

QATAR UNIVERSITY

SCHOOL OF BUSINESS AND ECONOMICS

FACTORS THAT MAKES CUSTOMERS PETRONIZE ISLAMIC BANKS IN QATAR

BY

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Abstract

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Growth in Qatari economy produced new business opportunities. The banking sector which is considered to be one of the vital sectors in Qatar is not exempted from these opportunities. Both Islamic and conventional banking systems are competing aggressively to take advantage of those new opportunities by attracting/retaining customers/depositors. This research aims to support Islamic banks in Qatar in identifying and understanding critical factors that positively/negatively affect customer's perception toward Islamic banks. 15 semi-structured interviews were conducted with Islamic bank's customers. Sharia compliance and family/friends were the most influential factors that were found in this research. Other factors such as quality of services and corporate social responsibility activities had less influence on customers.

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I. Introduction

Banking institutions that comply with Islamic principles are very young compared to other non-Islamic institutions. Nevertheless, this niche market and the products offered by Islamic banks have become very successful in a short period of time. This is due to the huge development in Islamic banking and financing systems in both Muslim and non-Muslim countries around the world. This development is driven by several factors such as the rising Muslim population internationally, and a search for an alternative banking system following the financial crises in 2008. From 2003 to 2015, Islamic finance assets' market size increased from \$400 billion to \$2 trillion in 2015 (Thomson Reuters, 2016). Furthermore, most Islamic financial assets are located in the Middle East and Malaysia (IMF, 2015).

Qatar's economy is highly dependent on oil revenues and just recently the government decided to strengthen other sources of revenues. One of these sources is the banking sector, and therefore, financial legalization was used as a tool toward that desire. As a result, in 2015, the banking sector grew by 12% and despite the huge reduction in oil prices Qatar's economy has grown by 3.6% supported by the non-hydrocarbon sector, including the banking sector (The World Bank, 2016) (Oxford business group, 2016).

In terms of the Islamic banking sector, it is one of the largest in the world. In 2015, the Islamic sector in Qatar was ranked as the 6th largest in terms of asset size with \$72 Billion worth of Islamic assets (Thomson Reuters, 2016). Furthermore, the Islamic sector performed better than the conventional sector in Qatar, thus showing the commitment of the Qatari government to developing this market in the country. However, there are better established Islamic sectors in the Middle East North Africa (MENA) region such as the United Arab Emirates and Kuwait, which have shown stronger development in the Islamic banking sector (Thomson Reuters, 2016). Qatar, on the other hand, outperformed its counterparts in terms of its strong Islamic banking regulations especially after its decision in 2011 for conventional banks to stop offering Islamic products (Hussain, 2012). This is to ensure that Islamic products in Qatar properly comply with sharia principles.

A. Overview of Islamic banking

Islamic banking is a banking activity that fully complies with Islamic principles, it also known as sharia compliant. Those principles stress ethical and moral values in all financial dealings and transactions. Sharia principles prohibit investing, lending and dealing with businesses that provide forbidden goods and services such as pork and alcohol. Furthermore, charging interest in return for a money loan, which is known as Riba, is also not acceptable under sharia law. The main source of sharia is the Islamic book the holy Quran and the sayings of the prophet Mohammad (PBUH). To ensure that Islamic bank's operations are continuously complying with sharia principles, the existence of Islamic scholars is very critical in these banks. Almost all Islamic banks around the world employ a number of Islamic scholars and group them under a committee called a sharia supervisory board (Toufik, 2015). The engagement of this committee makes the major difference between Islamic and conventional banks.

Islamic banks are not limited to Muslims but also open to non-Muslims. Over the past years the number of non-Muslim customers has grown rapidly, especially after the 2008 financial crises. The reason for this is Islamic banks were engaged in less risky investments than conventional banks and hence showed strong financial stability during the crises compared to conventional banks (Malik, 2010). Nevertheless, Islamic banking is still in its infancy compared to the better and long established conventional banking sector. Several market players are working tirelessly to grow its market share so that it becomes a stronger global alternative to the current conventional banking system (Alam, 2009).

B. Islamic Banks in Qatar

There are four Islamic banks in Qatar: Qatar Islamic Bank, Qatar International Islamic Bank, Al Rayan Bank, and Barwa Bank. Figure 1 (below) shows their sizes in terms of assets (Gulf Business, 2014). We can clearly see that Qatar Islamic bank is the largest Islamic bank in Qatar with an asset size of QR 96 billion and a market share of 42% of the total Islamic banking sector in Qatar. Furthermore, the bank has around 200 retail customers and 3000 corporate customers (CPI financial, 2014) . In 2014, the bank was ranked as the 5th largest Islamic bank in the GCC region (Gulf Business, 2014).

Al Rayan Bank is the second largest Islamic bank in Qatar with an asset size of QR 80 billion and a market share of 8% (Moody, 2015). The bank is known to have strong ties with the Qatari government and was ranked as one of the 10 largest Islamic banks in the GCC region (Gulf Business, 2014).

Qatar International Bank is the third largest Islamic bank in Qatar with an assets worth of QR 38 billion. QIIB is known to have the second largest customer base, however, the bank lost a large market share in 2011–2012 to other banks in the market such as Al Rayan Bank and QIB (QNB FS, 2014). In 2013, the bank was able to recover part of its previous market share and outperformed all investors’ expectations with a 10% increase in annual profits (QNB FS, 2014).

Last but not least, Barwa Bank is the newest Islamic bank in Qatar. It was established in 2008 and it has the smallest asset and market size in the Qatari Islamic banking sector (Alagos, 2016). Dispute its size, in 2014 Barwa Bank had strong growth of 14% in their assets and around 41% in profits (The Group, 2015). It is regarded as the fastest growing bank in the MENA region (QNA, 2015).

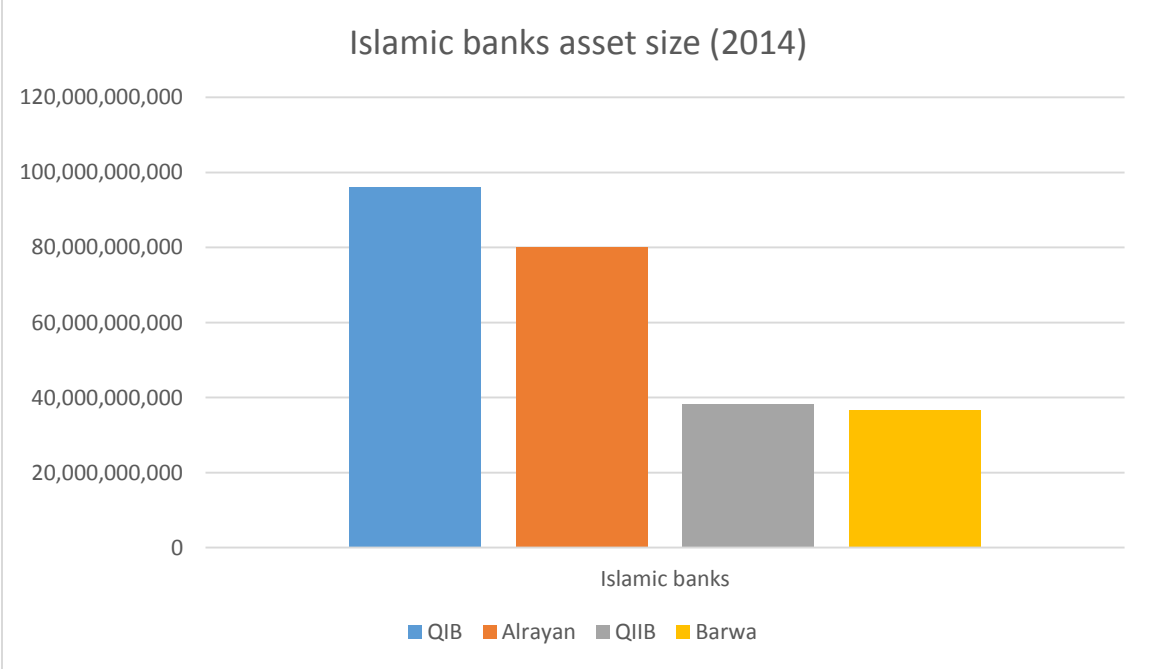


Figure 1. Qatari Islamic Banks Assets Size (2014)

C. Problem statement

Islamic banks windows were introduced to the Qatari banking sector in 1982 with the establishment of Qatar Islamic Bank. Ever since, the Islamic banking sector has had tremendous growth in all elements such as size, share and profits. This tightened market competitiveness between Islamic and conventional banks as both were attempting to attract and retain customers/depositors.

At the same time, customer's needs, expectations and preferences were also changing. Therefore, to ensure business continuity, it is vital to identify and understand factors that make customers patronize Islamic over conventional banks. Many related studies were conducted in Europe, Malaysia, Pakistan, and Bangladesh. However, findings of those studies might not be generalizable to Qatar due to differences in the legal, economic and cultural environment.

This research is conducted to assist Islamic banks in Qatar to identify and understand critical factors that can positively/negatively affect customer's perception of Islamic banks. This research will also be useful to other within the local region as the context and environmental factors are similar and will add to the existing research of on customers of Islamic banks. Furthermore, this research will highlight and analyze weak and strong factors that influence customers decision to patronize Islamic banks over conventional banks. Hence allowing Islamic banks to adjust their strategies to address the weakest and refine the strongest factors.

II. Literature Review

The rhetoric of Islamic and conventional finance differs fundamentally in Islamic finance's adherence to the principles of Sharia law, in Islamic finance there is no separation of the spiritual and the secular. Islamic finance is explicitly concerned with spiritual values and social justice, in contrast to conventional finance, which is based on the maximisation of individual utility, welfare and choice, as expressed, for example in the shareholder value model.

The discourse of Islamic banking involves: (a) equity rather than debt, (b) financing in strict relation to assets rather than leverage, (c) transparency and information sharing between investor and the manager, (d) diversification of risk by risk sharing. In contrast, the discourse of conventional finance can be described as: (a) too much debt, (b) overleveraging of assets and (c) excessive securitization and creation of new assets that are neither transparent nor understood.

A. Philosophy of Islamic banking

Islamic and conventional banks are compatible in terms of the services they provide to their customers (Kesowani, 2012). Both provide services such as depositing cash, long and short term credit to individuals, corporations and government bodies (Jamal, 2014). However, they differ in terms of the approach in which they provide their services (Hanif, 2011). For example, conventional banks would base their functions and operations on profit maximization. The possibility that they will adopt non-profit targets related to morality, ethics, and corporate social responsibility in their operational philosophy is very low (Algaoud, 2001).

On the other hand, Islamic banks' philosophy are based on Sharia law. Those philosophies balance profit maximization and other non-profit goals. For example, Islamic fundamentals strictly prohibited Muslims from *riba* which is an extra amount linked to time that is charged by lenders over the loan principal to the borrowers (Tlemsani, 2003). The reason for prohibiting *riba*, as per Islamic fundamentals, is that one party (lender) receives extra amounts of funds from the borrower without giving him an equivalent return. The longer the repayment period, the higher the interest to be charged on top of the principal. Thus, promoting unfairness in terms of distribution of wealth and widens the gap between the poor and rich in society.

The number of banks adopting Islamic banking principles has risen in recent years. According to E&Y report on competitiveness of Islamic banking, Islamic banks assets grew by 17% from 2008 to 2012 which is three times faster than conventional banks growth rate (Young, 2014). Some bankers/economists may argue that this is due to the increasing demand from Muslims for organizations that are in compliance with Sharia law. Nevertheless, there are many hidden benefits of Islamic banking that also serves non-Muslims. (Warde, 2000), emphasized that the main benefits that Islamic banking promotes is fairness, justice and a balanced society. There are many restrictions imposed by Sharia on financial matters (such as interest, speculation and gambling) in order to protect the interests of all parties within the market and promote social harmony. For example, one Islamic banking concept is to finance in return of equity ownership or profit sharing. This concept eliminates the injustice that exists in the conventional banking system since business owners (borrowers) will only make payments to investors (banks who funded the business in return of ownership) when they are profitable (Dusuki, 2008). Furthermore, it will even be fair for depositors since the return they will receive from banks reflects the actual performance of the business that their funds were invested in. The second benefit is that Islamic banking supports cooperation principals in society, such as risk, equity and stake sharing (Abdullah, 2007). The third and last benefit is that ethical norms and social commitments will be an integrated part of Islamic banks as they are deeply rooted in Islamic law or Sharia (Dusuki, 2008). For example, Islamic laws prohibits gambling, alcohol, drugs, excessive risk, adult entertainment and all items that can directly or indirectly harm society. Accordingly, Islamic banks cannot invest or finance businesses such as casinos, wine factories or night clubs.

