The Role of Islamic Banking in the Palestinian Economy: Businessmen Perspective

Ahmad Asad Ibrahim Mahmoud and Radiah Abdul Kader

This study investigates the strength and nature of demand for Islamic banking services in Palestine from the perspective of businessmen (entrepreneurs and capital providers). In assessing the economic significance of Islamic banks in Palestine, this study takes into account that a total of three full-fledged Islamic banks started their operations in Palestine over the last 11 years despite the very onerous odds inflicted by the Israeli occupation and the nascent build-up of the Palestinian National Authority (PNA). Survey data were collected from 200 businessmen who form 20 percent of the population using a structured questionnaire. The study finds that businessmen were motivated to deal with an Islamic bank because of its location, recommendation by friends, relatives and banking staff; the bank's profitability and the credit facilities offered, the types of services and quality of management and the avoidance of interest-based transactions. The findings imply that besides being Shari‘ah compliant, Islamic banks in Palestine should adopt competitive marketing strategies in response to its corporate customers’ need for high quality service, attractive return and good bank reputation.

1. Introduction

The existence of a banking system implies the existence of strong demand for its services offered and such a demand is usually evidence of a growing and developing economy. Thus, this paper will try to examine the strength and nature of demand for Islamic banking services in Palestine from the perspective of businessmen who consist of entrepreneurs and capital providers. A survey using a structured questionnaire was conducted on a sample of businessmen to assess the strength and nature of their demand for the Islamic banking services which would in turn determine whether the character of demand expressed by businessmen reflects the real economic realities in relation to economic development. This paper will be different from other studies since it will discuss the perception of businessmen while the other studies generally focussed on the perception of customers. The reason for choosing a sample of businessmen is due to the fact that there is a formal relationship between the banking enterprise and the businessmen. In this relationship the bank provides financial resources to the businessmen to enable them to carry out their projects and have a command over factors of production. As a result, we would be able to find out the strength of this relationship and its effect on the socio-economic development.

The paper is organized as follows. Section one explains the introduction of the study including the significance of the study, research objectives, research question and the limitations of the study. Section two discusses the literature of previous studies on bank selection criteria of Islamic banks. As for section three it focuses on the

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Ahmad Asad and Kader

research hypothesis, while section four contains the methodology of the study. As for section five it deals with the data analysis. Section six focuses on the findings, and finally section seven presents the conclusions.

1.1 Significance of the Study

It is the hope of the researcher that the study will contribute to the improvement of the performance of the Islamic banks in Palestine by examining the strength and nature of demand for Islamic banking services using the perspective of businessmen who consist of entrepreneurs as a guiding tool. The perception of businessmen would take centre stage, because it will be used to measure the strength and character of demand for Islamic banking services, and whether their perceptions reflect the economic role of Islamic banks in reality.

Moreover, the apparent lack of a comprehensive scholarly work on the Islamic banks in Palestine has by far prompted the researcher to undertake this study. The endeavour is to narrow the existing gap in literature and to enrich the existing body of knowledge pertaining to the role of Islamic banking in the socio-economic development of Palestine by presenting empirical evidence from the field.

1.2 Research Objectives

The aim of the research is to investigate and measure the businessmen’ satisfaction on the Islamic banking offering from products and services in Palestine, and to gauge the main factors that impact businessmen’s’ decision in choosing and or continue with a bank.

1.3 Research Question

What are the selection criteria factors as perceived by the businessmen decision in selecting the Islamic bank in Palestine?

1.4 Limitations of the Study

Limitations are inherent in most studies. Caution should be exercised when inferring from the results of this study since it is limited to Palestinian banks in the West Bank. The questionnaires were distributed in the West Bank for the businessmen who are dealing with Islamic banks during the period (2000-2010). Jerusalem was excluded because the Israeli occupying authorities applied a different financial and banking policy in Jerusalem similar to that existing in Israel.

2. Literature Review

Several researchers have identified certain factors that influence customers’ selection of their banking services provider, these factors are: the cost and benefits of products offered, service delivery, confidentiality, size and reputation of the bank, convenience, friends and families and friendliness of personnel. (Asyraf & Nurdianawati 2007; Erol & El-Bdour 1989; Erol 1990; Omer 1992; Haron 1994; Gerrard & Cunningham 1997; Metawa & Almossawi 1998; Naser 1999; Ahmad & Haron 2002; Philip &Barton 1997).
In addition to the above mentioned factors, the religious aspect is an additional factor that can motivate customers to select Islamic banking services. However, it is important to note that research studies found that the religious aspect is not the only main factor for the selection of Islamic banking services, and that the above stated factors also play a role in influencing customers’ selection of Islamic banking services. (Asyraf & Nurdianawati 2007; Erol 1990; Haron 1994; Metawa & Almossawi 1998; Naser 1999).

