

INTEREST FREE BANKING IN TURKEY: A STUDY OF CUSTOMER SATISFACTION AND BANK SELECTION

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Abstract

In the wakes of frequent episodes, interest free banking has been seen as an alternative to conventional banking rather than one component of financial system. Since its 1960s inception it has expanded worldwide with an excessive speed and its development has remained dynamic. In parallel with these developments, interest free banking in Turkey has grown rapidly with an annual growth of 35% in the last decade. The Participation Banks (PBs) operating in compliance with Islamic principles in Turkey has gained almost 6% market share. The expansion of interest free banking has also brought intensive competition between the PBs and conventional banks as well as among the PBs.

The purpose of this study is to investigate customers' awareness towards interest free products and services and determine their bank selection criteria and satisfaction towards financial products and services. Based on a sample of 281 respondents, it reveals that most of the respondents give the highest importance to religious belief as major factor for making selection of a bank to deal with. They recorded that they bank with conventional banks as well as PBs since the PBs do not have the products and services that are available them through the conventional banks. Based on our empirical findings; we also recorded a low level of customer satisfaction on *the limited number of branches, the availability of a wide range of credits with favourable terms and high service commission and fees.*

Keywords: Interest Free Banking, Customer Satisfaction, Participation Banks

Introduction

Operations in interest free banking are governed by the Islamic principles known as *Shariah*. These principles come from the sources of the

Holy Quran, Hadith, Sunna, Ijma, Qiyas and Ijtihad (Gait & Worthington, 2008). One of the most important tenets that must be adhered by the banks is the prohibition of interest, which is *Riba*. *Riba* defined as predetermined payment or any interest above or over the actual amount of the principal causes to unequal distribution of wealth in the society. Furthermore, Islamic principles demand that profits, risks and losses must be shared fairly between the transaction parties. This tenet basically implies to the fact that transactions involving uncertainty and speculation (*Gharar*) are also prohibited. According to Islamic principles the businesses associated in the sectors such as alcohol, pornography and gambling are one of the other restrictions that must be adhered by banks operating in compliance with *Shariah*. Those are the tenets that the modern Islamic banking has been built on today. As such, an Islamic bank is a financial institution which operates with the objective to implement and materialise the economic and financial principles of Islam in the banking arena (Kabir, 1999).

Though Islamic finance is fifteen centuries old, its first inception only goes back as early as the 1960s when Ahmet al-Naggar started his Mit Ghamr experiment (Çizakça, 2011). Since its first advent, Islamic banking assets worldwide have showed a remarkable growth, reaching to the level of USD 826 billion in 2010 with an average annual growth rate of 10 to 20 per cent. By the end of 2012, Islamic banks' total assets are expected to cross USD 1.1 trillion with over 300 Islamic financial institutions worldwide across 75 countries (The World Islamic Banking Competitiveness Report, 2011). While the share of Islamic banking is still small compared to conventional banking about 1 per cent of the global banking system, there has been growing interest in financial assets in compliance with Islamic principles (Platt, 2011). Not only financial institutions originating from Muslim countries but also many multinational banks, such as Chase Manhattan, Citibank, ABN Amro and HSBC are also offering Islamic products and services worldwide to their customers, Muslim or non-Muslims.

Customer satisfaction has been increasingly recognised as an important component of contemporary marketing thought, particularly in the case of service industries (Bejou et. al., 1998). It is generally argued that if customers are satisfied with the product received after the use of them, then it is likely that they would engage in a repeat purchase and try line extension. A satisfied customer will also convey positive messages about it to others. Dissatisfied customer, on the other hand, is likely to switch to a substitute product or/and service the next time when she/he recognises the same need. The same customer will also engage in a negative word of mouth, causing a serious damaging effect on the business (Naser et. al., 1999; Metawa and Almoosawi 1998). This “market damage” can be subtle but extensive,

undermining the best intentions and the strongest marketing campaigns (Bielski, 2004). According to modern marketing understanding, business can survive as long as they can meet their customers need and enable customer satisfaction. The assumption is that, with customer satisfaction in place, loyalty, retention and profitability will automatically follow. As such, like any other business operating in the service sector, the banks operating in compliance with Islamic principles must also gain their customer satisfaction and their loyalty, leading to a higher rate of return. To achieve this, it is essential for these banks to understand their customers' need, interest and concern. In intensifying competitive business environment, their survival lies on finding consumer priorities device and means of satisfying consumers.