B. Perception of customers to Islamic banking

The perception consumers have of Islamic banking has attracted many researchers in the academic field. The majority of the research looks at the motives behind consumers choosing Islamic over conventional banks. Hassan (2007) conducted a study which examined several important factors such as knowledge of Pakistani people of Islamic banking, and the 'socio-religious' context that motivates Pakistanis to select Islamic banking, Sharia compliance, and quality and offerings of Islamic banks. Data was collected using two surveys that were distributed in five major cities in Pakistan. The first survey was designed for people that had

accounts in Islamic banks while the second survey was for those who did not have accounts in Islamic banks. Six hundred individuals responded to the survey and several bankers were also interviewed. The study found that there is a positive perception in all factors examined and that consumer satisfaction in Islamic banks is higher than conventional banks in Pakistan (please see figure 2 below).

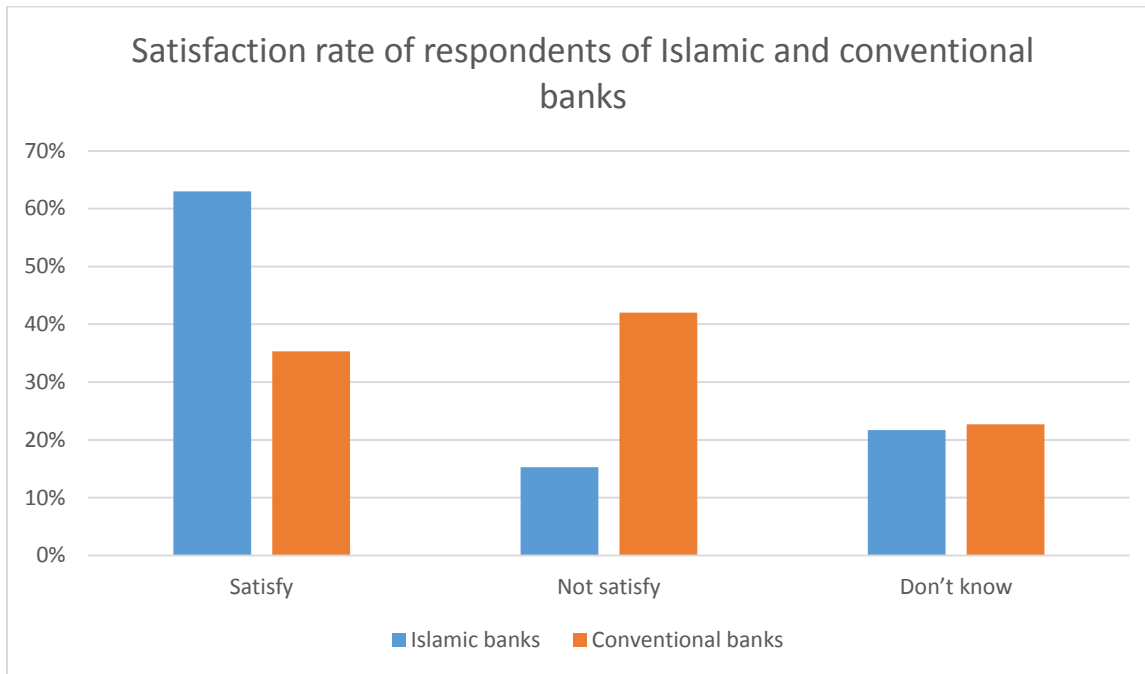


Figure 2: Satisfaction rate for Islamic and Conventional Banks, based on study made by Hassan (2007)

Asyraf and Nurdianawati (2006) conducted a study in Malaysia and examined factors that make Malaysian customers patronize Islamic and conventional banks. The study examined several factors such as quality of services offered, convenience, price, bank reputation, branches location, and social corporate responsibility (such as human rights, environmental effect, and benefits to the community). Data were collected via questionnaires from four different regions in Malaysia and sample size was 750 (responses). Based on the data and analysis, the study found that selection decision is mainly driven by the quality of services offered by banks. For example, staff ability, efficiency and effectiveness in handling customer’s problems and willingness and knowledge to provide solutions to customers.

Thambiah (2011) analyzed customers perception, awareness and preference of Islamic retail

banking. This research was a survey which consisted of thirty-two questions to measure six elements. 537 responses were received from both rural and urban regions in Malaysia. Based on the results, the study concluded that there is a huge difference between the two regions in terms of uncertainty, awareness, observability and complexity. Furthermore, the study also found that there are some differences between the two regions in loan repayments period, overdraft facilities, returns and service fees.

Mark Loo (2010) examined attitudes and perception of Muslims and non-Muslims of Islamic banking in Malaysia. Several factors were examined such as promotional effect, willingness to deal with Islamic banks, attractiveness of Islamic banks, understanding of Islamic banking concepts, religious beliefs, disadvantages of Islamic banking and the prospects of Islamic banking. He used interviews as a means of data collection, 200 interviews were conducted in Kalgan Valley, which is a famous financial hub in Malaysia. The study found that Non-Muslims do not support Islamic banking as they believed that it is only relevant to Muslims. Accordingly, he provided suggestions to improve the attractiveness and perception of non-Muslims of Islamic banks. The research suggests improving Islamic products so that they are toxic free, adjusting promotional strategies to target non-Muslims and improving staff efficiency and productivity.

A study by Abdulaziz, Rokiah, and Participant 2 (2012), was undertaken to understand the perception of non-Muslims of Islamic banks. They selected several elements such as banks reputation, facilities, staff friendliness, reliability/confidentiality, speed of transaction, bank size, and product offerings. They designed a questionnaire and distributed it to 180 respondents of Kuwait finance house's (KFH) non-Muslim customers. The study revealed that Islamic banks are gaining popularity among non-Muslims. They found that the majority of non-Muslims believe that Islamic banks will dominate the banking sector in the near future. Finally, they concluded that image and reputation are the most important elements for non-Muslims in selecting an Islamic bank.

The next part of this paper will focus on studies which explore elements that influence selection criteria of consumers of Islamic banking. The main focus of discussion in this part are understanding of Islamic banking, reputation, compliance with Sharia, quality of services, and social corporate responsibility.

C. Understanding of Islamic banking

There are several studies that address understanding of Islamic banking. Phillip and Barton (1997) evaluated the understanding of Islamic banking in Muslims and non-Muslims in Singapore (Cunningham, 1997). The study was conducted via a questionnaire that tested respondent's awareness of the following terms Riba, Sharia, Ijara, Mudaraba, Musharaka, and Murabaha. 190 respondents were received in which 29 from Muslims and 161 non-Muslims. The results were surprising as they found that although Muslims were more aware of these Islamic terms, the difference of awareness between Muslims and non-Muslims are very minimal. The study concluded that there is a lack of understanding of Islamic banking in Singapore, especially in the Muslim community.

Saad and Mohammad (1998) studied consumer perspectives and implications for Islamic banks in the Kingdom of Bahrain. The study had 300 respondents and found that the majority (around 80%) are fully aware of Islamic banking concepts. Furthermore, they also found that 86% of respondents already had saving accounts in Islamic banks. Another similar study by Jorg and Kermit (2004) examined student knowledge and perception to conventional and Islamic banks in the UAE. They used language, religion, and preferences on perception and knowledge as measures to customer's understanding. The study found that knowledge of Islamic banking concepts is very low compared to conventional banking concepts. Furthermore, they also found that language was the main obstacle to students knowledge of Islamic banking.

Assessing knowledge was one of Hassan's (2007) objectives. He found that 565 respondents out of 600 were aware of the Islamic concept of riba (Hassan, 2007). This suggests that knowledge of Islamic banking is high in Pakistan. Khan (2008) conducted a similar study on consumer awareness in Bangladesh. The study found that there is high awareness of basic Islamic banking concepts. Furthermore, 92% of respondents already had saving accounts (Mudaraba) and 82% had current accounts (Wadiah) in an Islamic bank

A study by Halim, Hamid and Nordin (2001) on awareness of basic Islamic banking concepts was undertaken In Malaysia. The data collected revealed that around 48% of the respondents

claimed that they are aware of Islamic concepts, however, when they were asked to explain the terms, only 15% were able to do so. Additionally, 60% of respondents were unable to distinguish between interest free banking scheme, which is governed by Sharia, and conventional banking products. They concluded that awareness of Islamic banking concepts and products is extremely low in an Islamic country like Malaysia. Participant 2 and Haron (2001) conducted a similar study in Malaysia on knowledge of Islamic banking. They confirmed that knowledge of Islamic banking is limited especially when respondents were asked about the principles of the Islamic banking system. Around 65% of the respondents admitted that they had limited knowledge of the Islamic banking system.

A recent study by Maran (2010) on selection criteria also confirmed that Malaysians still lack knowledge of Islamic banking concepts. He surprisingly found that only 4.2% 'had knowledge', 38.2% know little, and 57.6% didn't know anything (Marimuthu, 2010). This suggests that customers do not patronize Islamic banks because of their understanding of Islamic concepts but on other criteria.

D. Religious Compliance

Researchers have identified many criteria that influence consumer's opinions of Islamic banks. However, several researchers found that religion is the main criteria for customers choosing to bank with an Islamic bank. A study by Kader (1993) to determine the factors that affect customers decision in selecting an Islamic bank confirmed religion is one of the important factors that influence customer's selection in a dual-banking environment. Other research by Metawa and Al-Mossawi (1998) on the behavior of Islamic banks' customers in Bahrain supported Kader's findings. After interviewing 100 Islamic banks' customers, they concluded that religion is the most influential factor in customers selection of banks in Bahrain. Additionally, they found the effect of family and friends (second), location (third), and rate of return (forth) .

In Jordan, Nasser, Jamal and Al-Kataib (1999) studied customer's satisfaction with Islamic banks. part of their research was to indicate the factors that affect Jordanians selection of a bank. As per their paper, the majority of the respondents stated that they deal with Islamic banks to

avoid: dealing with riba, and supporting banks that do not comply with Sharia. This indicates that religion is also a strong selection criteria in Jordan.

In Singapore, a study by Phillip and Cunningham (1997) on Muslims and non-Muslims bank selection criteria revealed that there are small differences between the two groups selection criteria. This difference mainly comes from religion as 25% of Muslims respondents indicated using religion as a base in bank selection.

On the other hand, Dusuki and Abdulla (2007) had a different finding in their study that was conducted on Malaysian customers. They found that quality of service, knowledge and friendliness of staff are the main factors that draw customers to Islamic banks and not religion. Similarly, Haron (1994) in his research agreed with Dusuki and Abdulla (2007) he found that the majority of respondents (Muslims and non-Muslims) selected their banks on factors other than religion. Therefore, Islamic banks are advised to not rely profoundly on religion as a factor to draw customers since concentrating on other factors will further expand their customer base and thus expand their business.

E. Credibility and Quality of Services

These two criteria can extensively influence the decision of customers when selecting a bank. Dusuki and Abdulla (2007) confirmed that reputation was a key factor in their study in Malaysia. They stated that reputation comes first then convenience (availability of parking and interior comfort). Further, they mentioned that Islamic banks should improve their public relations with customers and employees in order to boost their reputation and thus attract/keep customers. Nasser, Jamal, and Al-Kataib (1999) also agreed with Dusuki and Abdulla's findings.

Haron (1994) conducted a study related on quality of services in Malaysia. He found that Muslims ranked "fast and efficient services" and "speed of transaction" as the most important factors, while non-Muslims ranked "friendless of staff" and "fast and efficient services" as most important. This suggests that quality is greatly valued by Muslims and non-Muslims. A similar research by Osman (2009) also concluded that customer satisfaction and loyalty (for Muslims and non-Muslims) are driven by the quality of service that Islamic banks deliver to customers.