In short, some of the above stated studies looked at various factors that affect customers’ choice of their banking services provider. Moreover, they also indicated that the religious factor is not the main criterion for choosing Islamic banking services in Islamic countries.

Other selection criteria include availability of credit, viable interest rates, friendliness of bank staff, service charges, sufficient banking hours, availability of ATM, special services and the quality of services on checking (current) accounts. In addition to these factors the remote banking services such as IVR, Customer Service Center and Internet Banking are considered important factors as well. The relative importance of these factors varies from one country to another depending upon the age, gender, income, marital status, occupation and cultural background of customers as well as the type of bank (Islamic or conventional bank). (Arturo, David & Agueda 2007; Ahmad & Kamal 2002; Anderson 1976; Denton & Chan 1991; Erol & El-Bdour 1989; Erol 1990; Khazeh & Decker 1992; Kaynak 1991; Laroche & Taylor 1988; Levesque & McDougall 1996; Philip & Barton 1997).

A survey study that consisted of a sample of 301 Muslim and non-Muslim commercial bank customers in Malaysia was conducted to determine the selection criteria used in a dual banking system (i.e. Islamic and conventional banks). The results of the study show that Muslims and non-Muslims appreciated almost the same factors when choosing their banks. The most important factors were: fast and efficient services, speed of transactions, friendliness of bank personnel, and confidentiality of the bank. (Mohammed 2001; Haron 1994).

The selection criteria used by customers in choosing their preferred bank also differ from one market to another and from society to another. In addition; it also changes from time to time, as technology progresses. Therefore; it is noticeable for example that some customers who prefer to deal with their banks remotely through internet banking, used to prefer the telephone banking services 10 years ago. (Ahmad & Kamal 2002; Anderson 1976; Haron 1994; Kaynak 1999; Khazeh & Decker 1992).

Having briefly mentioned the above selection criteria in the banking industry, it can be confidently said that Islamic banks have mechanisms and products that are different from conventional banks, since Islamic banks operate according to the principles of Islamic Shari’ah. Therefore, identifying the relevant selection criteria is very critical subject to the Islamic banks in order to devise suitable marketing strategies (Saad & Mohammed 1998; Hegazy 1995).

Therefore; it can be said that the religious and economic factors are equally important for customers in choosing and selecting Islamic banks. However, it is essential to point out that some of the studies, which aimed to determine the selection criteria for Islamic banks were conducted in multi-religious and multi-
Ahmad Asad and Kader

cultural communities that consist of Muslims and non-Muslims such as Singaporean and Malaysian societies. Therefore, the religious factor could be different from one society to another. (Asyraf & Nurdianawati 2007; Kader 1993, 1995; Haron 1994; Gerrard & Cunningham 1997; Ahmad & Haron 2002).

It was observed in some of the previous research studies that are either limited in sample size or restrictive in representation that the outcome of such studies pointed to the importance of religious as well as other factors like cost, benefits, service delivery, reputation and location in selecting an Islamic bank. For example, the two studies conducted by (Asyraf and Nurdianawati 2007), and (Ahmad & Haron 2002) in Malaysia, relied on a sample of only 45 corporate users of financial services. Another example of restrictive presentation is the research of (Kader 1993, 1995) and (Haron 1994). Their samples were collected from one single location or district. Therefore, the results of these studies should be treated with caution particularly due to the limited number of sample responses used and restrictive location where the sample was drawn.

In short, the previous results suggest that Islamic banks must not rely only on religion as a main motivation for customers to prefer them over conventional banks; they must also focus on the quality and efficiency of their products and services, which are equally important factors. The management of Islamic banks must also acknowledge that they can no longer depend on Muslims only as their source of deposits or as their funds users. They have to expand their customers’ base by including non-Muslims as potential customers as well. (Haron, Norafifah & Sandra 1994).

A convenient location is a very critical factor in selecting a bank. But such importance can vary depending on the nature of the country size, culture, and demographic attributes. (Saad & Mohammed 1998; Anderson 1976; Laroche & Taylor 1988). For example; the convenient location was not a critical factor for the Singaporean respondents. But the friendliness of a bank’s personnel was the most important factor in their selection of the bank. This result can be attributed to the fact that Singapore is an oriental culture, and as a result customers desire to have friendly and close interaction with the bank’s personnel. But this is not always the case, particularly when talking about western countries where customers have busy lifestyles and face difficulty in reaching the bank. (Kamal, Ahmad & Khalid, 1999).