As of June 2012, the banking community in Turkey comprises 48 banks with 31 deposit banks, 13 non-deposit banks and 4 interest free banks. The Participation Banks (PBs) are the only financial institutions operating in compliance with Islamic principles in Turkey. The total assets of the PBs were about USD 24.675 million compared with USD 510.592 million for the conventional banks, constituting 4.61 per cent of all banks as of the end of June 2012. The aggregated loans of the four PBs were about USD 18.867 million, which represents about 5.64 per cent of the total banks' loans. For the same period, the market share of the PBs in terms of funds collected constituted at the level of 5.04 per cent with a total deposit volume of USD 16.515 million. As for the branch network, the total number of branches in the conventional banks reached to 9979 with 183.354 staff whereas the PBs had 724 branches with 14.339 staff, representing 7.2 per cent of the total banking sector in the second quarter of 2012.

Despite Turkey's Muslim identity and willingness⁴³ towards taking a major role in a world-wide Islamic Banking, however, interest-free banking has not become the major primary segments of the Turkish financial system yet. Since its inception in the mid- 1980s, the interest free banking sector in Turkey has only gained almost 6 per cent market share, however, with an average growth rate of over 35 per cent in the last decade. This rapid expansion has intensified the competition among the PBs as well as the competition between the PBs and conventional banks over the last decade. Even though there are some similarities between the products and services of conventional banks and those of PBs, it is not easy to determine why Turkish customers would prefer to deal with PBs rather than with conventional banks. We easily assume that since 99 per cent of the Turkish population is Muslim, demand for interest free banking products and services expected to

⁴³ Turkey was also one of the Muslim countries which had put a signature on the agreement forming the D-7 in 1997, the aim of which is to promote mutual economic cooperation, build a common market, and develop capital markets in accordance with Islamic law.

be high. Above all, it is observed that Turkish financial authorities have determined to facilitate the expansion of interest free banking sector in the Turkish financial system⁴⁴. Therefore, they set a target that the market share of interest free banking reaches to 10 per cent by 2015. It seems that, the PBs have a good opportunity to expand their activities and attract more customers and increase the customer retention in Turkish financial markets.

In this study, an attempt is made to evaluate the degree of awareness, customers' bank selection and satisfaction towards the PBs. The remainder of this study is organised in four sections. Immediately following this introduction, there is a review of pertinent literature in Section 2, this covering the customers' awareness towards Islamic principles applied to banking transactions, customers' bank selection criteria and customer satisfaction. Then, the methodology used and the results obtained are presented in Section 3. Lastly, the main conclusions drawn from the study were presented in Section 4, containing pertinent implications.

Literature Review

A vast number of empirical studies in the literature have discussed service quality, product, satisfactory relationships and their effect on bank image and loyalty. In this section below, we review the pertinent studies in which customers' bank selection criteria, customer satisfaction and loyalty in Islamic banking were investigated.

Based on the review of Islamic banking studies in the early 1990s, it appears that the factors such as provision of a fast and efficient service, the bank's reputation and image, higher rate of return, friendliness of staff, and confidentiality of the bank were among the most important factors used to measure customers' selection criteria (Erol & El-Bodur, 1989; Erol et.al., 1990; Sudin, 1994 et.al.; Haron et.al., 1994; Hegazy, 1995; Gerrard & Cunningham, 1997)⁴⁵. However, a further review of studies in the late 1990s and afterwards support the argument in general that religious beliefs, the image of bank and rate of return served as main motivations to select an Islamic bank for customers (Metawa & Almoosawi, 1998; Naser et.al., 1999).