F. Corporate Social Responsibility

As mentioned previously, Sharia principles promotes a fair, just and balanced society. Furthermore, Sharia encourages all types of activities that can directly or indirectly benefit society and discourages those that can harm it. According to Basah (2013), CSR and Sharia are not isolated from each other as most people think. Therefore, it is expected that Islamic banks that follows Sharia would provide more benefit to the society when compared to conventional banks (main objective to maximize profits). To support this statement, Basah (2013) conducted a study to examine the relationship between Islamic banks and corporate social responsibility. He found that Islamic banks are not different than conventional banks when it comes to CSR contribution. Ullah and Jamali (2010) also supported Basah (2013) and stated that Islamic banks are governed by strong ethical and religious principles, hence they should be more motivated to CRS than conventional banks.

According to Porter and Kramer (2002), CSR provides competitive advantages to corporations. It will send a positive signal to stakeholders (Kramer, 2002) and thus, will improve the reputation and boost the bank's attractiveness. Al-Ajmi, Hussain, and Al-Salah (2009) in their study of CSR noted that it should not be neglected as it can negatively affect customer's behavior in the long-run. Finally, banks are suggested to include CSR as part of their marketing tools as recommended by (Abdullah, 2007).

III. Research Methodology

There are two main methods to conduct a research, one is a qualitative methodology which encompasses exploratory research. It tries to understand the related reasons, options, motivations, of a phenomenon. Additionally, it provides an in depth analysis of a certain problems which can be used to support or otherwise the research hypothesis. According to Rhodes (2014) data can be gathered in a qualitative study through conducting interviews, focus groups and observations. Furthermore, the qualitative method is more flexible and can be guided by open ended question or semi-structured (in the form of conversational) interviews. Generally,

the number of participants is small and thus less qualitative research is much less generalizable to the whole population.

The second method is the quantitative, which uses numerical data to quantify the problem. It is objective, concise, and tests a theory by measuring the relationship between the cause and effect of a certain problem. It is structured and data is gathered through various forms of surveys such as online, face to face, paper, telephone, ... etc. Furthermore, data is gathered from large number of respondents and thus its findings are more generalizable.

A. Methodology

In Qatar, no research has been conducted that examines the factors that influence customers' choice of an Islamic bank over a conventional bank. According to Creswell (1998), descriptive methods are more suitable in situations where little is known about phenomena. Therefore, this research adopted a qualitative methodology in order to gain a deeper understanding of customer's perception toward each factor. Information was gathered through semi-structured open-ended questionnaires in face to face interviews. In total, 15 interviews were conducted with Islamic banks' customers. The average time for each interview was 30 minutes. The interviews were recorded via a mobile recording application and were stored in a private folder on my PC. The recordings are used to transcribe every interview.

Prior to the interview, I explained to all interviewees the purpose, objectives, and expected benefits of the research. Then, informed consent was obtained and the interviews conducted. The informed consent format contained information related to withdrawal, confidentiality, and discomfit policies. As per these policies, all interviewees had the right not to answer any of the questions or to withdraw from the interview if they felt uncomfortable.

Due to cultural and confidentiality reasons, several female interviewees refused to record their voices but were willing to participate in the research. To respect their request and culture, the interviews were conducted without a record. However, this raised concerns that their answers might not be captured correctly and I therefore, decided (after getting permission) to write the transcript during the interview.

All the interviews provided useful data for this research. Data from the respondents is used throughout to support the discussion of this research. The interview questions are available in appendix B.

B. Sampling

The technique used to select participants for this research is purposive sampling. In this technique, participants are selected based on the quality of information that they possess. For example, customers with less than two years' experience were excluded from this research as the information to be obtained from them may not be reliable and accurate. Additionally, there are only four Islamic banks in Qatar and participant had to be selected on this basis. Customers from the four banks were interviewed so that the whole population was sampled, this ensured varied and diverse information was obtained which represented the Islamic banking sector in Qatar. Moreover, selection criteria were also based on gender, education level, and age as each can have direct or indirect effect on participant's opinion and experience.

As per Figure 3, 53% of participants bank with Qatar Islamic bank, which is known to be the most popular Islamic bank in Qatar. Furthermore, 20% of participants bank with Qatar International Bank and Rayan Bank. Barwa Islamic bank, which is the newest Islamic bank in Qatar, came last with only 1 participant (representing 7% of the total participants).

As per Figure 4, participant's years of experience as customers with Islamic banks varies between 2 to 18 years. Participant number 13 has the greatest experience while participants number 4 and 11 have the lowest with only two years of experience. The average years of experience for all participants is 5 years.

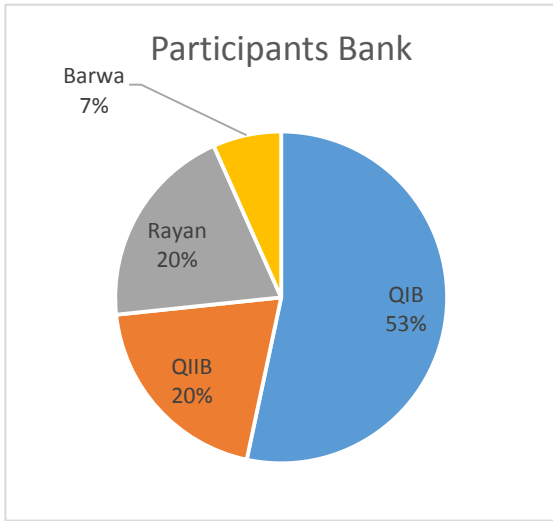


Figure 3: Participants banks

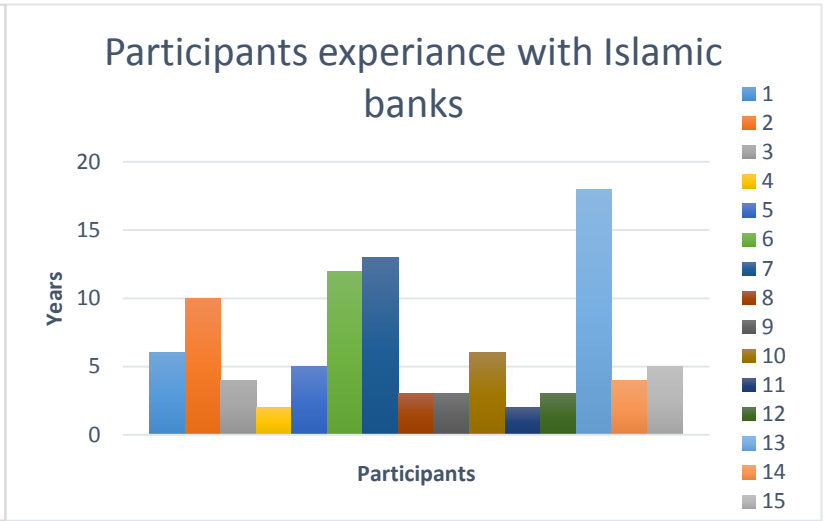


Figure 4: Participants experience with Islamic banks

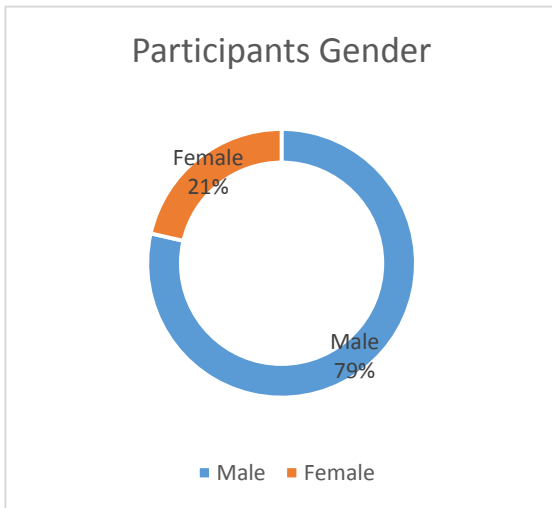


Figure 5: Participants gender

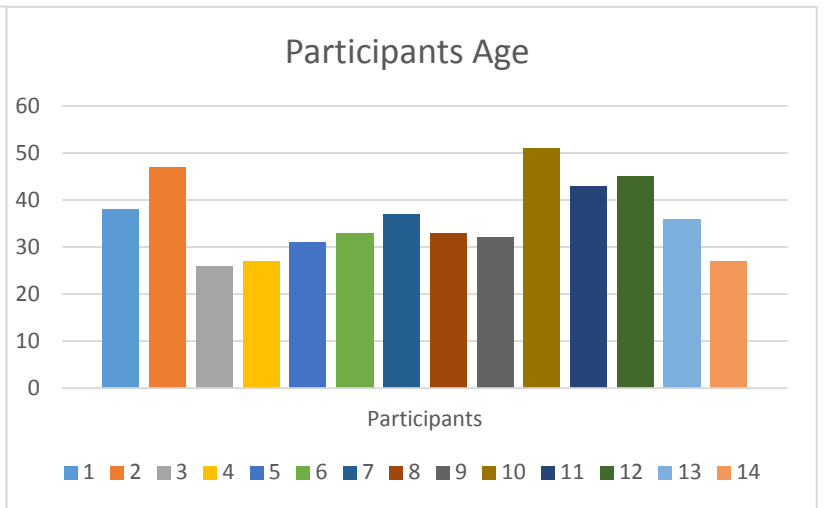


Figure 6: Participants Age

C. Research Limitations

There were several limitations to this study. The first limitation was the time available to conduct the research. Arranging, interviewing and writing transcripts consumed most of the time available for the research. The second limitation is related to banks diversification. Huge efforts were put to interview participants from different Islamic banks, however, this was partially achieved as banks like Barwa bank (the bank is newest and has small market share) made it very challenging to find more customers banking with them. The third limitation was confidentiality.

Several information related to customer's satisfaction, and complains could not be obtained as it were classified as confidential by banks and governmental agencies. The fourth and last limitation is religion diversification. In this research there is only one non-Muslim participant. Other participant are all Muslims and the reason is because Muslims customers dominates the Islamic banking sector in Qatar. Therefore, it was very challenging to find more non-Muslims customers.

IV. Findings and Analysis

This section of the research examines and analyzes the responses of the customers. Every factor that had an influence on the customers will be separately discussed and analyzed. At the end of this section, all factors will be grouped and ranked according to their importance to customers.

A. Consumers understanding of Islamic banking

Different studies suggested that awareness of Islamic banking systems do not contribute to altering customer's decision making/preference. According to Phillip and Barton (1997), and Maran's (2010) studies, the majority of Muslim customers were not able to explain any Islamic banking terminologies. They then concluded that there is a weak link between awareness and decision making/preference.

In this research six terminologies were put to the test, these are Riba, Sharia, Mudaraba, Wadia, Musharaka, and Ijara. Respondents were asked to indicate whether they know these terms and to explain them. The first two concepts are general concepts of Islam while the remaining concepts are mainly Islamic banking products. Table 2 below provides a summary of participants' responses to these terminologies.

Table 2. Participants' knowledge of Islamic banking terminology

| | Riba | Sharia | Mudaraba | Wadia | Musharaka | Al-Ijara |
|-------|------|--------|----------|-------|-----------|----------|
| Yes | 14 | 14 | 9 | 14 | 3 | 7 |
| No | 1 | 1 | 6 | 1 | 12 | 8 |
| % yes | 93% | 93% | 60% | 93% | 20% | 46% |

It can be clearly seen that the yes responses far outweigh the negatives. The first two terminologies known by almost all respondents. Around 93% of the customers were able to explain the meaning of both terminologies. Regarding Islamic products, we can clearly see that many respondents were aware of their meanings. Wadia was the most well-known Islamic product among customers with 93%, while Musharaka was the least known product with only 20% of yes responses. This suggests that Islamic savings account (Wadia) are very popular among Islamic banks' customers. Mudaraba and Ijara came in second and third place after Wadia with 60%, 46% respectively. According to Khan (2008) it is normal to have a high awareness rate as all of the participants are Islamic banks' customers that might use most of these terminologies in a daily basis. Factors such as religion and language can also play a key role in customers understanding of Islamic concepts. Most of the participants in this research are Muslims with Arabic as their first language. Thus, this can also justify their ability to explain the meaning of these terminologies. Furthermore, in this study there is only one non-Muslim participant who didn't speak Arabic. He was not able to explain any of the terminologies above. Kermit (2004) mentioned in his study that language was the main obstacle for participants to Islamic banking knowledge in the UAE. Therefore, we can state that awareness is closely linked to the language that people speak, and if Phillip and Barton (1997), and Maran (2010) conducted their studies in countries that speak Arabic, then their results would vary greatly (they conducted their studies in Malaysia and Singapore).

