below 5 (Field, 2011: 692). Table 2 provides a summary of the test.

Based on the empirical findings from the  $\pi^2$  test, the results in Table 2 depicts that there are statistically significant differences in the profiles of respondents between  $time_1$  and  $time_2$  in terms of 'age', 'education', 'type of employers/business' and 'monthly income'. The  $\pi^2$  test also revealed no significance difference in 'gender', 'religion', and 'years in business'. To this end, it can be suggested that the customers of IBs have become younger and better educated with regular and/or higher income as well as mostly having public office jobs over the period of time considered in this study.

## 5.2. The Change in the Financial Institution Preference: Conventional bank vs IBs

In this section, we examined the responses of whether the respondents prefer to bank with a conventional bank as well as an IB. As is presented in Table 3, the majority of the respondents, 54%, in each time period chose to deal with a conventional bank as well as an IB. However, to provide a systematic result,  $\pi^2$  test is utilised to observe whether there is a statistically significant difference in the proportions of financial institution preference of the respondents between  $time_1$  and  $time_2$ . The results of  $\pi^2$  test indicate that there is no difference in the proportions of financial institution preference of the respondents between  $time_1$  and  $time_2$  ( $\pi^2 (1, n=442) = .000, p = 1.00$ ). In addition, we observed no statistically significant association between socio-demographic factors and financial institution preference of the respondents for each time period.

Given the empirical results it is not wrong to suggest that one in every two customers of PBs prefer banking with conventional banks as well as IBs, that has not changes in favour of PBs over a period of time studied in the study.

## 5.3. Change in the Main Drivers for Dealing with Conventional Banks as Well as IBs

In the study, an attempt is also made to explore the main drivers that IBs behind customers' patronage with a conventional bank as well as a IBs, and the descriptive statistics of comparison are reported in Table 3.

As depicted in Table 3, an increase in the proportion of the respondents reporting 'agree' while a decrease in that of responding as 'disagree' in the following motives related to dealing with conventional banks as well as IBs; 'some products not available at IBs', 'insufficient branch network', 'lack of available loans with favourable terms', 'higher commission and fees on transactions' and 'lack of credit cards available with favourable terms'.

The results of  $\pi^2$  test (with Yates Continuity Correction) appeared to be statistically significant regarding 'some products not available' at PBs ( $\pi^2 (1, n=219)=3.58, p=.05, phi=13.8$ ), 'lack of available loans with favourable terms' ( $\pi^2 (1, n=194)=16.90, p=.00, phi=.30$ ), and 'lack of credit cards with favourable terms' ( $\pi^2 (1, n=192)=5.63, p=.01, phi=.18$ ), indicating a difference in the responses given by the respondents between  $time_1$  and  $time_2$ .

Therefore, it can be suggested that IBs still have fallen behind their conventional partners in terms of range of banking products they provide, loans (including credit cards) availability with favourable terms and branch network.

In this regard, IBs have not succeeded in making progress over the period of time considered. Correspondingly, we should expect lower level of rankings for those items in the responses of IBs' customer selection criteria in the following sections. To this end, the deficiencies of IBs especially in terms of product variety and higher credit cost in comparison with their conventional counterparts are still very much exist, preventing them gaining more market share in the banking sector.

#### 5.4. Change in Customers' Awareness towards IBs' Products and Services

Table 4 illustrates the preliminary statistics regarding the knowledge of the respondents towards *murabahah* and *mudharabah* principles as well as the availability of the 'Assurance Fund' providing assurance for savings of natural persons holding accounts at IBs. The proportion of the respondents reporting that they were either 'well aware' and 'aware of' *mudharabah*, as a product and instrument, increased from 38% in  $time_1$  to 77% in  $time_2$ . With regard to the knowledge of the 'Assurance Fund' providing cushion for the natural holders of PLS accounts up to TL50,000, there was a considerable decrease in the proportion of respondents (35%) reporting that they were 'unaware of' the 'Assurance Fund'. Surprisingly, the awareness degree towards *mudharabah* principle among the respondents was decreased from 81% in  $time_1$  to 73 per cent in  $time_2$ .

