Developing banking products for Islamic corporate clientele

P.L.S. Ackermann & E. Jacobs

ABSTRACT

This article analyses and describes the banking needs of South African Muslim corporate clients for *Shari'ah*-compliant banking products. The discovery of the oil wealth in the Middle East during the 1970s provided adequate infrastructure for promoting the growth of Islamic banking. By the beginning of the 21st century, South African banks realised that Albaraka Bank had grown tremendously since its arrival in South Africa in 1989. This research tested five hypotheses to establish the need for cost-effective, *Shari'ah*-compliant asset-based finance products. It applied the market-driven element of the target cost model to analyse client requirements in terms of the costs associated with the product offering. The research findings indicate that South African Muslim corporate clients would buy Islamic banking products for religious reasons. It was found that price would be a determinant in evaluating a purchasing decision. The research further found that it is tenable that Muslim corporate clients would require asset-based finance products to possibly finance their capital investment strategies. This article highlights that it is vitally important for financial institutions to understand the needs of South African Muslim corporate clients for *Shari'ah*-compliant banking products.

Key words: Muslim corporate clients, Islamic banking, *Shari'ah*-compliant

INTRODUCTION

Even though Islamic banking has been in existence only since 1975, it now has a significant number of clients. Islamic banking has thus grown significantly since the inception of the first Islamic bank in Dubai in 1975 (Henry & Wilson 2004). The South African banking sector has offered Islamic banking since the 1980s, and has seen significant growth in Islamic banking with the arrival in South Africa of Albaraka Bank, a dominant player in Islamic banking. Albaraka Bank has grown

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since then and currently has assets to the value of R1 billion (Albaraka Bank 2006). ABSA Bank and Wesbank (a division of FirstRand Limited) have introduced Islamic banking products into their portfolios, and Old Mutual penetrated Islamic finance in 2005 with the introduction of a retirement scheme called Pristine (Tshabalala 2006). With so many players having recently entered the Islamic finance market, it is evident that Islamic banking is a very real alternative to Western ideologies with respect to banking.

OBJECTIVE

One of the deadly sins of marketing for any organisation is to fail to understand the needs of its target customer (Kotler 2004). Furthermore, an offering that will satisfy the needs of its target customer could positively impact the product take-up, since customer satisfaction is the degree to which an organisation can match a customer's needs, desires and expectations (McCarthy & Perrault 2002).

The objective of the study was to identify and analyse the banking needs of South African Islamic (Muslim) corporate clients for Islamic banking products.

CONCEPTUAL FRAMEWORK

Shari'ah

Islam is derived from the root term *Selama*, which means to surrender to God (Jasser 2006). Islam provides an umbrella and foundation for Islamic banking due to the interlinked economic, social, religious and political components (Hammad 1989; Karim & Archer 2002; Taylor 2003). *Shari'ah* can be viewed as the compass of the Islam religion in providing compliance rules for Islam (Karim & Archer 2002).

Caretaker concept

Islam teaches that God is the Creator of all and has delegated the role of caretaker to mankind to ensure that creation is maintained and used to the equal benefit and creation of all (Karim & Archer 2002). The acceptance of the caretaker role has higher economic and social dimensions – to ensure that no-one is disadvantaged in his enjoyment of creation, whether in the market place, in the community or at worship (Karim & Archer 2002). This is expressed in the *Shari'ah* principles to ensure that the role of caretaker is linked across social, economic, political and religious dimensions (Karim & Archer 2002). Banking transactions must comply with the *Shari'ah* principles of profit- and risk-sharing. In order to be *Shari'ah*-compliant, banking transactions must be asset-backed, there must be no receipt or payment of *riba* (interest), and there must be no investment in restricted activities (Hammad 1989).

Riba is forbidden

Even though there are different schools of thought regarding *riba*, most scholars and academics regard *riba* as interest and/or usury, in other words, the additional amount that is payable to the supplier of funds in return for the utilisation of the funds (Karim & Archer 2002). Hosein (1997) argues that interest on a loan is a dangerous form of *riba* and that Shakespeare created the role of the moneylender, Shylock, in his play, *The Merchant of Venice*, to highlight the danger of *riba* and money-lending to the well-being of the community. The prohibition of *riba* is to discourage society from conducting business undertakings in such a manner that will encourage debt and passive participation in the economy (Karim & Archer 2002). It can therefore be argued that *riba* works against the Islamic concept of caretaking in that it is a means of creating an unjust situation and disadvantaging the poor of society by creating a situation in which the poor can never escape the chains of debt.

Profit- and risk-sharing

Contrary to capitalist economic theory, which defines entrepreneurship and capital as separate factors of production, Islam teaches that an entrepreneur cannot participate in the free market without the capital needed to fund such participation (Usmani 2002). A party other than the entrepreneur, such as a bank, can contribute capital, and the contribution of capital implies that the contributor and entrepreneur are both parties to the free market enterprise, with rights and obligations (Usmani 2002). Capital contribution can be in the form of equity finance to provide the necessary backing for the entrepreneur (Karim & Archer 2002). In the combination of the supplier of the funds and the entrepreneur, both are regarded as caretakers, who must ensure that all share in the risks and profits of the enjoyment of creation.