Another reasons that explains customer's awareness of Islamic banking terminology, was identified by Participant 6 :

"I know these terminologies not because I am in an Islamic bank but from a training course that was conducted by Qatar first Bank CEO. During this presentation he explained the Islamic financial system, and mentioned all these terms as well."

This indicates that the availability of training courses and workshops on Islamic banking also plays an important role toward understanding of Islamic banking terminology.

B. Sharia compliance

Complying with sharia is the main difference between Islamic and conventional banks. Most of the participants mentioned complying with sharia as one of the factors that made them choose to bank with Islamic banks. According to Participant 15:

“I am a Muslim and I take sharia law into consideration. Furthermore, as Muslims we have to be very careful with how we finance and how we use our money. It almost makes me feel better when I know that my money is being held in an Islamic institute and it makes me feel more comfortable doing transactions and business with such a bank like Masryf Al Rayyan”

This shows that Participant 15 feels more comfortable to have all his financial transactions in line with Islamic fundamentals. However, when he was asked whether he believes that Islamic banks comply with sharia law, he stated:

“I believe that Islamic banks do comply to the majority of what Sharia law imposes, but I believe as an individual that if they can still make a profit, then they do not follow exactly what sharia law imposes. I understand that they need to generate profits in order to run their operations efficiently and effectively. However, you cannot assume that they follow sharia law completely from A to Z. Things must be violated however may be indirectly. Eventually they are entities and profit is still a motive for them”

Even though he is an Islamic bank customer, it is clear that participant 15 does not believe that Islamic banks fully comply with sharia principles. He is probably referring to the difference between the actual financial practices of Islamic banks and sharia law. As per sharia law, interest above the loan principal is prohibited. However, this does not happen with Islamic banks in Qatar since they use other methods such as Mudaraba in order to provide their customers with the money they require (they add extra amounts to the loan principal and call it profit).

Participant 15 then added:

“Sharia is for sure very important because it makes me comfortable with how I use my money. But if my bank follows sharia but has poor service. I am sorry I am going to leave it and switch to a conventional bank. Service is very important”

This indicates that complying with Sharia only makes him feel comfortable and it is not the main motive for Participant 15 to deal with Islamic banks. He prefers better service quality over sharia compliance.

Moreover, Participant 2, used to bank with a conventional bank and later he was appointed as finance manager in one of the private companies in Qatar that banks with an Islamic bank. After working with the company for several years, he decided to switch to an Islamic bank. When I asked him whether sharia compliance influenced him to switch to an Islamic bank, he stated:

“No it is not a matter for just sharia because there are another Islamic banks in Qatar and I don’t want to transfer to them as I feel they will not serve me as good as my current bank. I believe that I will continue with my current bank unless I face a major problem with the bank”

Sharia didn’t have a strong effect on Participant 2’s decision to switch to an Islamic bank, but he switched because the conventional bank did not serve him as he expected. He then added:

“Islamic banks would give me more savings than conventional banks since there are no extra interest charged on credit cards delayed payments. However, Islamic banks never do that. They will follow you intensively if you don’t pay but they will never charge you interest on delayed repayments. Their interest rate is always fixed. This also applies to loans as they will not charge extra interest on delayed loan repayment”

He mainly switched due to the differences in credit card procedures that Islamic and conventional banks provide. Participant 2 had an unpleasant experience with conventional banks as they used to charge him extra fees on late payments. Later those late interest payments became higher than the actual payments. This caused severe financial problems to Participant 2 and hence made him search for another bank that had better credit card policies, which he found in his current Islamic bank.

When asked about his view on whether Islamic banks fully comply with Sharia principles, Participant 2 stated:

“No I don’t agree because I believe that they follow the formalities of sharia but they are not doing it in actual. They do all the papers matching with sharia rules but not in actual life”

It is clear that he agrees with Participant 15 who also believed that they do not fully comply with Islamic fundamentals. However, Participant 2 provided a different reason than Participant 15 as he continued:

“For example, if you are going to purchase a car through an Islamic bank, as per sharia, they have to purchase the car from the dealer in their name of the bank and then they release the car to you. Now Islamic banks they do that in papers but not in actual. Sharia said that they should own it and then can sell it”

The process in which Islamic banks transfer the ownership of certain assets like cars, made Participant 15 believe that they do not fully comply with sharia principles. Islamic banks should first own the asset under its name and then sell it to the borrower or buyer. Not doing that makes them divert from Islamic principles and thus become similar to conventional banks.

Looking at this from a different perspective, Participant 4 has the lowest experience with Islamic banks (roughly 2.1 years). Previously, he was banking with a conventional bank and recently decided to change to an Islamic bank. When I asked him about his motives, he stated:

“I have been already with QNB which is the biggest bank in Qatar. and I have tried the good quality of services, the nice welcoming in their branches, and the good way they deal with their customers. But at the end I have decided to be with my concepts and my values, thus decided to move to an Islamic institute. Currently I feel more comfortable with them and based with my experience with them, I believe they are doing very well lately. They are developing their services, and quality control. Therefore, I believe that it is not worth it going back to a conventional bank as I feel that they will not give me anything extra than what I have with my current bank”

Although his previous bank provided him with good quality of service, Participant 4 decided to stick to his values and deal with an Islamic bank. He felt uncomfortable with a conventional bank and decided to leave to avoid Riba as much as possible. Unlike Participant 15 and Participant 2, Sharia strongly influenced Participant 4's motives to switch to an Islamic bank. However, when I asked him whether Islamic banks comply with sharia principles, he surprisingly stated:

“I believe that they are trying their best to make it as best as they can. However, I don't say that they are fully compliant with Islamic fundamentals but I am saying they are very close to fully comply and thus I believe that they are doing very well in this matter”

Surprisingly, Participant 4 agrees with Participant 2 and Participant 15's views on Islamic banks compliance with Sharia fundamentals. This indicates that complying with sharia makes Muslims like Participant 4 feel comfortable and more satisfied with their financial transactions but also doubt Islamic banks honesty when claiming that they fully comply with sharia principles.

Participant 12, moved to Qatar five years ago. He opened his first account in one of the conventional banks in Qatar. Then, 3 years later decided to switch to an Islamic bank. When asked about the reason, he stated:

“I used to be with CBQ for 3 years and during that time, I liked the quality of services that they provided to me and I didn't take any loans from them, just maybe the credit card facility. Then I decided to move to QIB just when I needed a car loan since I don't want to take a Riba loan. This would make me feel uncomfortable as I will be having a car from Haram money”

Participant 12, switched to an Islamic bank just to avoid Riba. However, he only made this decision when he needed a car loan. He believed that dealing with conventional banks does not contradict sharia principles as long as customers stay away from conventional loans. Additionally, he also indicated that current accounts do not expose customers to Riba as customers will not receive any interest payments on funds available in their current accounts. However, similar to Participant 4, 2, and 15, he also mentioned that Islamic banks are trying their

best to comply with sharia principles but they are not 100% compliant. When asked to elaborate on this statement the response was:

“Islamic principles focus on for example improving peoples wellbeing and quality of life and If Islamic banks follow Islamic principles by 100%, then it would be very challenging for them to operate and cover their day to day cost. Everyone need to understand that Islamic banks are not charitable organizations to focus on nonprofit aspects but instead they are organizations that are similar to all profit organizations in the market. They have investors, and they want to make profits to cover costs and generate profits. If there aren’t economically benefits in the Islamic banking business, then no one would invest in it and thus it won’t even exist”

Participant 12 reasoned that Islamic banks operate as profit organizations. Their shareholder’s goals are not different than those in other profit organizations. Wealth maximization will always be their main objective and complying 100% with sharia principles will not create an attractive investment opportunity for investors and thus Islamic banks would not exist.

When Participant 1 was questioned on his motives for banking with an Islamic bank, he claimed that sharia was the most important for him. Additionally, when asked about his view on Islamic banks complying with sharia principles, he stated:

“For me as a normal man I don’t care if they comply or not because it is an Islamic bank and also there are Islamic scholars that monitor and decide on each transaction. That what matters to me”

Participant 1 noted a special characteristic that is only available in Islamic organizations, which is the sharia supervisory board. Every Islamic bank in Qatar must have such a supervisory board that consists of three to four Islamic scholars. The main objective for this board is to ensure that the bank’s operations fully comply with sharia principles. Clearly the availability of such a board made Participant 1 feel more comfortable about his bank’s financial transactions.

Looking from a different prospective, Participant 11, a non-Muslim customer stated:

“With all the respect to the religion of Islam and Islamic banking, I do not take into consideration the attributes of what attract me to a specifically an Islamic bank. Instead I

look into the service, the quality of work they provide, the speed of the services, the transfers to England (how long it takes), and the offers they provide to their clients”

Even though Participant 11 is an Islamic bank customer, other factors related to quality of service and his job, contributed toward making him bank with an Islamic bank. Sharia is not an applicable factor to participant 11 at all.

This suggests that compliance with sharia is one of the main factors that makes customers patronize Islamic banks. This is also in line with all studies conducted by Kader (1993), Metawa (1998), Nasser, Jamal and Al-Kataib (1999), and Phillip and Cunningham (1997) as most participants in this research mentioned sharia as one of the key motives to bank with Islamic banks. However, as per figure 7 below, around 53% of participant doubted their full compliance with sharia principles and each provided different reasons for what made them think that. However, those reasons were not strong enough to make them feel uncomfortable and switch to a conventional bank.

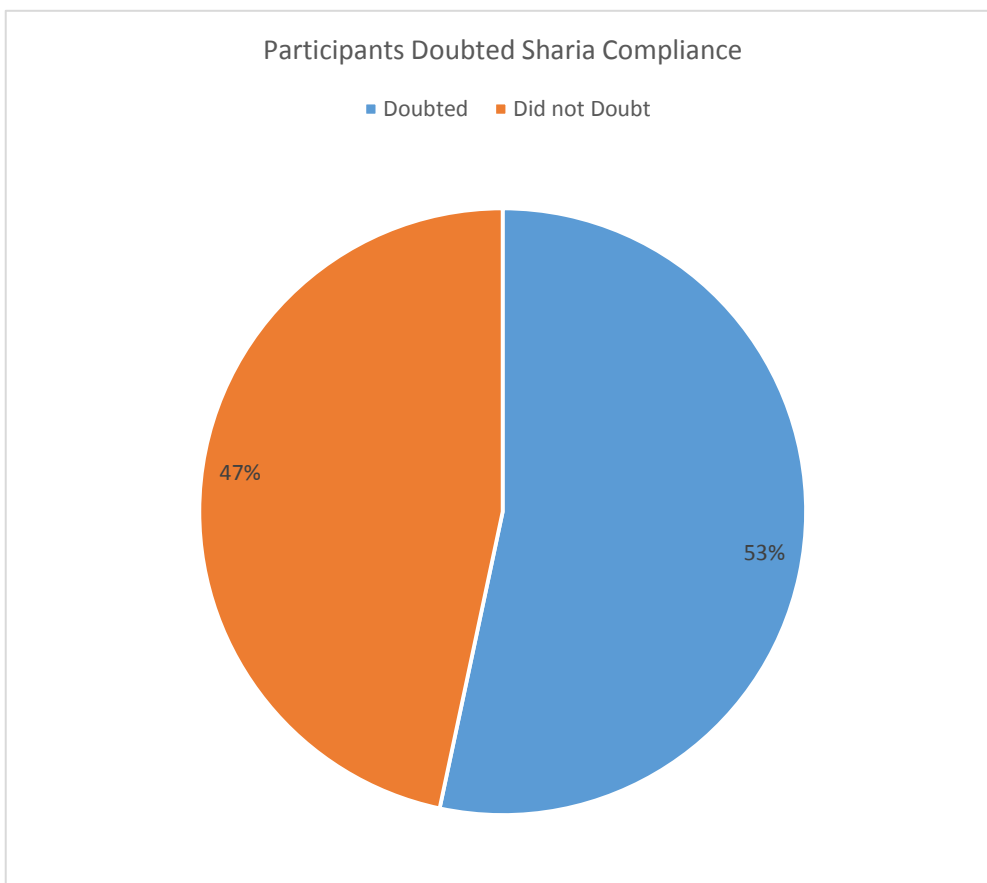


Figure 7: Participants Doubted Sharia Compliance

C. Service Quality

Service quality is also a major factor that participants mentioned in the interviews. There are several sub-factors that come beneath service quality such as, staff, branches, online banking, speed of service, ... etc. The next part of this research will discuss customer's perception of Islamic banks' service quality.

a. Staff

For any service provider, the major effect on service quality comes from staff, since sales in such companies depend on how their employees interact with their customers. The better their interaction, the more satisfied the customers in term of service quality.