To explore whether there is a statistically significant difference in respondents' awareness towards *murabahah*, *mudharabah* and the 'Assurance Fund' between  $time_1$  and  $time_2$ ,  $\chi^2$  test was utilised. For the responses given to the questions regarding the principles of *murabahah* and *mudharabah*, and the 'Assurance Fund', the results of the  $\chi^2$  test suggest that there was a statistically significant difference in the proportions of respondents reporting that they had a knowledge of the principle of *murabahah* and the availability of the 'Assurance Fund' ( $\chi^2 (2, n=442)=29.07, p<.000, phi=0.256$ ;  $\chi^2 (1, n=442)=46.33, p<.000, phi=-.329$ , respectively). However, the empirical results do not confirm such existence for the principle of *mudharabah* ( $\chi^2 (2, n=442)=3.93, p>.14, phi=0.09$ ).

Based on the findings, we can suggest that the awareness degree of Islamic banking products and services that have been criticised as being diverged from the original Islamic finance paradigm have increased among the customers of IBs. On the contrary, the principle of *mudharabah* based products/services which are located in the centre of Islamic finance have been ignored some extent over a period of time studied.

#### 5.5. Change in the Profile of Accounts/Services Held at IBs

Based on the responses, it appeared that over 80% of the respondents reported that they did not utilise any of those products such as 'leasing', 'commercial loans', and 'international foreign trade' offered by IBs. This finding basically indicates that the majority of the respondents consisted of households rather than businessmen or institutions.

The proportion of the respondents expressing that they did not have PLS accounts went down from 70% in  $time_1$  to 40% in  $time_2$ . We observed the same path in the usage of credit cards and consumer loans when making comparisons between  $time_1$  and  $time_2$ .

We did not record any proportional improvement in the utilisation of products/services such as 'leasing', 'commercial loans' and 'international foreign trade', confirming the profile of IBs' customer. Therefore, we are unable to draw conclusive result that IBs have been successful in attracting businessmen into the sector yet.

#### 5.6. Change in Bank Selection Criteria

In this section, the participants were invited to express the extent of their agreement with a set of reasons that may explain their patronage of IBs. The banks' selection criterion consisted of sixteen items as illustrated in Table 5. The mean score was calculated for the importance of each bank selection item for each time period ( $time_1$  and  $time_2$ ), leading to ranking of the selection attributes for each time period.

As the results presented in Table 5 shows, 'religious' reasons solely was one of the most important criterion for choosing to deal with a IBs for each time period. 'Advice from relatives and friends' was noted as the criteria that found higher ranking (seven levels) in  $time_2$  in comparison with that in  $time_1$  in comparisons with that of  $time_2$ .

The importance of 'low service charges' and 'interior design of branch' also increased among the sixteen bank selection criteria in  $time_2$ . As we expected (based on the finding of the main motivational factors in choosing to deal with conventional banks as well as PBs), 'availability of loans with favourable terms' did not find a higher ranking in  $time_2$  period in comparison with  $time_1$ .

Moreover, the rank of 'availability of wide range of facilities' dropped from 5<sup>th</sup> place in  $time_1$  to rank 10 in  $time_2$ , as we expected and endorsing the previous findings. It is worth noting that 'profitability' registered one of the lowest rankings among the sixteen criteria in each time period. Based on the findings, 'religious belief' served as one of the major motivational factors for selecting banking with IBs as the influence of relatives and friends on banks' selection also increased considerably over the period studied. More importantly, however, the products and services that IBs, as financial intermediaries, expected to provide as a core business did not receive high rankings by the participants. To this end, the findings led us to suggest that majority of IBs' customers chose to patronage or deal with these banks due to their religious belief and community pressure rather than aiming at banking with them.

The results of the Mann-Whitney U test in Table 5 revealed that there is a statistically significant difference in the responses related to a number of bank selection criteria between  $time_1$  and  $time_2$ . Based on these empirical results, it can be suggested that the respondents in  $time_2$  expressed more confidence in the bank selection attributes than those in  $time_1$ .