Contradictory to the findings of some earlier studies, there has been a dominant point of view in very recent studies that religious beliefs are not one of those most important factors in customers banks' selection in Islamic banking. Dusiki & Abdullah (2007) study investigated the main factors that

⁴⁴ The Turkish National Assembly in February, 2011 passed tax law and other measures to facilitate the introduction of Sukuk (Islamic Bonds) in Turkey.

⁴⁵ It is important to note that in the majority of the questionnaires used in these studies there was even no question directed to the Islamic bank' customers whether their religious beliefs were one of the reasons for dealing with an Islamic bank.

motivate customers to deal with Islamic banks in Malaysia. Being the first nationwide study, the study revealed that the selection of Islamic banks appeared to be predominantly a combination of Islamic and financial reputation and quality of services offered by the banks. The data used in the study collected through self-administrated questionnaires, leading to a sample 750 respondents.

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

In Hoq, Sultana & Amin (2007) study, by using the data from Islamic banks and dual-window Islamic banks in Malaysia, it attempted to examine the role of customer trust, satisfaction and image in enhancing Malaysian Islamic customers' loyalty. The results of the study showed that there were not significant difference between Muslim and non-Muslim customers in terms of customer satisfaction, image, trust, and customer loyalty toward Islamic banks. It revealed from the study that image was found to be positively significant to trust, and the highest level of trust leads to enhanced customer loyalty.

The purpose of Rammal & Zurbruegg (2007) study was to ascertain the awareness of, and demand for the Islamic products based on PLS arrangements in Australia among the practicing Muslim population. In this study, the respondents recorded that they were interested in buying Islamic banking products especially those working under the arrangements of PLS. However, the respondents also reported that they were lacking of knowledge of how those products function. Furthermore, based on the findings of the analysis the researchers noted that credits availability at Islamic banks was the precondition for Australian Muslims to bank with those banks in Australia.

Hossain & Leo (2009) studied the customer perception on service quality in the Qatar retail banking industry. The results of the study indicated that customers' perception was highest in the tangibles were and lowest in the competence area. In addition, the study suggested that customer service was an important part in terms of achieving the highest service quality and bank managers should be rethinking how to improve customer satisfaction with respect to service quality.

In the study of Haque et.al. (2009) major factors reflecting to customers' perception and satisfaction on Islamic banking were ascertained, by employing a logit model. The empirical results confirmed that there was a

significant positive relationship among the quality of services, availability of services, social and religious perspective and confidence in bank with customers' perception about Islamic bank. To run the empirical analysis, they collected the primary data through self-administered questionnaire from the major part of Peninsular Malaysia.

The study of Al-Tamimi et. al. (2009) investigated the customers' bank selection criteria and loyalty in a comparative manner between Islamic banks and conventional banks in UAE. Based on the empirical findings, it appeared that most UAE customers preferred banking with Islamic banks however they were not satisfied with the product and service quality. The most important reason for selecting a bank was the quality of products, followed by service quality and religious factor.

The study conducted by Al-Ajmi et.al. (2009) founded that Islamic religious belief and social responsibility were the two most important factors that determine bank selection. Being the first study in its kind in Bahrain, the study included three types of bank clients: those who bank with Islamic banks, those who bank with Islamic banks and those who prefer to deal with both Islamic banks and conventional banks. The primary data collected through 1000 questionnaires, however, with 65.5 per cent response rate.

Ahmad et. al. (2010) study examined the relationship between service quality and customer satisfaction in relation with Islamic and conventional banks in Pakistan. By using the data collected from a sample of 720 banks, this study claimed that there was a positive relationship between service quality and customer satisfaction for both Islamic and conventional banks, even stronger positive relationship between service quality and customer satisfaction for Islamic banks over traditional banks.