Factors such as the bank’s reputation, business hours, parking facilities, services offered, recommendations of friends and relatives, fast and efficient services, the ability to pay utility bills and financial counselling services were considered as more vital factors by male customers as compared with the female customers in their selection of a commercial bank in Turkey. Furthermore, bank customers who had more than a primary school education considered friendliness of a bank’s employees, fast and efficient service, the bank’s location and availability of credit more important factors as compared with customers who only had a primary school education. (Saad & Mohammed 1998).

As mentioned earlier, customer selection in retail banking was driven by a number of factors, such as: service quality, service features, product usage, satisfaction, and future intentions. In addition to the bank’s features, the competitiveness of the bank’s interest rates, and the customer’s judgement about the bank’s employees’ skills
Ahmad Asad and Kader
played a role in influencing a customer’s selection of his preferred bank. The studies also affirmed that poor service quality would lead to a drop in customer satisfaction and the willingness to recommend the bank to a friend, which in turn can lead to increased switching by customers.(Arturo, David & Agueda 2007; Ahmad &Kamal 2002; Levesque &McDougall 1996).

In view of the above, no study discussed the selection criteria factors as perceived by the businessmen in selecting the Islamic bank in Palestine. Because of that the researcher has decided to verify the factors based on which businessmen choose to deal with Palestinian Islamic banks. These factors may include the location of the bank, recommendation by friends, or types of services offered. Moreover, the study will examine whether interest-free driven businessmen are uncompromisingly willing to follow Islamic patterns of investment out of religious devotion, and will not shift to conventional banks even if the profit ratio of Islamic banks is lower than the average industry return.

3. Research Hypothesis

Most of the previous research on this topic was conducted in Malaysia or Jordon, hence it is appropriate to investigate the bank selection criteria adopted by the Palestinian businessmen in deciding whether to deal with an Islamic bank or not. The issue deserves to be studied due to the different business environment in Palestine, which is a result of certain elements such as the market size, culture, demographic, financial system etc.

Since Islamic banks are supposed to operate according to profit-loss sharing principles (prohibition of interest), they are expected to develop this competitive advantage around the crucial selection attributes emerging from the comprehensive businessmen survey. Hence; the study in particular hypothesizes that: there is a significant relationship between the level of businessmen perception and the profitability and credit facilities decision to select an Islamic bank.

4. Research Methodology

A questionnaire survey was conducted on a sample of businessmen who dealt with the Palestinian Islamic Banks (PIBs). The reason for choosing a sample of businessmen is due to the fact that there is a formal relationship between the banking enterprise and the businessmen. In this relationship the bank provides financial resources to the businessmen to enable them to carry out their projects and have a command over factors of production. As a result, if we are to find out the strength of this relationship and its effect on the socio-economic development it is logical that we choose a sample from the community of businessmen.

4.1 Research Design

To fit best the purpose of this study and examine the above mentioned hypotheses, the ‘survey method’ was used for data collection. This quantitative method has statistically been proven to be appropriate and useful for measuring the socio-economic role, and the overall perception of businessmen towards PIBs. Based on the above it can be said that the research adopts both the ‘quantitative’ and
Ahmad Asad and Kader

‘qualitative’ approaches. Realizing the fact that both methods have strengths and weaknesses, the researcher combined qualitative and quantitative techniques to benefit from the advantages of both methods. According to (Merriam 1998), (Jones 1997), (Creswell 1998), and (Matveev 2002), quantitative and qualitative observations provide researchers with different ways of measuring theoretical constructs and practical concepts. While quantitative methods can provide a high level of measurement precision and statistical power, qualitative methods can supply a greater depth of information about the nature of communication processes in a particular research setting. And while qualitative methods can assist the researcher in obtaining a more realistic feel of the topic that cannot be experienced in the numerical data and statistical analysis, quantitative methods can specify both the independent and the dependent variables under investigation. Finally, while the qualitative methodology gives the researcher the ability to interact with the research subjects in their own languages, the quantitative methodology allows the researcher to arrive at more objective conclusions, test the hypothesis, determine the issues of causality, and achieve high levels of reliability. Therefore, adopting both the ‘quantitative’ and ‘qualitative’ approaches will enable the researcher to benefit from the strengths of both methods.