### 5.7. Change in Customers' Satisfaction of IBs' Products and Services

Total satisfaction score for each subject was calculated by summing up scores of 15 items representing the dimensions of customer satisfaction for each time period. There was no need for carrying out a reversion process, since none of the satisfaction related items were negatively worded. Therefore, the possible range of total satisfaction constituted in the range of between 15 and 75 using a response scale of from 1 to 5.

To assess the normality of the distribution of total satisfaction scores, the test of normality was conducted. The results of Kolmogorov-Smirnov statistics resulted in statistical significance, indicating the violation of the assumption of normality (0.121,  $p=0.000$ ; 0.123  $p=0.000$ , for  $time_1$  and  $time_2$  respectively), which indicate the violation of the assumption of normality.

Therefore, to compare the means of total satisfaction scores between  $time_1$  and  $time_2$ , Mann-Whitney Test, as a non-parametric test was used, which revealed a significant difference in the total satisfaction scores of  $time_1$  ( $Md=47$ ,  $n=161$ ) and  $time_2$  ( $Md=56$ ,  $n=281$ ,  $U=11530$ ,  $Z=-8.585$ ,  $p=0.000$ ,  $r=.40$ ). As a result, there is a statistically significant difference in the total satisfaction scores between  $time_1$  and  $time_2$ . This paper also attempts to describe the direction of the difference in the sense of exploring whether the total satisfaction scores in  $time_1$  is higher than those in  $time_2$  or *vis-e-versa*. Although the test results confirm the difference obtained in the two sets of total satisfaction scores, it does not tell inform about the magnitude of the size effect. To achieve this, an effect size statistic of *Eta squared* (*ES*) was calculated, since SPSS does not provide an effect size statistics based on the calculated *ES* statistics, this would be considered as moderate effect with a significant difference in the total satisfaction scores between  $time_1$  and  $time_2$  (Field, 2011:550; Pallant, 2010:230,247; Cohen 1988:284-7, Tabachnick & Fidell 2013: 54-7).

Table 6 depicts the mean ratings and mean rankings of the respondents regarding customer satisfaction from the products/services provided by IBs. Mann-Whitney U test results in Table 6 demonstrate statistically significant difference in ten satisfaction criterion rankings of the respondents out of fifteen between  $time_1$  and  $time_2$ . 'Efficiency and speed in completing a transaction', 'reception received at branch', 'informing customers about new products/services' found a place in the top three rankings in both  $time_1$  and  $time_2$ . The rankings of the criterion did not change much between  $time_1$  and  $time_2$ . The most striking improvement was observed in the rankings of 'internet services provided by IBs' and 'customer confidentiality' between  $time_1$  and  $time_2$ , indicating that the IBs' investment in internet banking has been paid off.

However, we did not observe any statistically significant results confirming that there were differences in total customer satisfaction scores in regard to 'branch location near home/work place', 'parking facilities', 'availability of loans with favourable terms', 'the wide range of facilities offered' and 'efficiency and speed in inter-branch transactions' between  $time_1$  and  $time_2$ . More importantly it was noted that the respondents expressed more satisfaction towards the products/services offered by the IBs in  $time_2$  than those in  $time_1$ .



Based on the findings it can be suggested that the IBs have improved their customer total satisfaction over a period of time by means of staff-based effort supported by IT facilities rather than product-based development.

## 6. Conclusions

This study compares the IB customers' preferences on a number of issues including patronage, motivations and satisfaction in Turkey by comparing data from two time periods, 2004 and 2009. This provides an important opportunity to identify any potential change and shift in the attitudes and preferences of the IBs customers in five years period. Such a dynamic comparative method is considered important as IBs in Turkey had been sidelined until recently due to the hegemonic political culture of the country considering them as part of the 'religious life', which has been considered contrary to the *laicist* nature of the state. However, since 2002, Islam-friendly government, which is considered as a role model for the Islamic politics emerged in the Muslim world due to its 'moderate' and 'non-Islamically essentialising' politics. Under normal circumstances, it would, therefore, be expected, that the changed political power in the country favouring Islamic tones to have positive impact on the development of IBs in Turkey.