Asset-backed financial instruments

Islam encourages property ownership and free trade (Usmani 2002). Islamic finance encourages the use of assets, fixed and otherwise, in all business transactions, and assets can be used as collateral for loans or as commodities to be financed (Usmani 2002). This could suggest that most Islamic finance products should be geared towards asset finance or investment instruments. Examples of assets are land and buildings, vehicles, investments, equipment, furniture and stock for resale, to name a few. Some of the most frequently used financial transactions include:

- *Musharaḳa,* a partnership agreement whereby the bank and the entrepreneur provide the capital needed to finance the project (Usmani 2002; Hammad 1989; Taylor 2003).

- *Mudarabah,* classified as an equity fund agreement whereby the bank provides the necessary funds and the entrepreneur the skills to manage the business undertaking (Usmani 2002).
- *Murabahah,* a sale agreement that is based on cost plus margin and is typically used for trade finance (Usmani 2002; Hammad 1989; Taylor 2003).

Specified investment

Muslims must be responsible and committed to ensuring that their investments are according to *Shari'ah* principles in terms of benefit for all within the community (Karim & Archer 2002). A few examples of restricted investments include those that:

- Deal in alcohol or pork products
- Are speculative
- Are perceived to work against social justice, for example, gambling
- Pay or receive interest.

LITERATURE REVIEW

It was found that Islamic banking has demonstrated financial viability and requires strategic marketing to help defend the current market position against conventional banks, which are all too eager to erode their market share (Naser & Moutinho 1997; Ebrahim & Joo 2001). The identification and analysis of client needs is an important step in the development and implementation of new or enhanced products. This section reviews Islamic banking in the light of strategic marketing material published between 1997 and 2006. In order to provide a comprehensive understanding of Islamic banking, the section also covers macro factors that could impact the combination and quantities of Islamic banking products that a South African bank could offer.

Review of level of awareness

It was found that the average Muslim person has a theoretical understanding of Islamic banking (Gerrard & Cunningham 1997; Metawa & Almossawi 1998; Karbhari, Naser & Shahin 2004). The reasons for the theoretical understanding were not investigated. Perhaps the fact that there is no clear-cut agreement on the definition of *riba* or the interpretation of the *Shari'ah* principles by the scholars could have impacted the level of awareness of Islamic banking. Possibly the perceived limited marketing campaign of Islamic banks or the limited disclosure or discussion of Islamic banking have further impacted the level of awareness.

Review of purchase reason

Some studies found that Muslim clients would approve Islamic banking products and/or services for religious reasons (Metawa & Almossawi 1998; Jabnoun & Khalifa 2005). Other studies found that Muslims would buy or approve Islamic banking products and services not only for religious reasons, but also for religious and business reasons (Gerrard & Cunningham 1997; Rosly & Abu-Bakar 2003; Karbhari et al. 2004).

Review of technology and banking

It was found that the advancement of technology could assist Islamic banks to spread their reach more (Taylor 2003). A few studies found that clients were not happy with the bank infrastructure and requested more branches and automatic teller machines (ATMs) (Metawa & Almossawi 1998; Rosly & Abu Bakar 2003). Taylor (2003), Metawa & Almossawi (1998) and Rosly & Abu Bakar (2003) have not investigated the specific implementation requirements of technology in banking to meet client needs for Islamic banking.

Review of advertising and promotion

A few studies found that a well-crafted advertising strategy could lead to good product take-up (Metawa & Almossawi 1998; Naser, Jamal & Al-Khatib 1999; Rosly & Abu Bakar 2003). It was found that Islamic banks need to continuously communicate their products and services to their clients and make best use of brochures (Metawa & Almossawi 1998). Metawa & Almossawi (1998), Naser et al. (1999) and Rosly & Abu Bakar (2003) have not investigated client needs for advertising and promotion techniques.

Review of banking product

In order to comply with the *Shari'ah* principles, each transaction must be asset-backed, whether in collateral or commodity (Usmani 2002). Metawa & Almossawi (1998) and Zaman & Movassaghi (2002) found that there is a perception that Islamic banking finance products are very expensive and not always in accordance with customer requirements.

Importance of bank personnel

Effective human resources policies and practices could facilitate the deployment of staff with the required skills to support Muslim clients (Gerald & Cunningham 1997; Metawa & Almossawi 1998; Naser et al. 1999; Jabnoun & Khalifa 2005; Ibrahim 2006; Khan & Bhatti 2006). There is a direct relationship between the effective implementation of human resource policies in terms of staff recruitment, training and development, retention and customer satisfaction surveys, as well as customer retention programmes (Jabnoun & Khalifa 2005).

Review of product price

Islamic banking products are constantly being compared to interest-based products in terms of cost and return without regard for the unique product rules of *Shari'ah* (Fletcher 2005). There are many more steps involved in the product development process for Islamic banking products than for interest-based banking products, which could negatively impact the cost of the final product (Fletcher 2005). Muslim clients are, in particular, very careful with the prices that are currently levied on *Shari'ah*-compliant banking products (Metawa & Almossawi 1998; Zaman & Movassaghi 2002; Ibrahim 2006; Khan & Bhatti 2006). Studies have found that customers compare the prices of Islamic banking products with interest-based banking products to evaluate their competitiveness (Metawa & Almossawi 1998; Zaman & Movassaghi 2002; Fletcher 2005). Islamic banks should consider an administrative cost and all related costs in the evaluation of a fair product price (Zaman & Movassaghi 2002; Omar 2005). Zaman & Movassaghi (2002) have not investigated the need for a fair price or the composition of such price.