4.2 Primary Data Collection

Survey

Data Population and Sub-Population of the Study

- Population Size
  Based on the information we received from the department of investment and finance of each Islamic bank, we calculated that the population of the study totalled approximately 1,000 businessmen who are the businessmen of three Islamic banks in the Palestinian territories.

- Sample Size
  For descriptive research it is common to sample a minimum of 10 percent of the population and 20 percent for smaller populations (Gay and Airasian 2000). Based on this guideline 200 business men were chosen as the sample size of this study to ensure that the number of completed questionnaire would be more than the minimum desired size.

- The Population Subgroup Strata
  The data population of the study covers the businessmen of three Palestinian Islamic banks. As such, an equal stratified random sample for each bank was selected. The population of the study was accordingly divided into three sub-populations. The sub-populations consist of businessmen or business entities that have accounts either with the Arabic Islamic Bank, Palestinian Islamic Bank or Al-Aqsa Islamic Bank. Table 8.1 below shows the businessmen distribution over the three sub-populations groups.
Ahmad Asad and Kader

Table 1: Sub-Population Data Distribution

<table>
<thead>
<tr>
<th>Bank</th>
<th>Sub-Population</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Arab Islamic Bank</td>
<td>Palestinian Islamic Bank</td>
</tr>
<tr>
<td>Number of Businessmen</td>
<td>602</td>
<td>208</td>
</tr>
<tr>
<td>Percentage</td>
<td>60.2%</td>
<td>20.8%</td>
</tr>
</tbody>
</table>

Source: The Department of Investment and Finance in the Three Islamic Banks

- **Sampling:**

A stratified random sample was proportionally selected from each respective sub-population. Pursuant to the conventional statistical norms, the total sub-sample size has to be within a population band of 10 to 20. Thereby, the study opts for a sub-sample size of 20, which corresponds to 200 businessmen from all the three sub-population represented namely by the three Islamic banks in Palestine. The size of every sub-sample is proportional to its sub-population.

With proportionate stratification, strata sample sizes are determined by the following equation (Moses 1965):

\[ n_h = \left( \frac{N_h}{N} \right) \times n \]

Where:
- \( n_h \): Sample size for stratum \( h \).
- \( N_h \): Population size for stratum \( h \).
- \( N \): Total population size.
- \( n \): Total sample size.

By applying the above equation to the study sub-population distribution, we obtain the following results, which are also shown in table 8.2.

- \( n_1 = \left( \frac{602}{1000} \right) \times 200 = 120.4 \)
- \( n_2 = \left( \frac{208}{1000} \right) \times 200 = 41.6 \)
- \( n_3 = \left( \frac{190}{1000} \right) \times 200 = 38 \)
Table 2: Strata Sample Size

<table>
<thead>
<tr>
<th></th>
<th>Arab Islamic Bank</th>
<th>Palestinian Islamic Bank</th>
<th>Al-Aqsa Islamic Bank</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of businessmen of the sub-population</td>
<td>602</td>
<td>208</td>
<td>190</td>
<td>1000</td>
</tr>
<tr>
<td>Number of businessmen of the sub-sample</td>
<td>120</td>
<td>42</td>
<td>38</td>
<td>200</td>
</tr>
</tbody>
</table>

**Source:** combined by the researcher

- **Sampling Procedure:**

After the questionnaire was fully prepared and arranged the researcher attached a cover letter addressed to the businessman describing the purpose of the study and urging participation in it. Then, the researcher visited the three Palestinian Islamic banks that constitute the population of the study. During his visit, the researcher met up with the investment manager of each bank, and enquired about the total number of businessmen who provide capital to the bank in the form of deposits, or participate in its equity projects. Upon receiving the management feedback, the researcher used the Stat Trek’s Random Number Generator (RNG) to extract a random sample from the total number of businessmen that deal with each Islamic bank. By using the Random Number Generator (RNG), we can select \( n \) random numbers quickly and easily. Moreover, the tool is available on the World Wide Web, and it is free of charge\(^{ii}\). After the random sample was determined, the appropriate number of questionnaires was given to the investment manager of each bank so that he can pass it to the randomly selected businessmen. The businessmen were required to fill the questionnaires and submit it to the investment manager of the respective bank. The whole process from the time the researcher met with the investment managers of the three Palestinian Islamic banks until he collected the questionnaires from them took a period of three months.