In the socio-demographic comparison of the participants, certain changes have been noted: compared to 2004, the customers of IBs are younger, better educated; have better positioning in terms of regular income with mostly higher income with public office jobs. Such an important profile changes can be explained with the changes that have taken place in the last ten and more years, which has given confidence to religious-conservative segments of the society and created a very large opportunity space for them to explore.

It appears that although economic and political atmosphere in Turkey, the IBs are still lacking of providing financial products demanded by their customers such as credits with favourable terms and not having an expanded branch network. This mostly explains the reason for why the Islamic banking in Turkey could not increase its market share over the period studied.

One of the most interesting outcomes is that the IBs have been drifting away from the original paradigm of Islamic banking/finance. It is also clear that unlike the customers of traditional banks, the motivation for the IBs' customers behind dealing with IBs is "religious belief" rather than "high return/profitability" from financial products. It is also rather important to note that the IBs implemented effective business strategies, resulting in the improvement of customers' satisfaction level over the period of time studied.

To this end, we could conclude that while the external dynamics of the Islamic banking have provided the 'space' and 'confidence' for this sector of the society, the Islamic banking sector in Turkey has not achieved a satisfactory market share in the Turkish financial sector yet due to its internal dynamics that were outlined by the help of the empirical results of the study.

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*Appendices***Table 1: Socio-Demographic Factors of Respondents (%)**

	<i>time</i> <sub>1</sub>	<i>time</i> <sub>2</sub>
<b>Gender</b>		
Male	78.9	79.7
Female	21.1	20.3
<b>Age</b>		
Less than 25 yrs	12.4	7.5
Btw. 26 – 35 yrs	35.4	55.2
Btw. 36 – 50 yrs	42.9	28.1
More than 51 yrs	9.3	9.3
<b>Religion</b>		
Muslim	96.3	99.6
Non-Muslim	3.7	.4
<b>Education</b>		
Primary/Secondary	17.4	11.7
High School	42.2	27.0
University/Higher Degree	40.4	61.2
<b>Type of Employer</b>		
Private	52.2	7.1
State	8.7	56.2
Self-employed	29.2	33.1
Retired	4.3	3.2
Other	5.6	.4
<b>Type of Business/Job</b>		
Manufacturing	12.4	15.3
Trade	32.9	26.7
Agriculture	4.3	.4
Service	22.4	37.4
Food & Beverage	6.8	6.4
Construction	4.3	8.2
Education	9.9	5.7
Textile	6.8	-
<b>Years in Business/Job</b>		
Less than 5 years	24.8	36.7
Btw. 5-9 years	34.8	27.4
Btw.10-14 years	16.1	13.9
Btw. 15-20 years	10.6	8.2
More than 20 years	13.7	13.9
<b>Monthly Income</b>		
Less than MGS	8.7	-
Btw. MGS- TL 1.000	39.8	20.3
Btw. TL 1.000 - TL 2.000	29.8	40.9
Btw. TL 2.000 - TL 3.000	9.9	13.2
More than TL 3.000	11.8	25.6

**Table 2: Socio-Demographic Comparison of Respondents Profile, ( $time_1$  vs  $time_2$ )**

	$\pi^2$	Df	p
<b>Gender</b>	.007*	1	.931
<b>Age</b>	17.67	3	.001**
<b>Religion</b>	5.64 *	1	.006**
<b>Education</b>	17.90	2	.000**
<b>Type of Employers</b>	160.99	4	.000**
<b>Type of Business</b>	42.19	7	.000**
<b>Years in Business</b>	7.26	4	.123
<b>Monthly Income</b>	52.41	4	.000**

(\*) Yates Continuity Correction values computed only for 2x2 tables.