Review of client service model

The Islamic banking client service model requires good integration of client needs with the bank's obligation to promote profit- and risk-sharing and to identify win–win banking solutions (Alam 2003; Al Janahi & Weir 2005a, 2005b; Silva 2006). Banks generally have sufficient information to accurately enforce strong risk-management processes and to monitor a client's account so that they can alert the client to mitigate any potential business risks (Ghannadian & Goswami 2004; Al Janahi & Weir 2005a, 2005b). Providing the necessary security, promoting transparent and full disclosure, and implementing measures to prevent money-laundering activities are just some of the vital banking services that Islamic banks can offer their clientele (El Sheik 2002; Ibrahim 2006; Silva 2006). A good client service model would provide these, thereby obtaining support from the community in which the bank operates, which could positively impact on the bank's market share (El Sheik 2002; Al Janahi & Weir 2005a).

Review of the performance of Islamic banks

A number of studies have assessed the performance of Islamic banks in terms of financial and social performance (Naser & Moutinho 1997; Rosly & Abu Bakar 2003; Choudhury & Hussain 2005; Ibrahim 2006; Maali, Cason & Napier 2006).

Ibrahim (2006) assessed the performance of Sudanese Islamic banks and suggested that the economic climate of a country plays an important role in a bank's performance. If a country has a weak financial sector and low business confidence, the banks might not be very profitable. Ibrahim (2006) found that economic success can be measured in terms of positive social influences, and that profit- and risk-sharing financial transactions could be used to create a culture of entrepreneurship and foster a stronger financial sector. From annual reports, Naser & Moutinho (1997), Rosly & Abu Bakar (2003) and Choudhury & Hussain (2005) assessed the performance of Islamic banks and found that they demonstrated good economic and financial growth.

None of the studies by Naser & Moutinho (1997), Rosly & Abu Bakar (2003), Choudhury & Hussain (2005), Ibrahim (2006) or Maali et al. (2006) indicated how the banks dealt with the investments that were included in liquidity management strategies and the consequent interest portions that were received. The studies also did not discover the percentage of the financial performance that was attributable to income from liquidity management strategies.

Impact of regulatory factors

A strategic marketing plan discussion would be incomplete without a discussion of the regulatory factors that could impact Islamic banking. Section 70 and Regulation 20 of the South African Banks Act (No. 94 of 1990) prescribe that banks should at all times maintain liquid assets to ensure that they can grant deposit withdrawals and justifiable loan demands. This could mean that banks in South Africa that provide *Shari'ah*-compliant products would be compelled to maintain deposits with other institutions, which would most often offer interest-based products and would not be compliant with *Shari'ah* principles, unless alternative options are sourced. The regulatory liquidity management requirement of keeping liquid assets to meet deposit-withdrawal demands could pose serious problems for Islamic banks, which might have to keep the deposit with interest-based institutions (Karim & Archer 2002; Karbhari et al. 2004). Islamic banks could, with proper disclosure of how they receive and dispose of such interest income, further enhance levels of awareness of Islamic banking (El Sheik 2002).

Tax systems and Islamic banks

Governments might have to revisit the wording of the tax regulations to enable Islamic banking profits to be tax deductible, because interest is tax deductible for conventional banking systems (Karbhari et al. 2004). In terms of the Income Tax Act (No. 58 of 1962), interest-derived income is tax deductible in South Africa, and the expense that is paid to the financier of the loan is a deductible expense. Even though the tax regulator has provided for a principle of profit in the tax system, the actual word used is not 'profit' but 'dividends'. A dividend in this context is accepted as profit although, technically, a dividend must be declared before it can be earned. A profit, by contrast, does not need to be declared to be earned; it is based on the financial performance of the project or organisation (Usmani 2002).

Review of *Shari'ah* supervisory board

Even though *Shari'ah* supervisory boards have contributed hugely to the success of Islamic banking, individual *Shari'ah* supervisory boards could contribute to inconsistencies and non-standardisation of key interpretations and thus impact the understanding of Islamic banking principles among Muslims (Zaman & Movassaghi 2002). It is pertinent to establish the role and accountability of the *Shari'ah* supervisory board, namely, whether it is merely an advisor body or whether it is an arbiter whose rulings are binding (Karim & Archer 2002). Neither Karim & Archer (2002) nor Zaman & Movassaghi (2002) deal with the question of whether the *Shari'ah* supervisory board must be accountable to the Central Bank, to the bank's shareholders only, or to the public at large, and what such accountability should entail.