A total of 200 questionnaires were distributed to the respondents out of which 160 (80 per cent) were returned. Of the returned questionnaires, 150 (98 per cent) were found suitable for statistical process. This figure is well above the minimum requirement of 100. Ten were returned unanswered, whilst the remainder was rejected as they contained incomplete information and unanswered items.

**4.3 The Survey Instrument**

The questionnaire has become one of the most widely used means of collecting information. If well-constructed, a questionnaire permits the collection of reliable and reasonably valid data in a simple, cheap and timely manner. The decision to use a questionnaire is often motivated by a need to collect routine data from a large number of respondents (Anderson 1999). Banking systems are not ‘neutral, with respect to economic development. Where they exist, they do so because there is a demand for their services, and such demand is usually evidence of a growing, developing economy. Can the weak contribution of the banking system in general
Ahmad Asad and Kader

and the PIBs in particular, be attributed to the nature of the demand for medium-and-long-term investment projects? (Babikir 1990).

In order to examine the strength and nature of demand, the investors (businessmen) were asked through a questionnaire to indicate the factors that influence their decision to take credit facilities from PIBs, especially the demand for medium-and long-term credits, and to comment on their experience and perception with PIBs. The administration and summarization of the questionnaire are discussed below.

The study adopted the ‘questionnaire survey’ in order to gather the relevant data pertinent to the operational philosophy and performance of the banking institutions in Palestine. It consists of three parts. ‘Part one’ enquires about information related to the business of the businessman, such as the number of workers, and the source of capital. ‘Part two’ focuses on deposit and credit information. ‘Part three’ seeks to investigate the overall perception of businessmen community towards Islamic banks. The items of the questionnaire cover the following areas:

- **Part One**
  (i) Business information (Items 1-4):
  This part of the questionnaire tries to gather information about the business of the businessman. This will include the type of the business, number of workers, year of establishment, legal status, type of capital, and sources of capital.

- **Part Two**
  (i) Deposit and credit information (Items 5 – 9):
  The items in this part of the questionnaire are based on the type of account, and why customers continue to patronize non-Islamic banks when they have already accounts in Islamic banks. They tend to examine preferential dealing based either on the interest element or the quality of services provided.

- **Part Three**

  Businessmen perceptions and awareness towards Islamic banks (Items 9-25):
  These items examine the respondents' perceptions and awareness towards Islamic banks in Palestine. There are four aspects to be considered in this regard:
  1. Recommendation from the people patronizing and working in the banks.
  2. The location of the Banks.
  3. Adherence to the Islamic rules of transaction.
  4. The services which are offered by the Islamic Banks.
  5. The sectors that benefited the most from the financing of Islamic banks.

4.4 Translation of the Questionnaire

A linguist expert and a PhD student from the Education faculty, who has an adequate experience in designing questionnaires, have collectively translated the questionnaire survey from English into Arabic. The translated version was reviewed and validated by three competent academicians; a professor in the Arabic Language Department, a lecturer in the Department of Arabic and Qur’anic language, and a Master’s student from the same department at the International Islamic University
Ahmad Asad and Kader

Malaysia in order to make sure that every item can be clearly understood. The professor was from Iraq, a country neighbouring Palestine, and the other two academicians were from Jordan to make sure that the people of the country understand the language. The evaluators’ comments and suggestions were taken into consideration when finalizing the questionnaire. The questionnaire was then back-translated into English by a newly graduated Ph.D. student from the Department of English at the National University of Malaysia (UKM). Some corrections were made to the Arabic version based on a number of remarks made by the translator.

4.5 Piloting the Instruments

The questionnaire was subjected to pilot testing to obtain feedback about its content, format, and administration procedures. The supervisor checked the content validity of the questionnaire after which it was distributed to 20 randomly selected companies located in Nablus (the researcher’s hometown). The participants were the businessmen dealing with the Islamic banks as entrepreneurs and customers. The pilot questionnaires were excluded from the actual study that included another 150 businessmen. All twenty questionnaires were returned.

5. Data Analysis

One main data-processing phase was used to analyse the data of this study to answer the research questions. The ‘factor analysis’ used to examine the scale of the businessmen’s perceptions on the importance of Islamic banks.

Factor analysis was performed on the measurement of the perceptions of the importance of Islamic banks. This statistical technique was used to derive the major factors (underlying constructs) in the perceptions of the importance of Islamic banks amongst businessmen. This also had the objective of summarizing the variables into a small number of desired variables. In performing factor analysis, three steps were followed:

1. Determining the adequacy of the sample size for the purpose of factor analysis. Two statistical techniques were used to measure the adequacy of the sample size. (a) The Kaiser-Meyer-Oklin (KMO) Measure of Sampling Adequacy, where high values of KMO statistics indicate that the sample size is adequate for factor analysis; (b) The Barlett’s Test Sphericity statistics (including the level of significance) which is useful in determining whether the correlation matrix can be considered to acquire an identity or otherwise. The higher the statistics, the better the data is for conducting factor analysis.