During the interviews, several customers commented on the staff of Islamic banks, they represent the core of service quality for every bank. Almost all the interviewees commented on their bank's staff. Some of them had very positive comments, others not so.

Participant 6, banking with QIIB, stated on staff:

“The staff in the call center do have the knowledge and experience as I never had any problems with them answering my queries. However, the staff responsible of real estate financing do lack some knowledge and experience”

Participant 6 is satisfied with the staff of the call center as they seemed to be well trained. However, he negatively commented on real estate financing staff as he continued:

“For example, once I had a problem with one of the senior staff of the VIP memberships in the bank. He could not give me information of the subject I asked for. He only had basic information that I could get from their website. Then he did ask me to come to the branch for further explanation”

This shows that Participant 6 had unpleasant experience with the financing staff. They were not able to provide him with the information he required, made him upset and tried to delay answering his questions by asking him to visit the branch. Real estate financing is a major decision for any customer and therefore, it is very important to give customers the right information in this regard.

Participant 9, banking with the same bank of Participant 6, also comment on the customer service, as he stated:

“The telephone customer service is very weak. They can barely provide any assistance when I face big issues. They keep me on hold for a long time and then promise to call me back when they find a solution”

Comparing what Participant 6 and Participant 9 said, the customer service in their banks are able to answer simple questions and find a solution for customers, but when it comes to complex issues they struggle. This indicates that the bank’s staff are not well trained and lack experience. However, Participant 1, which is also banking with the same bank, did not provide any comments on the banks staff, he seemed to be satisfied with their performance.

Participant 7, banking with QIB, had similar concerns on customer service staff as he stated:

“Every time I request something from the customer service, first of all they will not finish it on time, they are very slow. Secondly, I will not get the right service that I requested. For example, if I apply for the platinum via package, they will give me the gold package”

Participant 4, also banking with QIB, stated:

“They lack knowledge. They switch you to another person very often. I believe that they should have a standard knowledge to be able to answer to customer’s requirements and make them more satisfied”

Participant 4 and 7, both confirmed that their bank’s staff lack knowledge, experience and accuracy. They also mentioned that they are slow in fulfilling customer’s needs.

Participant 8, banking with QIB, addressed a different matter related to staff:

“Generally the staff are good but what I don’t like about them is their behavior. Sometimes they are not very well behaved. For example, I once applied for a check book and they issued it in Al Abu Hamour branch. When I told him why they issued it there as it is far away from my house, he replied in an aggressive way that I didn’t like.”

This indicates that they lack experience as professional experienced staff will not treat customers aggressively and make them feel uncomfortable. Clearly QIB retail staff require intensive training to raise their experience to a satisfactory level.

For Al Rayyan and Barwa bank customers, no major comments were made on their staff performance. Most of the customers seemed to have neutral responses, which means that they are not bad, nor superior.

Based on the responses from the interviews, we can conclude that Islamic banks’ customers are not satisfied with staff performance as they lack experience, knowledge and proper communication skills. Accordingly, more effort is required from Islamic banks in order to improve the quality of their staff. The majority of the comments from interviews were on the mistakes that staff make, which in terms are very annoying to customers. Such mistakes can be devastating to the bank and customers. Therefore, we can clearly say that staff is not a factor that makes customers patronize Islamic banks however, it is a weakness that contributes negatively towards attracting/retaining customers.

b. Online banking

Online banking is a service that has been recently developed for bank’s customers. It enables customers to conduct several financial transactions without approaching the bank’s branches or telephone service. The popularity of this service is increasing at a great pace. Around 60% of customers in the Middle East use internet banking (Brandt, 2012). Therefore, banks are developing it extensively in order to add more features and thereby satisfy customers requirements for this service. Islamic banks are not exempt from this race and thus all Islamic banks in Qatar provide online banking for their customers. Interviewees provided different comments on this matter, which will be discussed in this part of the research.

Participant 3, banking with Al Rayan bank, stated on online banking:

“Online banking is convenient for me. It offers different features such as transferring money to an internal or external account, check balances and even pay bills. In addition, their online security is good, I didn’t face any major issues while using until now”

However, Participant 15, also banking with Al Rayan bank, said:

“Their online banking is a bit concerning as well. It is not as efficient as the one QNB and commercial bank provides”

Likewise, Participant 5, with Al Rayan bank, said on the same subject:

“Another weakness is their online services. I use it a lot to for example, transfer funds, download my account statement, and pay for my credit card outstanding balances. I believe that it is easy and very useful but also very limited. I would like to see other services offered in their online banking. for example, applying for a loan, opening accounts (saving account), and open a fixed deposit.”

It seems that Al Rayan bank provide decent online services to their customers but, it is not as fast and efficient as online service provided by conventional banks. It might be sufficient for customers like Participant 3 who is known as a light user, only using it for simple things such as transferring funds and checking balances and paying bills. However, receiving such comments on an Islamic bank’s online system is not limited to Al Rayan bank, customers of other banks also provided similar comments. For example, Participant 4 banking with QIB commented:

“It is quite good and basic but for me it is not satisfactory. The reason is because I used to be a customer with QNB, and when I compare QIB online banking with QNB online banking, I think that QNB is way ahead of QIB. However, I am not saying that QIB’s online services are bad but is convenient. They are still developing in this area and I believe that they should put even more efforts in their online banking to make it more simple.”

Similarly, Participant 7 banking with QIB, stated:

“Now it is much better than before. But not complete. There are a lot of missing services that they can provide via online services but are not yet there. For example, there are banks in Qatar that allow their customers to open a saving account online. However, my bank does not provide such an option online.”

Both Participant 4 and 7, believe that online banking is good but still limited. It requires more development to add new features and reduce dependence on branches. Moreover, Participant 4 recently moved from a conventional bank. He mentioned a key point in his comments that conventional banks online are ahead of Islamic banks. Thus, it is clear that Participant 4 still prefers conventional bank’s online services over Islamic banks.

Participant 8, Palestine female with QIB, had a different issue with the bank’s online services, she stated:

“Their online banking is very good and convenient but I didn’t like that their computer version is not linked with the mobile version. Both can have different passwords which is little bit disturbing for me. I usually get confused and thus use the wrong password in the wrong place. I tried to use one password for both but due to security reasons It didn’t allow me to do that.”

Participant 8, is not satisfied with the complex security procedures imposed by the bank for their online banking. She believes that having different passwords for mobile and desktop platforms is confusing and makes it complicated.

To look at the other extreme, Participant 6, Qatari male with QIIB, stated on his bank’s online banking:

“Their online banking is very poor in the bank. They have very basic options in their online banking system. For example, transferring funds to another accounts (which they are also slow especially if it is to another bank). You cannot apply for loans, credit cards or checks.”

For young customers, online banking is a crucial service as most of them complained about its limitation and complexity. However, for older participants such as Participant 2, 14, 13, 1 and 11,

no vital comments were provided by them on online banking. They seemed to be either satisfied or prefer other means such as telephone or branch banking.

All responses are summarized in figure 8 (below) and according to it, the majority of customers believe that Islamic banks online banking is below average. Therefore, we can conclude that online banking is not a factor that attracts customers to Islamic banks. It is similar to the staff factor, both negatively affect Islamic banks attraction/retention of customers.

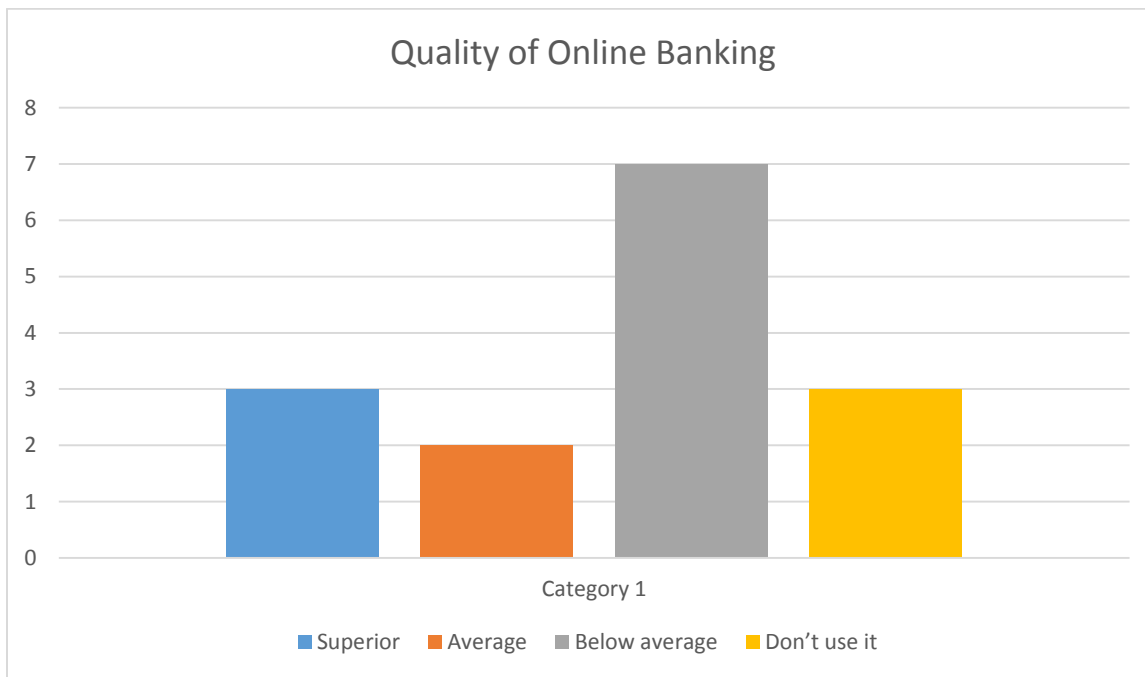


Figure 8: Quality of online service of Islamic banks

c. Branches

Branches represent core operations for every bank. They provide customers with several services such as depositing, withdrawing, transferring funds, resolving issues, opening accounts, and making big transaction such as loans. Their existence is extremely important to customers since, as mentioned earlier, other banking mechanisms such as online banking might not be capable of handling certain matters. This part of this research will examine participant's comments on the quality of service in Islamic banks' branches.

Participant 2, banking with QIB, mentioned:

“They have branches all over Qatar, and whenever you need something from them, you can go to any branch and they will finalize it within a good time frame.”

Participant 4, banking with the same banks also stated:

“They are well spreading their branches to all over state of Qatar. They are located in good demographic areas. Anyone can reach them within 15 to 20 min by car and can do whatever service required from any branch.”

Similarly, Participant 7, also banking with QIB, added:

“For distribution of branches, I believe that they are well diversified. When I joined them, they used to have very limited number of branches but now this has changed, they are available in almost every mall in Qatar and outside malls as well.”

It is clear from all above comments that distribution of branches is not an issue at all for QIB customers as stated by Participant 2, 4 and 7. Other customers banking with the same bank such as participant 14, 13, 12, 8 and 10 also provided positive comments on the distribution. Similarly, customer banking with QIIB are pleased with the distribution of branches of their bank. For example, Participant 1, Qatari male with QIIB, considered branch distribution as the strongest element in the quality of service of his bank. However, things were different with Al Rayan bank customers. Almost every participant of Al Rayan bank provided the same negative comment on branches distribution.

Participant 15, said:

“They do not have a lot of branches. For example, If I were in the middle of Villagio I think I would have a big problem finding a branch there. So that is one of their main weaknesses.”

Participant 3, commented:

“Branches are not well distributed compared to other Islamic banks, maybe increasing their numbers would solve this issue.”

Participant 5, stated:

“The first and most disturbing weakness is the number of branches. I am sure that most of their clients would mention this weakness because Al Rayan bank do have a lot of customers but not many branches. Additionally, if they do have branches, the location of these branches are not convenient. For example, my branch is the city center branch, and I choose it because it is the closest branch to my house, by the way I live in Al-Duhail area. As you know, city center is one of the busiest malls in Qatar. For me to reach it and then find a parking for just depositing a check is time consuming.”