Corporate governance and Islamic banking

Islamic banks, like conventional banks, have a duty to maintain good corporate governance practices and to protect their clients' interests (El Sheik 2002; Karim & Archer 2002; Abdel-Khaleq 2004; Khan & Bhatti 2006; Maali et al. 2006). This requires transparency, full disclosure in all banking transactions, the directing of funds into *Shari'ah*-compliant projects, and the maintenance of regulatory compliance (El Sheik 2002; Abdel-Khaleq 2004). Muljawan, Dar & Hall (2004) conclude that the bank's shareholders could play a significant role in its corporate governance by promoting the bank's agency role with its clients.

The role of government in the growth of Islamic banks

Naser & Moutinho (1997), Makiyan (2003), Rosly & Hussain (2005), Khan & Bhatti (2006) and Maali et al. (2006) comment on the role of government in the success of Islamic banking operations.

Naser & Moutinho (1997), Rosly & Abu Bakar (2003) and Choudhury & Hussain (2005) found that Islamic banks had benefited immensely from support by government and that such support was reflected in the sterling performance of the banks.

The study by Rosly & Abu Bakar (2003) was conducted in Malaysia, where the government had provided significant support for Islamic banking operations by utilising the principles of Islamic finance to manage the bond market. Changes were noted in the demand for loans when government adjusted the inflation rates (Makiyan 2003). The involvement or support of government in any operation would set it up for success. It is therefore vital to understand the significant role that the government could play in either improving or negating the performance of any banking operation.

Taylor (2003), Karbhari et al. (2004) and Khan & Bhatti (2006) argue that governments would be required to change in order to bring about the necessary infrastructural changes to support Islamic banking. Lack of government support and guidance were cited as some of the reasons why Islamic finance failed in Pakistan (Khan & Bhatti 2006).

As this study was conducted in a South African environment, it would be incomplete without reference to the South African economic and social environments.

The economic environment in South Africa

South Africa experienced 4.9% economic growth in gross domestic product (GDP) in 2006 and was strategically focused to achieve 6% economic growth by 2007 (Stats SA 2006a). The combination of 4.9% economic growth, coupled with the population size of 44 million (Stats SA 2006b), might suggest that the country is on the path towards a higher standard of living for all and fuller participation in the economy. The South African Minister of Finance made provision in the 2006 Treasury budget to stimulate economic growth by means of grants to small-business development and funding for research and technology (RSA Reserve Bank 2006). Islamic banking could be the vehicle for promoting a culture of entrepreneurship and financing infrastructure projects that could contribute positively to the growth of the South African economy (Patel 2006). Perhaps now, more than ever before, the South African economy is ready for another banking offering. It has been found that Ghanaian listed companies, for example, use bank finances to fund one third of their debt financing (Abor 2005).

Social environment in South Africa

The increased levels of education among the population in recent years and the entry of women into the employment sector suggest that the South African social infrastructure encourages its population to participate actively in the economy and would support another banking model (StatsSA 2006a). As South Africa has endured the impact of changes in its society, South African leaders will need to adopt a culture of tolerance to persuade the South African population to embrace tolerance and to eliminate the power struggle, which cultivates a system that threatens the social health of the South African population (Prinsloo & Wiechers 2006). Prinsloo & Wiechers (2006) view the power struggle in terms of the struggle to maintain the social and economic diversity of the country. The observed threats are crime, corruption and violence, which could hamper badly needed investment and negatively affect the economic growth of the country (Prinsloo & Wiechers 2006). The threats of crime and violence work against the caretaker principle.

RESEARCH HYPOTHESES

On the basis of the conceptual framework and literature review, the following hypotheses are formulated:

Hypothesis 1

H_o: South African Muslim corporate clients prefer asset-based finance products to be *Shari'ah*-compliant.

H_a: South African Muslim corporate clients do not prefer asset-based finance products to be *Shari'ah*-compliant.

Hypothesis 2

H_o: South African Muslim corporate clients do not consider product price a key determinant to buying *Shari'ah*-compliant banking products.

H_a: South African Muslim corporate clients consider product price a key determinant to buying *Shari'ah*-compliant banking products.

Hypothesis 3

Ho: South African Muslim corporate clients do not require electronic banking channels.

Ha: South African Muslim corporate clients require electronic banking channels.

Hypothesis 4

H_o: South African Muslim corporate clients do not prefer client-oriented (below-the-line marketing) advertising.

H_a: South African Muslim corporate clients prefer client-oriented (below-the-line) advertising.

Hypothesis 5

H_o: South African Muslim corporate clients do not require cost-effective, *Shari'ah*-compliant asset-based finance products.

H_a: South African Islamic corporate clients require cost-effective, *Shari'ah*-compliant asset-based finance products.

METHODOLOGY

Measuring instrument

A structured questionnaire was used as the measuring instrument. The 8P Goldsmith (1999) model was used as a basis for determining the dimension for a customer service model. Only six of the eight Ps were used, as these six (price, promotion, place, people, procedure and product) were deemed necessary to help test the hypotheses. The other two Ps (physical asset and personalisation) were not included in the research instrument. The validity and reliability of the measuring instrument had been addressed and justified in previous research by Goldsmith during 1998. The validity aspect of the questionnaire was further addressed by piloting it with knowledgeable people in the banking sector and with three Muslim businesses. Only three questions were slightly re-phrased.