2. Determining the number of existing factors in the scale of perceptions of the importance of Islamic banks. The principal component analysis and varimax rotation were utilized to accomplish the task. These are two methods that are the most frequently used in factor analysis.

3. Reliability tests were carried out on all factors in the third step. This was important to determine whether the scale for each factor was reliable. (Hair, 1999).
Factor analysis was carried out to determine the factors underlying the perceptions of the importance of Islamic banks. However, before the factor analysis was undertaken, the Kaiser-Meyer-Oklin (KMO) Measure for Sampling Adequacy was carried out to examine the adequacy of the sample. Furthermore, Bartlett’s Test of Sphericity was conducted to examine whether the correlation matrix could be considered to possess an identity or otherwise. The results show that the KMO was .729, which indicates that the sample was adequate for running factor analysis. Bartlett’s Test of Sphericity was 2948.80, p = 0.00, thus indicating that the produced correlation was not an identity matrix. These results indicate that the data met some criteria for conducting factor analysis.

The results of the factor analysis show that four (4) factors were extracted. This was based on the rule of retaining factors that had an eigen value of 1 and an absolute value of loading in the component of 0.4. Based on these criteria, four components were determined. The results show that the factors explained 59.31 per cent of the total variance (Green & Sallaid 2000). Percentage contributions of factors 1, 2, 3, and 4 towards the variance were 32.71, 11.57, 8.57 and 6.46 respectively. Each of the four components reflected common trends among items. Thus, indicating the presence of common underlying factors. Table 3 shows the loading of items to their corresponding factors. In examining the factors, it was observed that factor 1 comprised items related to the location of the Islamic bank; factor 2 contained items concerning references and recommendations to deal with the Islamic banks, factor 3 contained items concerning ratio of profitability and credit facilities, factor 4 consisted of items related to banking services and good management and factor 5 focused on the avoidance of interest.
Table 3: Factor Analysis of Perceptions of Importance of Selection Criteria for Choosing To Deal with the Islamic Banks

<table>
<thead>
<tr>
<th>Selection criteria for choosing to deal with the Islamic banks</th>
<th>Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. easy to reach the bank</td>
<td>.672</td>
</tr>
<tr>
<td>2. location near house</td>
<td>.733</td>
</tr>
<tr>
<td>3. location near office</td>
<td>.819</td>
</tr>
<tr>
<td>4. safe location</td>
<td>.618</td>
</tr>
<tr>
<td>5. nice building</td>
<td>.462</td>
</tr>
<tr>
<td>6. recommendation from friend</td>
<td>.715</td>
</tr>
<tr>
<td>7. friend/relative works there</td>
<td>.685</td>
</tr>
<tr>
<td>8. recommendation from bank staff</td>
<td>.712</td>
</tr>
<tr>
<td>9. family deals with the bank</td>
<td>.587</td>
</tr>
<tr>
<td>10. dividend on investment</td>
<td>.740</td>
</tr>
<tr>
<td>11. different types of financing</td>
<td>.841</td>
</tr>
<tr>
<td>12. dividend on savings</td>
<td>.760</td>
</tr>
<tr>
<td>13. dividend on investment accounts</td>
<td>.493</td>
</tr>
<tr>
<td>14. can get financing</td>
<td>.792</td>
</tr>
<tr>
<td>15. lower fees on services</td>
<td>.590</td>
</tr>
<tr>
<td>16. speed and efficiency of services</td>
<td>.928</td>
</tr>
<tr>
<td>17. helpful staff</td>
<td>.813</td>
</tr>
<tr>
<td>18. less crowded</td>
<td>.627</td>
</tr>
<tr>
<td>19. good financial back up of the bank</td>
<td>.811</td>
</tr>
<tr>
<td>20. plenty of services</td>
<td>.685</td>
</tr>
<tr>
<td>21. no interest on savings</td>
<td>.799</td>
</tr>
<tr>
<td>22. no interest on financing</td>
<td>.631</td>
</tr>
<tr>
<td>23. not convinced about non Islamic banks</td>
<td>.546</td>
</tr>
</tbody>
</table>

Reliability

Reliability tests on each of the scales of perceptions of the importance of Islamic banks were carried out. The reliability of each scale is indicated in Table 4. Using internal consistency, each of the location-recommendation factors and advertisement-finance transaction factor indicated .79 of Alpha level respectively. The Alpha level for the services-good management factor and the interest avoidance factor were .77 and .70 respectively. This shows that all the scales of perceptions of the importance of Islamic banks had acceptable reliability.