Dispute having several foreign branches in Europe, it seems that their local branch distribution strategy is not as successful as other Islamic banks. According to Al Rayan bank website, the bank has only 11 branches in Qatar compared to 28 branches for QIB and 20 branches for QIIB (Qatar Islamic bank, 2016) (Gulftimes, 2015). The difference between in number of branches for Al Rayan bank and QIB is almost double. Besides Al Rayan bank, Barwa bank customers also face the same problem with only 8 branches in Qatar (Masraf Al rayan, 2016). Participant 11 banking with Barwa bank, briefly commented on this issue by saying:

“Unfortunately there are few branches in Doha and I hope new branches will open in the future, but currently it is a big problem.”

Other than the number of branches, Participant 14 commented on another subject related to number of branches which is the waiting time. He stated:

“Last time when I applied for a loan, they finalized it on spot. So speed of transaction is convenient. The weakness is only before getting to the desk, the waiting time in the branch is very long. To finalize a loan, it usually takes around 30 minutes for negotiation and I believe it deserves to be negotiated. But the customer who is waiting behind you who has 5 customers ahead of him have to wait for at around 2-3 hrs. until he reaches the help desk (if everyone ahead of him takes 30 minutes to negotiate).”

In the same manner, Participant 13, banking with QIB, also added:

“I rarely go to branches due to their slow procedures. When I go to their branch, I have to take a number and wait in a long queue, it takes very long time and thus I try to avoid going to branches as much as possible and instead I prefer to use services provided by ATMs as they offer most of the services that are provided in branches.”

Participant 12, also commented on the same issue and stated:

“I live in Madinat Khalifa and the closest branch to our area is Al Ghraffa branch. Last time when I visited my branch I waited for around 1 hour to reach the customer service representative and the branch was full of customers to an extent that there were no empty seats. I then had to stand up for around 45 minutes until I finally found a seat.”

He further added:

“The branch did not have a designated area for women and both men and women had to wait in the same place. To be honest I didn’t feel comfortable at all but I could not leave because I had an urgent thing to finish with my bank.”

On the other hand, Participant 4 commented differently by saying:

“I have been only to one branch that is the one in the pearl. I believe that the time spent there is convenient. The waiting time is very minimal and I am surprised as very time I go there; the branch is empty. They are also very welcoming to fulfil your request, or transaction. The longest time I spent in their branch was 30 minutes and it was mainly to open an account.”

Besides Participant 4 and 10, banking with QIB and a member of Al-Tamaiz club (elite club for VIP customers) stated as he commented on on Altamaiz club benefits:

“Benefits involved are giving members high priority when they visit a branch for example they have different queues than normal members thus shortening waiting time”

For VIP members like Participant 10, waiting time is not an issue at all as the bank prioritize them over other customers. However, for normal customers like Participant 14, 13, and 12 (which represents the majority of customers) waiting time is a severe issue for them. We can clearly see that especially in branches in highly populated areas, waiting time is much longer than in other, less populated areas. This suggests that branches are not capable of serving a large number of customers as customer service desks seems to be limited. Other elements such as number of seats, parking and waiting areas for women are also limited/not available.

Furthermore, treating VIP customers differently, is totally unfair and it is against Islamic principles of justice and equality.

Customers from other banks such as Participant 6, 1, 15, 3, and 11 (QIIB, Al Rayan bank, Barwa) did not experience long waiting times. Unlike QIB where waiting duration is between 1 to 2.5 hours, customers of other banks tend to experience less waiting time, around 15 to 30 minutes. This can be explained as QIIB, Al Rayan Bank and Barwa have less market share when compared to QIB which has around 42% market share of the Islamic banking sector. This makes QIB the largest Islamic bank in Qatar and probably justifies the larger customer base that they have.

Other elements related to branches are the working hours. Most of the customers seemed to be satisfied with the working hours of their banks except for Participant 1 as he stated:

“The main weakness is the working hours; I mean that they don’t extend their working hours to evenings. They work from 5 to 7 pm which is only two hours. For me this is not really convenient because I have to come early or I have to come directly from work to the bank.”

We can conclude that Islamic banks provide decent quality of services in their branches, however, it is not superior as there are some areas to be further improved, such as reducing waiting time, provide waiting areas for women, increase the number of customer service desks and increase the number of branches.

d. Speed of transaction

Speed of transaction is the time a bank takes in order to process and finalize the customer’s requests. Banks speed of transaction differs as it depends on several matters such as internal procedures and authorities. The more complex the procedure, the slower the speed of transaction. Several participants commented on the speed of transactions of their banks, some of those comments are positive, others are negative.

Participant 6, banking with QIIB, stated that he is satisfied with his speed of transaction. He believes that this bank is very quick in fulfilling his requests especially in financing as he stated:

“They are very quick in their financing services. Whenever you apply for a loan you will get it very quickly especially car loans.”

He further said:

“They are very quick in their financing services. Whenever you apply for a loan, you will get it very quickly especially car loans.”

Similarly, participant 14, commented on the speed of transaction of his bank and mentioned:

“Last time when I applied for a loan, they finalized it on the spot. So speed of transaction is convenient for me”

Islamic banks seem to be quick in processing financing applications. Most of the customers that took loans from them provided similar comments. This might be mainly due the recent development in the bank’s financing procedure. Some banks, as mentioned by Participant 4, have gone through major reorganization of their management in order to cope with the changes in the market and and improvement in the speed of transaction was one of the outcomes of that reorganization. However, Participant 2, had a different view point in this matter. He stated:

“One of their weaknesses is their bureaucracy in the approval process as two approvals are required for certain types of financing, the first from sharia board and the second is from the branch manager. However, with conventional banks, only one approval is needed, that is the approval of the branch managers. Sometimes this bureaucracy can slow down the financing process.”

Other participants like Participant 7, also commented on the speed of transaction but from a different prospective, he stated:

“Whenever I request an ATM card, you have to wait until it is delivered either by mail or through a person to your place. However, there are other banks in Qatar where you receive your card in the same time before leaving the branch, which is superior.”

Participant 2's comment was on the internal procedure of his bank while Participant 7 was on the delivery process. Those are two different elements that are limited to certain cases. All other participants showed high level of satisfaction with their bank's speed.

e. ATM

ATMs provide several basic services to customers such as cash withdrawal and deposit, view statements, printing checks, and paying bills. Banks develop them continuously in order to reduce customer's dependence on other banking channels such as online banking and branch banking.

Participant 13 and 9, both stated that the ATM's system of their banks are very efficient and saved them time. Participant 13 further stated that he prefers to use ATMs over going to the branches as ATMs are faster and provide almost all services offered by his bank's branches. however, Participant 4 commented differently on ATMs as he stated:

"I have noticed that their ATM's are shrinking rather than expanding. They are not very well distributed and they are lacking in some areas. I believe that there is a shortage of ATM's. For me dealing with my bank's ATMs is very important as I can withdraw more funds from them than other bank's ATMs."

No further comments were provided by participants on ATMs.

f. The Most Critical Factor

While interviewing participants, I asked them to provide me with the most important factor that influences their satisfaction with their banks. Figure 9 (below) summaries their responses.

We can clearly see that the quality of staff is the most critical factor. Their knowledge, experience and behavior greatly influences customer's perception to Islamic banks. Speed of transaction came second with four responses and online banking third with three responses. Branch distribution, waiting time, and working hours came with the least responses.

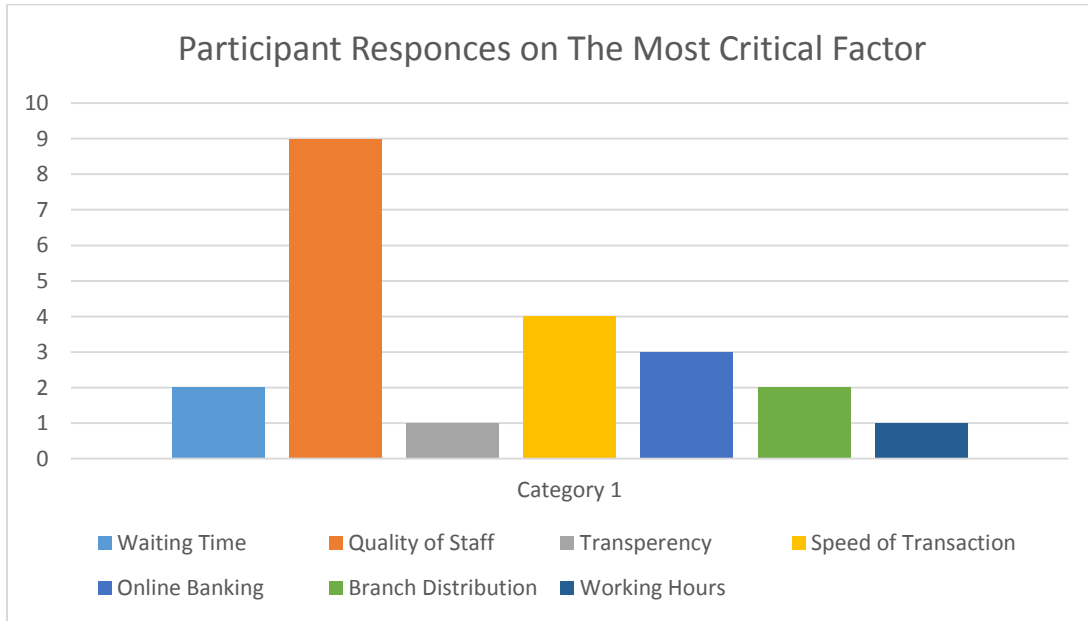


Figure 9: Participants responses on the most critical factor of quality of service

D. Family and Friends

Family and friends are the people that surround customers. Several studies have been undertaken recently by marketers, such as Metawa and Al-Mossawi (1998), Yakup (2011) that found the existence of a link between those that surround a person and customer's behavior. Therefore, in this part of the research, we will examine the effect of this factor on Islamic banks' customers.

The effect of family and friends was mentioned in several answers. For example, when participant 2 was asked whether he would switch to a conventional bank, he replied:

“No, for certain reasons. First of all, opening an account in a new bank means that you start with a new experience. I am used to QIB and thus I know what I need to do whenever I am looking for something with the bank. Additionally, the bank knows me very well and I have a good history with them. I also have several friends in my current bank that can assist me with anything that I need.”

Participant 2, provided several reasons on why he is not willing to change his bank. One of them were friends. According to Participant 2, his friend, who is working for the same bank, can help him anytime he requires assistance.

Participant 5, provided a similar answer when I asked to list down the reasons that made him bank with his current bank, he stated:

“Most of my family deal with this bank, my father, brothers and just recently my mother as well. In addition to that, my father does have his own connections in this bank and therefore, for me it is easier to deal with them as I can use my father’s connections to move things much faster than they usually do.”

Likewise, Participant 4, stated on the same question:

“Well it is for different reasons, the first one is because one of our family members is working there and whenever I have an issue with the bank, he always assists me. For example, last time when I travelled to the US, for security reasons, the bank blocked my credit card immediately after making the first payment. Then I called my relative working in the bank, and within few minutes the block was removed.”

Participant 7, also answered:

“It was selected by my father. He insisted to open in an Islamic banking account or nothing.”

This proves that family and friends can play a vital role in influencing customers perspective. This can be due to cultural reasons, as in Participant 7’s case, disobeying parents is culturally unacceptable. Additionally, having a connection inside the bank can compensate for low quality of service and facilitate many complex matters. Therefore, we can conclude that family and friends is a fundamental factor impacting customers to patronize Islamic banks.

E. Price and offerings

Price and offerings of products provided by banks plays a vital role in shaping customers perspective. This is also includes Islamic banks, and to understand the effect of such a factor, in

the next part of this research I am going to address three questions participants were asked on price and offerings.

a. Islamic banks vs conventional banks

The first question was whether Islamic or conventional banks provide better price and offerings. Different answers were given by participants to this question. Some of them seemed to have no information on conventional prices and offerings, while others were better informed.

Participant 3, answered this question by saying:

“Nothing worth mentioning since it is mainly controlled by Qatar central bank and If differences exist between Islamic and conventional banks offers then it is going to be very small.”