The 8P services marketing model of Goldsmith (1999) was used in this research and included with multiple scales, which ensured that respondents provided measurable responses for each variable being measured (Malhotra & Birks 2000). A five-point Likert scale was used as a summated rating scale for most of the variables. Multiple-choice, single-response scales and forced ranking scales were used for some variables due to the benefits those scales added to the data collection and analysis.

Data collection method

The data were collected by means of a survey. The respondents were contacted by telephone and in person. In order to minimise the problem of unavailability of respondents, telephone contact was made beforehand to introduce the survey. Geographic dispersion did not pose a problem, because Muslim businesses tend to be in close proximity to one another.

The provinces targeted were Gauteng, KwaZulu-Natal and the Western and Eastern Cape, where the majority of Muslims and Muslim businesses are located. In order to facilitate the survey, students delivered the questionnaires to the respondents and then collected the responses later.

Sample

Cluster sampling was employed, in the form of area sampling. Area sampling offers an objective estimate of the population and is cost effective, economical and easy to use (Cooper & Schindler 2006). The following criteria were used to determine the sample:

- Medium to large corporate businesses with a minimum of two business operations per family – due to the family business relations
- Located in Gauteng, KwaZulu-Natal and the Western and Eastern Cape provinces

- Domiciled in South Africa
- Owner(s) of the business must be Muslim.

One of the top four South African large banks was approached to encourage their Muslim business clients to participate in the survey. The heads of the business banking divisions in Gauteng, KwaZulu-Natal and the Western Cape requested their business banking sales managers to communicate with their Muslim business clients and encourage them to participate in the survey. A total of 10 sales managers in Gauteng, KwaZulu-Natal and the Western Cape communicated the names and contact detail of their 25 Muslim business owner clients, who agreed to participate in the survey. A judgement sample was used, based on the willingness of the Muslim business owners to participate in the survey. A total of 35 Muslim business owners were contacted, but only 25 business owners confirmed dates and times to participate in the survey. A total of 25 Muslim business clients of the large bank participated in the survey, and all of them completed questionnaires that were used in the data analysis.

In order to increase the sample size and to make the sample more representative of the average South African Muslim corporate client, the researcher, with the help of research assistants, approached Muslim businesses located in the predominantly Muslim business districts in Johannesburg and Port Elizabeth. The researcher discussed the sampling criteria with the research students in preparation for distribution of the questionnaires. The students distributed the questionnaires to the Muslim businesses according to the sampling criteria and collected the completed questionnaires from the business owners. This increased the likelihood of a more representative sample.

The research assistants distributed 52 questionnaires; 48 responses were returned, only 33 of which were fully complete and could be used in the data analysis.

Target cost model

In order to support the concept of Zaman & Movassaghi (2002) for deriving a profitable banking product, this study applied the 'target cost model', which focuses on customer requirements. The target cost model accepts that the market forces of demand and supply will determine the price that clients will pay for something of value (Garrison & Noreen 2003; Albright & Lam 2006). The target costing model implies that the price of the product is equal to the cost of producing the product plus the profit. Target costing therefore indicates that in order to have a higher profit margin, organisations must keep their costs lower than those of their competitors (Garrison & Noreen 2003; Albright & Lam 2006).

Research on the target cost model demonstrated the benefits of the model in the product design and development stages (Omar 1997; Cooper & Slagmulder 1999; Albright & Lam 2006; Ellram 2000, 2006).

Statistical test

The two-tailed Z-test was used to test hypothesis 1. Hypotheses 2, 4 and 5 were tested using analysis of variance (ANOVA). The chi-square (χ^2) test was used to test hypothesis 3. The desired level of significance used for testing all the hypotheses was $\alpha = 0.05$.

RESULTS

A summary of the demographics of the respondents is presented in Table 1. A total of 77 questionnaires were distributed, and 72 completed questionnaires were collected, but 14 of the 72 completed questionnaires were too incomplete to use in the analysis of the data.

More than 82% of the respondents were within the retail, manufacturing and wholesale (including transport) sectors. This aligns well with the perception that Muslims aspire to be good tradesmen and merchants. The majority of the respondents (29%) represented private companies. Respondents who represented close corporations totalled 17%. (A close corporation is in many respects similar to a private company.) Respondents who represented sole proprietors and partnerships totalled 48%. This could suggest that most Muslim business undertakings are privately held and do not have to publicly disclose the organisation's financial affairs.

More than 80% of the businesses were established prior to 2000. Sixty-four per cent of the businesses were established in the period 1980–2000, and 17% were established in 2001 and afterwards. These findings suggest that a substantial number of the businesses are currently in the growth stage of their business life cycle and might have to fund capital investment needs in terms of vehicle finance to either initiate or expand their fleet management programmes, or to finance equipment or furniture, to name a few. This suggests that South African banks should re-evaluate their marketing plans to embrace the business models and growth phases of client organisations.

Approximately 74% of the respondents indicated that they had established banking relationships with their primary banker prior to 2000. About 33% of the respondents indicated that they had only two banking products with their primary bankers. This suggests that the respondents had only basic products with their bankers and limited relations with them.