Table 4: Estimates of Scale Reliability (Alpha Coefficients) of the Factors

<table>
<thead>
<tr>
<th>Factors</th>
<th>Number of Items</th>
<th>Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location of Islamic banks (F1)</td>
<td>5</td>
<td>.79</td>
</tr>
<tr>
<td>Reference to deal with Islamic banks (F2)</td>
<td>4</td>
<td>.78</td>
</tr>
<tr>
<td>Ratio of profitability and credit facilities (F3)</td>
<td>5</td>
<td>.79</td>
</tr>
<tr>
<td>Services-Good Management (F4)</td>
<td>6</td>
<td>.77</td>
</tr>
<tr>
<td>Interest Avoidance (F5)</td>
<td>3</td>
<td>.70</td>
</tr>
</tbody>
</table>

* F = Factor
Ahmad Asad and Kader

Factor One: The location of Islamic Banks

This factor will focus on the importance of location according to the businessmen’s perception. The factor contains five items: easy to reach the bank, location near house, location near office, safe location, and nice building.

The results shown in Table 3 indicated that in terms of the first important factor in the selection of Islamic banks in Palestine, the location of the bank was considered one of the most important factors. Thus, it is preferable to locate the bank in the city, because the city is considered as a nearby location. In addition to this, transportation between the cities is very complicated because of the unstable security situation caused by the Israel military, which means Islamic banks have to establish branches in every city, so that the businessmen can easily access them.

Factor Two: References to Deal with Islamic Banks

This factor will focus on the importance of reference according to the businessmen’s perception. The factor contains four items: recommendation from friend, friend/relative works there, recommendation from bank staff, and family deals with the bank. Table 3 shows that references to deal with Islamic banks are important selection criteria. Based on this, Islamic banks have to protect their reputation while dealing with their current customers. This can be achieved by training the employees of the Islamic banks on how to serve the businessmen, in a way that will convince the businessmen to recommend the bank to other businessmen. Moreover, the administration of the Islamic banks should train their employees. By doing so, they will willingly recommend the bank to their friends and relatives.

Factor Three: Ratio of Profitability and Credit Facilities

This factor includes different types of financing, dividend on savings, dividend on investment accounts, the possibility of getting financing.

The third factor that is deemed to influence people’s choice, in selecting Islamic banks for their commercial dealing, was connected with the expected earnings of the investment, and the assigned profits, when dealing with Islamic banks in Palestine. This implies that Islamic banks must take into consideration two aspects of the importance of this factor:

First: Islamic Banks must present higher average profits than those presented by the conventional [non-Islamic Banks] and this is only possible if they conduct extensive investment activities based on the PLS principle. By doing so, Islamic banks can achieve high rates of profitability that allow them to disseminate the gained revenues (net-profits) to the depositors (consignors).

As a matter of fact, the average of the earned revenues from deposits is considered as a vital factor shaping the outflow of “Wadia’a” deposits. So, if the Islamic banks adopt the above mentioned strategy, they will be able to mobilize all their financial resources, and will be in a better position compared to the conventional banks. If they fail to do so, then the average profits which are given to the depositors might approximate those given by non-Islamic Banks. If this problem continues unresolved,
then the long-term success of the Islamic banks in attracting new depositors will be jeopardized. (Abu Zaid 1996).

**Second**: All the respondents believed that the expected profit when dealing with an Islamic bank is an important factor which encouraged them to select the Islamic bank for their commercial investments. They were also completely satisfied with the bank’s methods of financing, since they are permissible and in accordance with Islamic principles.

All the businessmen consider the issue of expected profit to be an important factor that encouraged them to select Islamic banks for their commercial investments. Therefore, Islamic banks should offer the larger share of the expected profit to the investors, which will be definitely higher than the rate of interest offered by the non-Islamic banks. Besides, if the Islamic bank is prepared to enhance its developmental role, it must focus on the implementation of contracts based on the PLS principle. This will encourage businessmen to opt for Islamic banks, especially those who possess work experience, but lack financial capabilities. Thus, Islamic banks in Palestine must strive to provide modes of financing on the basis of (Mudharabah) profit-loss sharing and (musharakah) partnership.