**Table 3: The Main Motives for Dealing with Conventional Banks as well as IBs (%) ( $time_1$  vs  $time_2$ )**

		Some products not available at PBs	Insufficient branch network	Lack of efficient & effective IT	Lack of financial counselling provided by staff	Lack of short term investment opportunity	Lack of available loans with favourable terms	Lack of fixed-income investment opportunity	Higher commission & fees on transactions	Lack of credit cards with favourable terms
$time_1$	Agree	44.8	51.7	18.5	16.0	34.7	24.1	34.5	18.4	24.1
	Disagree	43.7	39.1	69.0	72.4	42.5	51.7	20.6	57.5	48.3
$time_2$	Agree	60.0	53.5	24.5	14.2	32.3	52.9	29.0	38.7	43.9
	Disagree	32.9	39.4	72.9	76.1	44.5	29.7	52.9	12.3	39.4

**Table 4: Customer Awareness towards Products and/or Services (%) ( $time_1$  vs  $time_2$ )**

	Murabaha	Mudaraba	Assurance Fund	Murabaha	Mudaraba	Assurance Fund	Murabaha	Mudaraba	Assurance Fund
		Well aware and use it			Aware and do not use it			Not aware at all	
$time_1$	8.9	36.6	27.6	29.5	44.7	27.1	32.9	18.6	45.3
$time_2$	40.2	31.0	66.2	37.0	42.3	18.1	22.8	26.7	15.7

**Table 5: The Change in the Respondents' Bank Selection Criterion, ( $time_1$  vs  $time_2$ )**

Bank Selection Criterion	Mean Rating		Mean Ranking		U	p
	$time_1$	$time_2$	$time_1$	$time_2$		
<b>Religious reasons only</b>	3.85	4.29	1	2	14.379	.000
<b>High return on investments</b>	2.72	2.87	14	16	14.844	.242
<b>Staff friendliness</b>	3.09	4.50	4	1	5.683	.000
<b>Religious and profitability reasons</b>	2.89	3.25	10	13	12.835	.004
<b>Advice from relatives &amp; friends</b>	2.84	3.67	13	6	10.385	.000
<b>Resistance against economic crises</b>	2.85	3.36	12	12	11.890	.000
<b>Advertising and image of PBs</b>	2.93	3.41	7	11	12.424	.003
<b>Efficiency and speed in completing transactions</b>	3.23	3.85	3	4	12.087	.000
<b>Low service charges</b>	2.89	3.68	9	5	11.730	.000
<b>FC transactions with favourable terms</b>	2.62	3.20	16	15	12.001	.000
<b>Location of branch</b>	3.00	3.44	6	9	13.465	.010
<b>The interior design of the PBs</b>	2.86	3.61	11	7	11.026	.000
<b>Availability of loans with favourable terms</b>	2.70	3.20	15	14	12.382	.004
<b>The wide range of the facilities offered</b>	3.06	3.42	5	10	13.853	.021
<b>Interest free financial institutions</b>	3.42	4.18	2	3	12.340	.000
<b>The availability of the Assurance Fund</b>	2.91	3.60	8	8	12.176	.000(*)

**Table 6: The Change in the Degree of the Respondents' Customer Satisfaction, ( $time_1$  vs  $time_2$ )**

Satisfaction Criterion	Mean Rating		Mean Ranking		U	p
	$time_1$	$time_2$	$time_1$	$time_2$		
Efficiency and speed in completing a transaction	4.14	4.22	1	2	20.506	.068
Awareness of personnel from new developments	2.79	3.34	14	12	15.639	.018
Branch location near home/place of work	3.39	3.24	6	13	21.347	.297
Interior comfort at branches	3.26	3.61	7	8	18.855	.002
Parking facilities provided to customer	2.50	2.57	15	15	21.786	.506
Reception received at branch	3.67	4.36	3	1	14.567	.000
Reputation and image	3.60	3.83	4	5	20.114	.032
Availability of loans with favourable terms	2.83	3.13	12	14	20.679	.110
Customer confidentiality	3.14	3.91	11	4	15.312	.000
Working Hours	3.47	3.75	5	7	20.057	.028
Internet services provided by PBs	2.81	3.80	13	6	14.700	.000
The wide range of the facilities offered	3.18	3.35	9	11	22.045	.630
Efficiency and speed in Inter-branch transactions	3.21	3.43	8	10	15.911	.913
Financial counselling provided	3.18	3.50	10	9	19.600	.013
Informing customers about new products & services	3.75	4.14	2	3	18.136	.000