The profile analysis indicates that 53.5% of the respondents have a maximum of two banking products with their primary bankers. This therefore indicates that there may be a gap between the current banking services model and the model that they should offer to Muslim clients. A general assessment of the profile analysis showed that most of the survey respondents were the owners of a private company, who had started the business undertaking during the period 1990–2000+, and that the

Table 1: Demographic profile of respondents

Category	Frequency	%	Category	Frequency	%
Business form			Business sector		
Sole proprietor	14	24.1	Construction	3	5.2
Partnership	14	24.1	Manufacturing	10	17.2
Close corporation	10	17.2	Professional	2	3.4
Pty (Ltd)	17	29.3	Services	5	8.6
Close Corporation and Pty (Ltd)	3	5.2	Retail	30	51.7
			Wholesale and transport	8	13.8
Year business established			**Year bank client**		
< 1970	6	10.3	< 1970	2	3.4
1970–1980	5	8.6	1970–1980	6	10.3
1980–1990	12	20.7	1980–1990	9	15.5
1990–2000	25	43.1	1990–2000	26	44.8
2001+	10	17.2	2001+	15	25.9
Founding member			**Decision maker**		
Self	17	29.3	Owner	24	41.4
Father	8	13.8	Managing director	3	5.2
Grandfather	7	12.1	Partners	20	34.5
Family members	16	27.6	All directors	3	5.2
Partnership	10	17.2	CFO	7	12.1
Current products with bank			Owner and CFO	1	1.7
1 Product	12	20.7	**Location of business**		
2 Products	19	32.8	Gauteng	36	62.1
3 Products	18	31.0	KwaZulu-Natal	8	13.8
4 Products	5	8.6	Western Cape	7	12.1
5 Products	4	6.9	Eastern Cape	7	12.1

business was currently in the growth stage of the business lifecycle. Most respondents reside in Gauteng province, have had a maximum of two banking products with their primary banker since the business was established and are also the main decision-maker.

Research finding for hypothesis 1: Asset-based finance products

H_o: South African Muslim corporate clients prefer asset-based finance products to be *Shari'ah*-compliant.
H_a: South African Muslim corporate clients do not prefer asset-based finance products to be *Shari'ah*-compliant

The two-tailed Z-test was applied to test the hypothesis (α = 0.05). The null hypothesis must be rejected if the calculated Z > critical Z. In this case, the calculated Z value of -0.0004 is less than the critical value of 1.96. The null hypothesis can therefore not be rejected in favour of the alternative hypothesis. This does not imply that it is accepted, but only that it is tenable.

Research finding for hypothesis 2: Price is an important determinant

H_o: South African Muslim corporate clients do not consider product price a key determinant to buying *Shari'ah*-compliant banking products.
H_a: South African Muslim corporate clients consider product price a key determinant to buying *Shari'ah*-compliant banking products.

ANOVA was used to test this hypothesis (α = 0.05). The calculated value of 16.77 exceeds the critical value of 3.048. The null hypothesis is therefore rejected and it is concluded that price is an important determinant for Muslim corporate clients in their purchasing decisions with respect to *Shari'ah*-compliant products.

The research found that 31% of the respondents indicated their preference for affordable banking products and 33% their preference for value for money (Figure 1). This suggests that price is a key factor for Muslim corporate clients in their purchasing decisions with respect to *Shari'ah*-compliant banking products.

Research finding for hypothesis 3: Electronic banking channels

H_o: South African Muslim corporate clients do not require electronic banking channels
H_a: South African Muslim corporate clients require electronic banking channels

A chi-square test was used to test the hypothesis (α = 0.05). The calculated value of χ^2 = 30.52 exceeds the critical value of χ^2 = 9.48. The null hypothesis is therefore rejected and it is concluded that Muslim corporate clients require electronic banking channels.

A total of 60% of the respondents indicated that they preferred an electronic banking channel for conducting their banking (Figure 2).