The use of such financing instruments will help to utilize money in business, so that the bank can achieve two benefits. On the one hand, the bank can achieve its own goals of ensuring its continued survival and promoting its development in the market. On the other hand, it can help society to develop by providing good services, and helping in any developmental projects.

**Factor four: Quality of management and services**

This factor includes lower fees on services, speed and efficiency of services, helpful staff, less crowded, good financial back up of bank, and plenty of products and services. Table 3 shows that quality of management and variety of services are important selection criteria. This suggests that businessmen need the banks to provide their services in a simple and efficient manner. In addition to this, the PIB’s customers require banks to pay more attention to their needs in a friendly way, with good management offering the services they need.

**Factor five: Religious Factor**

This factor includes the following items: no interest on savings, no interest on loan, and not convinced about non-Islamic banks. Table 3 shows that the avoidance of interest in financial transactions is one of the dominant motives for businessmen. This implies that the PIBs have convinced this group of businessmen to deal with Islamic banks who in the past refrained from doing so, because banks are interest-based. The dependence of the PIBs on this religiously motivated section of businessmen is crucial for them if they are to maintain their market share. Serious problems would arise if, however unlikely it may be, a majority of businessmen were to change their minds and disregard the religious factor. (Babikir 1990).
Ahmad Asad and Kader

6. Findings

Based on an open questionnaire circulated over a representative population of individual businessmen and individuals from various entrepreneurial occupations on the subject of the role of Islamic banking in the development of Palestinian economy; there were several findings, which can be summarized as follow:

- There are five driving factors affecting the businessmen’s perception and hence decision in dealing with the PIBs. These factors are arranged in term of importance as per the following ascending order:
  - Bank’s location proximity.
  - References by friends, family members, relatives, and banking staff.
  - Rate of profit, and credit facilities.
  - Service level and quality of management.
  - Evading interest-based transactions.

These findings are not in line with the research hypothesis, which contends that Rate of profit and credit facilities is the most important factors influencing the businessmen’s decision to deal with the Islamic banks.

7. Conclusion

we can say that in terms of the factors affecting the businessmen’s perception in dealing with the Islamic banks five factors stood out as the most important motives for dealing with the Islamic banks. The most important of these factors was the location of the Islamic bank. Followed by references by friends, family members, relatives, and banking staff. In the third position was the ratio of profitability, and credit facilities. Then, in fourth position the types of services and quality of management. And the last factor was the avoidance of interest-based transactions. The reason for this may be due to businessmen realizing the many financial advantages that can be derived as a result of dealing with the Islamic banks. For example, businessmen who are capital providers to Islamic banks are attracted to the wide spread use of *Murabaha* by the Islamic banks, which ensures reasonable profits on their capital, since the mark-up rate is pre-determined. On the other hand businessmen who receive financing from the Islamic banks in the form of deferred payments are attracted to the fact that they can default on the payment of their instalments without facing the consequences of having to pay any penalties as the case in conventional banks.

It is worth noting that another study (Norafifah & Sudin 2003) conducted a similar research on the perceptions of Malaysian corporate customers towards Islamic banking. The findings of the study showed that the most important factor in choosing to deal with Islamic banks was cost and benefit to the economy, followed by service delivery, size and reputation of the bank, location, and finally friendliness of bank personnel.

If we compare the finding of our study with that study we will notice several differences. In our study, location was the most important factor in choosing to deal with the Islamic banks. However, in that study location is second from bottom in relation to its importance in attracting businessmen to deal with the Islamic banks.
Ahmad Asad and Kader

The reason for this difference is the precarious security situation in Palestine, which made the businessmen obsessed with the location of the bank, whereas the safety and security of Malaysia relegated this factor to the fourth position. Moreover, our study found that the ratio of profitability and credit facilities offered by the Islamic banks, and the types of services and quality of management come in third and fourth place respectively, whereas this study shows that both factors come in first and second place respectively.

Endnotes

i During the distribution of the questionnaires the Islamic Banks were reduced from five to three due to the merger of the PIF with Alaqsa Islamic Bank and Cairo Amman- Islamic Branch with Palestinian Islamic Bank

ii According to the Islamic banks managers a ‘business man’ is a person who has a company registered at the chamber of commerce and industry; and involved in financial transactions (investing or getting credit facilities) with the Islamic Banks.

iii For further information about the Random Number Generator (RNG) click on the following link: http://www.stat trek.com/Tables/Random.aspx

References