Participant 8 and participant 14, also agreed with Participant 3, as they stated that there are no differences between the two banking systems in terms of price and offerings. Participant 2, on the other hand had a different answer to this question, he stated:

“There is one main item that we need to consider, that is offers are controlled by the central bank of Qatar. However, there are factors that enable banks to provide better offers, such as the bank strategy and extra available security limit from Qatar Central Bank. I consider Doha and QNB to be more flexible to take higher risk than others. Thus they are able to provide better facilities.”

Similarly, Participant 4, who has recently switched to an Islamic bank, stated:

“If we compare financing of conventional banks with Islamic banks, conventional banks provide better offers. For savings I believe they are almost the same because the Murabaha rate is controlled by Qatar Central Bank.”

Looking from a different prospective, Participant 10, who also owns several small businesses, answered by saying:

“For sure non-Islamic banks provide much better price offerings compared to Islamic banks. It is more visible in corporate banking as I mentioned earlier. Conventional banks

provide much more attractive interest rates for both loans and deposits to local businesses.”

We can clearly see that financing offers, as a product, are very influential to customers, the better the finance offer, the more attractive the bank is to customers. However, some participants indicated that banks are mainly competing on fees and charges and that prices are strictly controlled by Qatar Central Bank. Most participants also indicated that conventional banks outperform Islamic banks in this area, which also applies to corporate banking as Participant 10, mentioned in his comment. Figure 10 below, summarizes participant’s responses. Based on the data shown in figure 10 it can be concluded that price and offerings are not factors that make customers patronize Islamic banks.

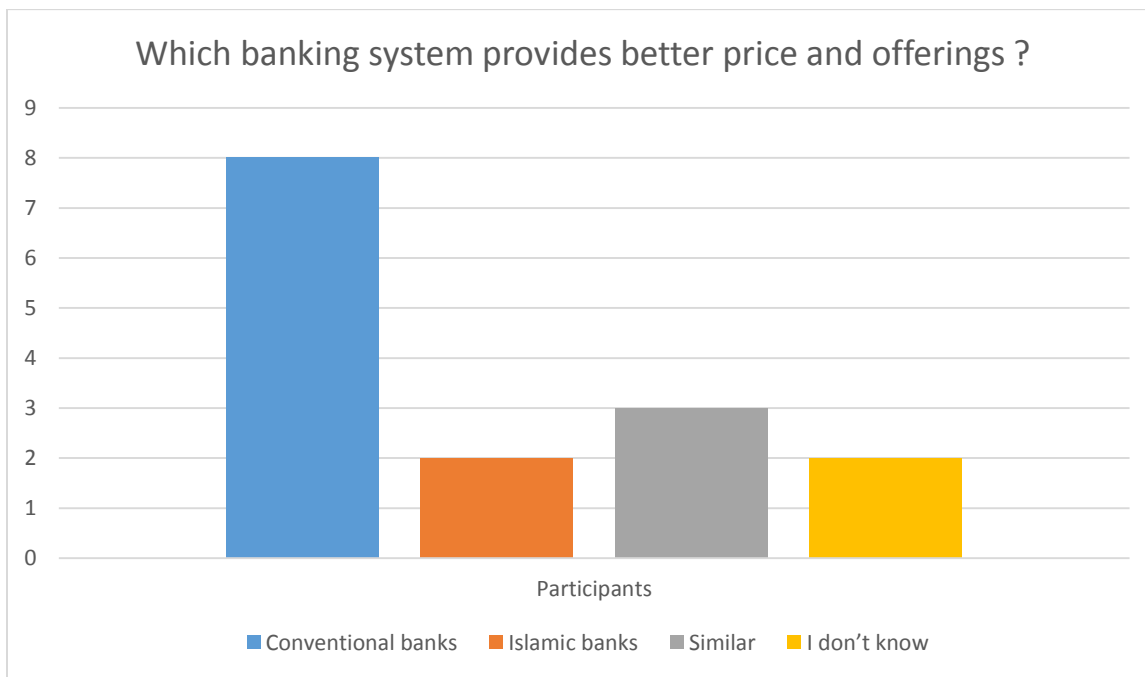


Figure 10: participants’ responses on which banking system provides better price and offerings?

b. Willingness to Islamic products

I wanted to further test the pricing factor of Islamic products in order to examine whether it has any impact on customer's perception to Islamic banks. Therefore, I asked all participants to state the maximum amount they would be willing to pay for an Islamic product. Some of the answers were surprising. For example, Participant 7 stated:

"I will go for Islamic banks even if the difference between conventional banks rate and Islamic banks is 10% in loans. Because if I go to conventional bank products, I will not be able to sleep at night."

Participant 10, also mentioned:

"I will always go to Islamic products as I want to stay away as much as possible from Riba. However, I might consider non-Islamic loans only if they give me a zero interest rate."

Those were the most conservative answers received from participants. They were willing to pay any price the bank offered them as long as it is Islamic. They preferred to stick to their values, beliefs and religious principles. However, I also received realistic and less conservative answers from other participants. For example, Participant 6 stated:

"I will keep going to the Islamic products because of my religion and even if it is higher. The main reason is because I want to avoid Riba. Secondly, I will keep going higher as much as I can afford to pay. If I reach to a situation where I cannot afford taking the Islamic products, I will simply avoid taking the product."

Participant 13, also stated:

"My own principle is to only deal with Islamic products and thus if it is an urgent requirement, I will go for Islamic products whatever high price they offer. However, if it reaches to a very high level for example 10 times higher than conventional banks products, then I will stop taking loans, but will never consider going to non-Islamic loans."

Similarly, Participant 5, stated:

“I would pay whatever they offer me even if it is higher than conventional banks. However, if it reaches to a very high level, then I would consider moving from my bank to another Islamic bank that has better offers. But I will never take a loan from a non-Islamic bank.”

Participant 2, stated:

“For me I am ready to pay whatever they offer as long as it is Islamic and if it becomes very high then I will bargain with them. I will request from them special rates and I will show them the other rates given by conventional banks.”

Those four participants would go for Islamic products until their prices reach to a certain limit and after that they would simply avoid them, change to another Islamic bank or bargain with them. Each participant provided a different approach to high prices but they all agreed that they will never switch to a conventional bank so that they avoid Riba as much as possible. This proves that the Islamic perception for those four participants is stronger than the price factor.

Nevertheless, several other participants were against paying a higher price for Islamic products and had different responses. For example, participant 15 stated:

“If the Islamic bank is offering the same rate as conventional bank or lower, I would go with the Islamic bank. I am not willing to pay any extra amount for Islamic products if the conventional banks provide me with lower rates.”

Participant 12 also stated:

“I would not deal with Islamic products if they cost me much higher than conventional banks products. I believe that there is a limit for everything and as long as the difference between conventional banks and Islamic banks interest rates is below 3%, I would go to Islamic products, however, if it becomes higher, then I will not go for Islamic products as it will give me a message that they are misusing their reputation of being Islamic.”

Likewise, Participant 4 stated:

“If the difference between the conventional and Islamic bank was not huge, around 5K to 6K in total costs, I will still go for the Islamic product since not a big deal for me to sacrifice my values and motives. However, if the costs becomes double the ones offered by conventional banks, I will switch to a conventional bank because I believe offering double the cost is a clear violation to Islamic values and principles. Additionally, this will send me a signal that they are using Islamic fundamentals as a cover to maximize profits not to provide customers with pure Islamic products.”

Based on above extractions, these participants were not willing to pay high prices for Islamic products and it seems that the price factor is not as strong as previous participants. They don't mind switching to conventional banks to avoid the high prices of Islamic products. Furthermore, they expressed charging high prices for Islamic products as misusing their religious perspectives.

Therefore, we can conclude that there are several customers willing to pay any price for Islamic products, however, they are in the minority. On the other hand, the majority of customers stated that to a certain limit, they would still go for Islamic products, but once it passes that limit, they will go for cheaper non-Islamic products. Figure 11 below summarizes participant responses.

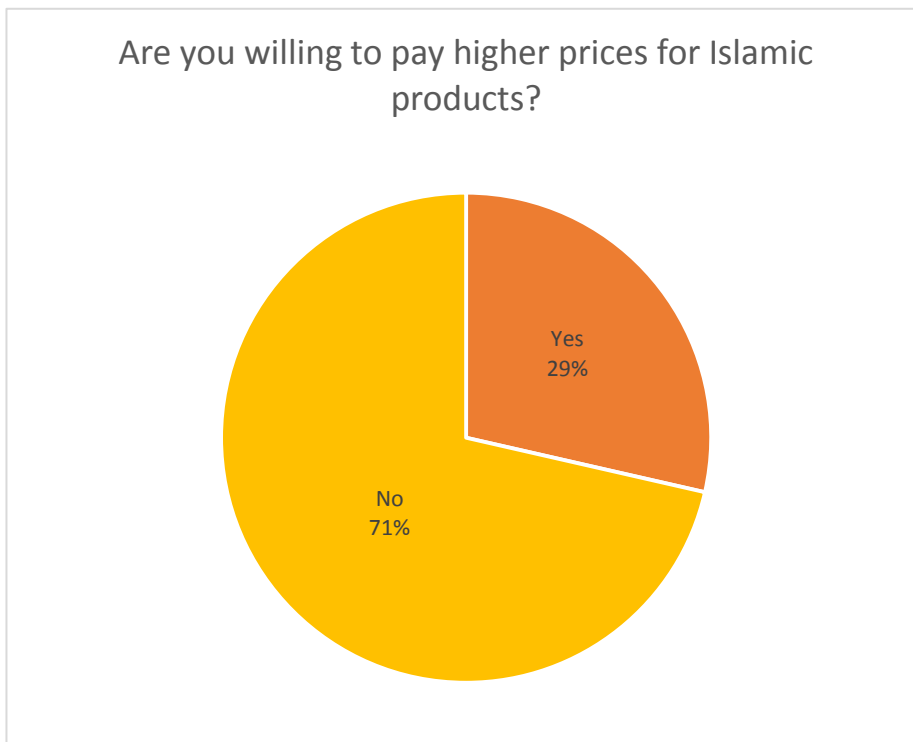


Figure 11: participant responses on whether they are willing to pay higher prices for Islamic products.

F. Corporate social responsibility

Corporate social responsibility involves any practice which an organization preforms in order to benefit the local society. There are several ways that companies can benefit their local communities and it varies from giving financial aid to making operations greener. The effect of such activities depends on consumers' awareness of social issues, the more customers are aware, the more influential this factor is on customers. Therefore, in this part of the research will examine customers awareness on social responsibility matters.

a. Examples of CSR

To understand the most critical initiatives for customers in terms of CSR, I asked participants to provide me with examples of how they believe their banks can positively contribute to the local society. Participants had somewhat similar views on this matter, for example, Participant 7 stated:

“They should have an investment department to support local businesses. For example, people can come to this department to present their idea and then if the bank is convinced they will invest with him. it is similar to what Qatar development bank is doing currently but it would be better to have more than one place for startups to finance their operations under Islamic principles.”

Participant 10, stated:

“Banks in Qatar have high liquidity and for that reason I think they can assist Qatar development bank in providing loans with zero interest rates for local businesses in order to support Qatar's vision of 2030.”

Participant 4 mentioned:

“There are good examples of CSR in Qatar. For example, Qatar development bank is a bank that provides financing and investment opportunities to startups at a very low

interest rate. Other banks in Qatar, can also participate in this area to support local business in a way similar to what QDB is offering.”

All participants above believed that supporting local businesses would greatly benefit the society as it will enhance available liquidity in the market and thus encourage new businesses to enter the market and existing ones to expand. This will directly benefit the local society as it will provide them with more jobs, support the economy and enhance competition (will lower prices).

Participant 12 differently stated:

“Building schools, roads, and hospitals. To be more general, they should invest more in the infrastructure of the country as it represents the lifeblood of every economy.”

Similarly, Participant 5 stated:

“They can invest in the national program of making Qatar green and support plantation in Qatar. Other areas can be sponsoring schools and other education programs such as business startup courses.”

Participant also 14 stated:

“They can approach the weak sectors in the society for example support local schools, those who are not able to repay their debts, provide health insurance for the poor as medical bills are extremely high.”

Participants 5, 12 and 14 believed that investing in infrastructure provides the ultimate benefits to the society. People will directly benefit from such investments as it will improve education, overall health, transportation and greenery in the society. They also indicated that improving those elements will support the local economy.