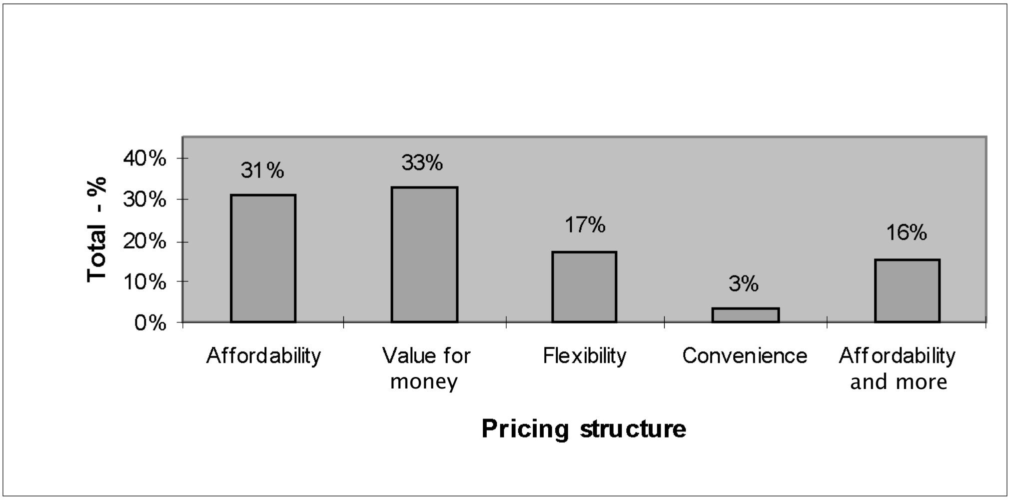

Figure 1: Analysis of preferred pricing structure

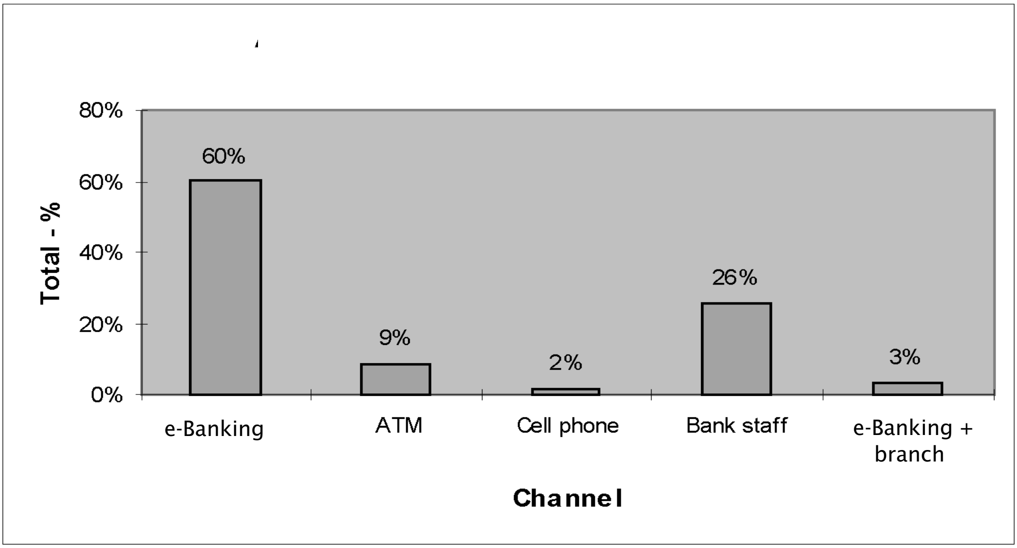

Figure 2: Analysis of preferred banking channel

Electronic banking is perceived to be a very convenient, secure and a cost-effective medium for conducting banking. The respondents would also require electronic banking for making payments to suppliers and for receiving payments.

However, 26% of the respondents indicated that they require bank staff, in other words, branches, to assist them with their banking needs. Based on the profile of more than 80% of the respondents being in the manufacturing, retail and wholesale sectors, this finding suggests that the respondents require branches for deposits and foreign payment transactions. This suggestion is further underlined by the current customer service model for corporate clients to have a dedicated relationship manager to provide advice to their clientele. Their reliance on the branch infrastructure could result in a very expensive product offering, and alternative solutions would have to be sourced. The reliance on the branch infrastructure might further suggest that 26% of the respondents have not yet accepted the concept of secure electronic banking.

The 9% of respondents who indicated that they require ATMs did so because their access to ATMs is a more convenient means of obtaining funds for petty cash purposes (miscellaneous purchases) than visiting a branch.

The research found that 3% of the respondents indicated that they require both branch and electronic banking facilities. This suggests that they require the facility to pay suppliers electronically and also to deposit their daily cash holdings. The combination of branch and electronic banking solutions suggests that the respondents have specific banking needs with respect to particular banking product offerings.

Research finding for hypothesis 4: Client-oriented advertising

H_o: South African Muslim corporate clients do not prefer client-oriented (below-the-line marketing) advertising.

H_a: South African Muslim corporate clients prefer client-oriented (below-the-line) advertising.

ANOVA was used to test this hypothesis (α = 0.05). The calculated value of 16.490 exceeds the critical value of 2.64. The null hypothesis is therefore rejected, and it is concluded that Muslim corporate clients prefer client-oriented (below-the-line) advertising.

The respondents ranked 'client-oriented' and 'mail (courier)' as the preferred advertising mediums for promoting *Shari'ah*-compliant banking products. The ranking of client-oriented advertising as the first preference illustrates the need for close-contact advertising. Client-oriented communication could contribute to a cost-effective product offering.

The research found that 54% of the respondents indicated that they would consult people in close, trusted relationships (referring to family, friends, business partners and accountants) for more information regarding banking products; 29% indicated that they would consult their relationship managers (bankers) for more such information (Figure 3). The 'close, trusted relationship' with the relationship manager could be a problem if the relationship manager terminates his or her employment with the bank. Moreover, high turnover of relationship managers could have a profound impact on the client service model.

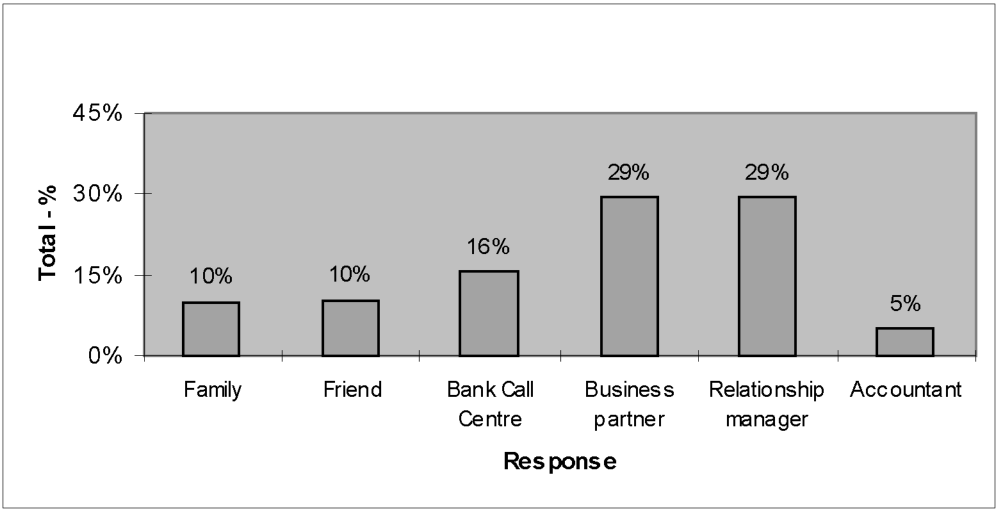

Figure 3: Analysis of reference group what respondents would consult for information on banking products

Research finding for research hypothesis 5: Cost-effective asset-based finance

H_o: South African Muslim corporate clients do not require cost-effective, *Shari'ah*-compliant asset-based finance products.

H_a: South African Islamic corporate clients require cost-effective, *Shari'ah*-compliant asset-based finance products.

ANOVA was used to test this hypothesis (α = 0.05). The calculated value of 5.542 exceeds the critical value of 1.95. The null hypothesis is therefore rejected and it is concluded that Muslim corporate clients require cost-effective, *Shari'ah*-compliant asset-based finance products.

Table 2 summarises the way in which the hypotheses were tested.

CONCLUSIONS AND RECOMMENDATIONS

The findings of this research can be extended to all financial institutions.

In order to best meet the needs of this market segment, financial institutions need to factor the client's business model and position in the business lifecycle into their product offering to fully understand the need for asset-based finance products.

Financial institutions should ensure that the price of the product is commensurate with client expectations. Even though respondents indicated their preference for a value-for-money product, more than 88% indicated that they would buy *Shari'ah*-compliant products for religious reasons. This does not mean that they

Table 2: Summary of tests of hypotheses

No.	Hypothesis	Test	Calculated value	Critical value	Reject H_o	Cost assessment
1.	Prefers asset-based finance product	Z-test	-0.0004	1.96	No	Low Cost
2.	Price is key determinant	ANOVA	16.77	3.05	Yes	Low Cost
3.	Preference of bank channel	χ^2	30.52	9.48	Yes	Low Cost
4.	Prefers client-oriented marketing	ANOVA	16.49	2.64	Yes	Low Cost
5.	Prefers cost-effective asset-based finance products	ANOVA	5.542	1.95	Yes	Low Cost

would be willing to pay premium prices. In order to price the product, financial institutions need to understand the costs involved in developing the market and maintaining the product offering. Financial institutions need to ensure that they are transparent in disclosing the cost of the product to their clients.

As electronic banking has gained greater acceptance over the past decade, so this research found that electronic banking is a much-needed banking channel. It is perceived to be a cost- and time-saving, convenient means of conducting banking. Financial institutions should investigate a cell phone banking facility for corporate clients, as that is perceived to be an even more convenient banking method. Financial institutions should enhance their electronic banking channels to provide the facility to track any new product applications that the client may have logged with the bank. In order to reduce reliance on the branch for deposits, financial institutions should re-evaluate a secure and convenient cash management solution for their clientele.

The research found that respondents preferred close, trusted relationships that are geared towards client-oriented communication, that is, towards getting to know the client and communicating directly with him or her. Mutual communication is vital. Financial institutions need to communicate with their clients to inform them and obtain feedback, to build relationships or community. Financial institutions should invest in communication sessions and seminars, and involve the clients in product launches. Financial institutions should embrace the principle of relationship advertising with its electronic banking product. The bank's desire for relationship should be evident whenever the client accesses the electronic banking channel.

- Financial institutions should carefully evaluate their cost structures and attempt to minimise unnecessary costs to meet the client expectations of cost-effective solutions. The target-costing model is designed to help eliminate unnecessary waste in the solution design phase. It is recommended that financial institutions that wish to offer *Shari'ah*-compliant banking products must ensure that they understand the cost that they wish to include in their product specification to ensure that costs are well aligned with the customer expectations.

LIMITATIONS

The study has the following limitations:

- It was not possible to accurately determine the true number of South African Muslim-owned businesses, and it was therefore not possible to determine whether a sample of 58 was a small or adequate sample.
- The confidentiality policies of banks with respect to client information limited the collection of demographic data. This limits the value of the research, as the availability of demographic information might have produced additional findings.

SUGGESTIONS FOR FUTURE RESEARCH

Future research could focus on the following:

- How the Banking Council as regulator could possibly impact the progress and success of Islamic banking in South Africa.
- How the implementation of Islamic banking principles could influence South African economic growth.
- How the adoption of Islamic banking products could stimulate the growth of small and medium enterprises.

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