Participant 2 provided different initiatives as he stated:

“Banks should educate their customers on savings. They should also encourage people to make investments. For example, enable everyone to participate in an investment fund that provide stable returns to them. Furthermore, I also believe that the education and

housing sectors are the most important sectors in any economy thus banks should invest more to support them.”

He recommended developing an awareness program in savings and investments to encourage investments behavior in the society, diversify personal monthly income and reduce unnecessary spending.

Participant 8 also had a different answer, he stated:

“They can assist in Qatar vision of 2030 by investing in different sectors such as tourism which is expected to grow within the next few years, or they can invest in developing real estate similar to what is happening in Dubai to assist Qatar in diversifying their income and reduce dependence on oil revenues.”

He believed that the society will benefit by supporting the non-oil economy and reduce dependence on oil revenues. Thus he suggested developing real estate and promoting tourism related activities. Doing that will guarantee the wellbeing for future generations.

To conclude, participants provided different examples of how banks can positively contribute to the local society. The answers mainly focused on two main elements. The first is providing low cost loans to local startups and to invest in Qatar’s infrastructure in order to support the non-oil economy in the country and Qatar’s vision of 2030. Other less critical elements mentioned are making operations greener, and health related programs to promote physical activity and exercise to local people.

b. How influential is CSR

Participants were asked to state how influential CSR is on their decision making/satisfaction toward their banks. Figure 12 (below) summarizes their responses.

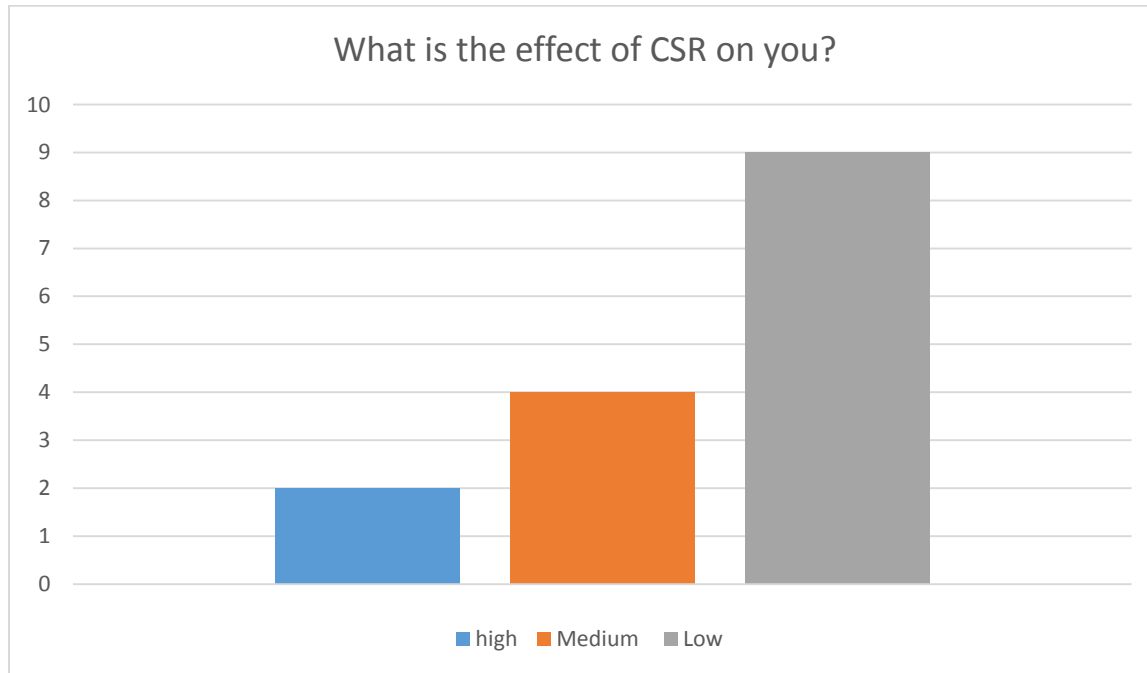


Figure 12: participants' responses on the effect of CSR activities on them

As per figure 12, it is clear that there is very minimal effect of CSR on Islamic banks customers. only two participants stated that CRS activities would affect them when dealing/choosing a bank. 4 participants believed that it would affect them but will not surpass critical elements such as sharia and service quality, 9 participants stated that it had no effect on them at all.

We can conclude that CSR is not an influential factor for customers in Qatar. This might be due to low consumer awareness in the Middle East region on social responsibility matters. Therefore, implementing CSR strategies in Islamic banks in Qatar might not have a direct short term effect but most probably a long term effect.

V. Conclusion

This qualitative research examined several factors which make Islamic banks more attractive. The first factor examined was participants understanding of Islamic banking terminology. In this part, customers showed high understanding of Islamic banking terminology and spirit which was

later analyzed to find out that role language played in customer awareness. Furthermore, this confirms the findings of Kermit (2004), Phillip and Barton (1997), and Maran (2010) that language is the main obstacle to customer awareness to Islamic banking products and terminology.

The second factor was sharia compliance. This factor showed to be a strong motive for customers to deal with Islamic banks. Several studies conducted in different countries by Kader (1993), and Nasser, Jamal and Al-Kataib (1999) also found that sharia compliance is a key factor attracting customers to deal with Islamic banks as participants wanted to stay away from riba. Additionally, it was surprising to know that a large portion of participants doubted Islamic bank's full compliance with Islamic principles. Participants provided different reasoning on this belief related to probability and the economic environment (which is dominated by non-Islamic transactions). However, it was also surprising to see that such doubts were not strong enough to influence their preference/satisfaction to Islamic banks.

The third factor was the quality of service. Participants indicated that the quality of service provided by Islamic banks was below their expectation. Some respondents stated that conventional banks provide a much higher level of quality when compared to Islamic banks.

Staff was the weakest and most important element. Islamic banks' staff seemed to lack experience, knowledge and in some cases proper behavior. Online banking, which was valued by young participants, was the second weakest element. The majority of participants indicated that it is limited and below their expectation. Furthermore, participants who have recently joined the Islamic banking sector noted that conventional banks provide a much better online banking system than Islamic banks.

Services provided by branches were decent but also had their own problems. Respondents complained about long waiting times, few customer service desks and unavailability of women's waiting areas.

Speed of transaction, on the other hand, had positive comments. Many participants indicated that recent developments in Islamic banks' procedures enhanced their speed of transaction and hence

made it convenient. Other elements such as ATM services were also convenient. Accordingly, we can state that quality of service is highly valued by customers as indicated by Haron (1994), and Osman (2009) but is not a factor that makes customers patronize Islamic banks in Qatar.

Family and friends as a factor was also discussed with participants. Several participants showed that this factor is very effective in making customers patronizing Islamic banks. Haron (1994) in his study indicated that family and friends have a strong effect on influencing customers' preference. Several participants added that it can substitute for low quality of service in their bank. Therefore, it is clear that family and friends is a factor that makes customers patronize Islamic banks in Qatar.

Another factor that was discussed is the price and product offerings. Most participants indicated that conventional banks provide better price (economics of scale) and offerings. However, they would not switch to them on religious grounds. They surprisingly noted that that price would not influence their preference for Islamic banks and some would pay any price for Islamic products. Other rational participants had a different view in this matter as they stated that they would either avoid Islamic products (if expensive) until it becomes cheaper or switch to another Islamic bank that provides better prices for Islamic products. Furthermore, most participants seemed to be satisfied with the prices and offerings of their banks. Therefore, we can conclude that price and offerings are valuable to customers and they are a reason to making customers patronize Islamic banks. However, their effect is small compared to other factors such as sharia compliance.

The last factor discussed is corporate social responsibility factor. According to Porter and Kramer (2002), CSR activities can provide a competitive advantage to corporations. However, in Qatar the effect of CSR seemed to be very minimal. Most participants in this research indicated that CSR activities are not influential to them and that it is not part of their priorities when selecting a bank. Therefore, we can strongly say that CSR is not effective as indicated by Al-Ajmi, Hussain (2009), and Kramer (2002). This might be due to low customer awareness of social responsibility matters in the Middle East region.

Finally, we can conclude that consumer understanding of the underlying principles of Islamic banking can play a role in strengthening the understanding of sharia law. Furthermore, sharia

compliance, family and friends are the main factors that make customers patronize Islamic banks. Other factors such as quality of service, price and offerings and corporate social responsibility have a very small effect on customer's preference for Islamic banks.

VI. Recommendation

Several factors were identified as weaknesses to Islamic banks that are related to quality of service, price and offerings. It seems that Islamic banks highly depends on sharia compliance as the main factor to attract and retain customers. Therefore, Islamic banks are recommended to put more efforts on solving issues related to these weak factors while retaining their focus on the strong factors. For example, I would recommend Islamic banks to benchmark their staff performance (based on number of complains, errors and knowledge) with institutions that are known to be market leaders in quality of service. Another recommendation is to shift marketing strategy to focus on the family and friends factor. For instance, Islamic banks can give special offers to customers who contentiously brings new customers (friends/ family members) to the bank. Furthermore, it is recommended for Islamic banks to reconsider their pricing strategy and make sure that their prices are within market average since several participants clearly stated that conventional banks impose lower fees and charges than Islamic banks.

This research adopted the qualitative mythology in order identify and understand factors that makes customers patronize Islamic banks. However, the research didn't intend to measure the influence of those factors on Islamic banks customers. Therefore, the next step is to conduct a quantitative research to measure the impact of the identified factors on customers.

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Appendix A

Table 1. Characteristics of every participant

| | | Age | Education | Name of bank | Years with same bank |
|----|----------------|-----|-------------|--------------|----------------------|
| 1 | Participant 1 | 38 | Bachelor | QIIB | 6 |
| 2 | Participant 2 | 47 | High school | QIB | 10 |
| 3 | Participant 3 | 26 | Bachelor | Rayyan | 4 |
| 4 | Participant 4 | 27 | Bachelor | QIB | 2 |
| 5 | Participant 5 | 29 | High school | Rayyan | 5 |
| 6 | Participant 6 | 31 | MBA | QIIB | 12 |
| 7 | Participant 7 | 33 | Bachelor | QIB | 13 |
| 8 | Participant 8 | 37 | High school | QIB | 3 |
| 9 | Participant 9 | 33 | Bachelor | QIIB | 3 |
| 10 | Participant 10 | 32 | Bachelor | QIB | 6 |
| 11 | Participant 11 | 51 | MBA | Barwa | 2 |
| 12 | Participant 12 | 43 | Bachelor | QIB | 3 |
| 13 | Participant 13 | 45 | High school | QIB | 18 |
| 14 | Participant 14 | 36 | MBA | QIB | 4 |
| 15 | Participant 15 | 27 | MBA | Rayyan | 5 |

Appendix B



Interview questions for MBA dissertation

1. General Questions

Do you bank with an Islamic or conventional bank?

Please provide reasons why you choose your current bank?

How long have you been with your current bank?

What competitive advantage does your bank offer?

Have you changed your bank in the last five years? If yes, why did you leave your previous bank?

Do you have any other accounts in Islamic or conventional banks other than your current bank (such as investment or saving)? If yes, why?

2. Islamic banking concepts

What would attract you to an Islamic bank?

What is your understanding of the terminology below;

Riba:

Sharia:

Mudaraba:

Wadia:

Musharaka:

Al-Ijara:

3. Sharia compliance

Would you switch to a conventional bank that has superior service quality, reputation and image? Why?

Is complying with sharia the main motive for you to deal with an Islamic banks?

Islamic banks in Qatar claim that they fully comply with the underlying principles of Islamic banking. Do you agree or disagree? Why?

4. Service quality

What are the strengths/weaknesses of your bank in terms of service quality? Provide details on each?

What strengths/weaknesses would mostly influence your selection criteria/satisfaction?

5. Price and offerings

Based on your experience in the banking sector, which banking system provides the best offers? Give examples.

What about your bank, do you believe that they provide decent price offerings? Why?

What is the maximum amount you are willing to pay for Islamic products?

6. Corporate social responsibility

How can banks positively contribute to their local society? give examples

Would corporate social responsibility activities of banks influence your selection criteria/satisfaction of banks? why?

7. Conclusion

Anything further comments that you would like to add.