Farooq et. al. (2010) study is aimed to describe the attributes and profiles of Islamic banking subscribers in Pakistan. By statistically testing the sample of 942 subscribers and users of Islamic banks in Pakistan, they empirically suggested that the regulators of Islamic banking should concentrate on the socio-demographic factors when it comes to establishment of a new branch. According to this study, the aspiration and preferences of the educated class shall be taken into consideration and products and services should be designed in such a way to cater to the needs of the subscribers.

In one of the few studies regarding the Iranian banking sector, the researchers aimed to clarify and extend the conceptualization and measurement of customer satisfaction in Iran. By measuring customer service quality using SERVQUAL instrument, the survey was carried out with a sample of 950 respondents. It revealed from the findings that service quality in the given banking sector adopting the commercial format of Islamic services had a two-factor structure consisting of value proposition

quality and service delivery quality. The researchers used the confirmatory factor analysis methodology, testing their reliability and validity (Estri, Hosseini & Yazdani, 2011).

Nayyap et.al. (2011) investigated the impact of demographical factors on bank selection criteria in Islamic banking. In their analysis, they employed the regression method by using the data from six fully-fledged Islamic banks operating in Pakistan. Based on the empirical results, they found that Islam was not the only reason to choose the Islamic banks, but there were other factors such as convenience, cost and benefit, and corporal efficiency. In addition to these findings, their study showed that each demographic factor had different criteria for Islamic bank's selection.

Another study regarding the Islamic banking sector in Pakistan was carried out by Ahmad et.al. (2011). To investigate the relationship between customer satisfaction and performance of Islamic banks, the researchers collected data from 864 respondents out of 72 branches. Based on empirical findings, they concluded that there was a weak relationship between customer satisfaction and Islamic banks' performance, suggesting that bankers should introduce new, diversified and marketable products to meet the needs of their customers coming from the different segments of the society.

Hakimi et. al. (2011) investigated the relationship between customers' perceived service quality and satisfaction in the case of Malaysian banks. The study noted that Islamic banks had strong competition with their conventional counterparts in the market since they were faced with different customer expectations in terms of receiving high quality services they provide. In the study CARTER instrument was used to measure perceived service quality and customer satisfaction, indicating the gap between customer expectation and perception concerning service quality dimension base on CARTER instrument.

Taap et. al. (2011) study attempted to measure and compare the service quality between conventional and Islamic banks in Malaysia. The study employed factor analysis methodology to evaluate the data collected from 287 customers through self-reporting questionnaires. The results of the study revealed that the expectations on competence and convenience were significantly different between conventional and Islamic banks. Likewise, the perceptions on tangibility and convenience were found to be significantly different between the two types of banks.

Awan & Bukhari (2011) ascertained the customer awareness towards the Islamic products and services, usage of those products and services, and customer satisfaction with the service delivery mechanism being used by the fully-fledged Islamic banks and dual-window banks operating in Pakistan. One of the major findings was that the customers gave less importance to

religious belief in banks' selection process. On the other hand, product features and quality of service appeared to be more influential factors in selecting Islamic banks.

Muhamat et. al. (2011) study concentrated on measuring the sensitivity of the banks' customers towards in Malaysia. By using a sample of 60 respondents, the study, however, could not reach a firm conclusion that whether the Arabic terminology should be maintained. The study recorded that most of the respondents agreed that the use of the Arabic terminology gave a competitive edge to the Islamic banks but they also expressed their concern on obtaining fast information and comprehension about the products due the Arabic terminology was used in their descriptions.

Lee & Ullah (2011) aimed to investigate what motivational factors led to customers' Islamic bank selection decision in Pakistan. Based on the findings of the analysis, it appeared that Islamic banks' customers gave the highest value to *Shariah* compliance factor in banks' selection process. Nonetheless, the study also reported that Islamic banks' customers also expect their banks to be convenient, IT advanced and provide security of their capital.

In the study considering both Muslim and non-Muslim customers of Islamic banks in Malaysia, the interaction between customer satisfaction and customer loyalty was ascertained (Amin et.al., 2011). Based on a sample of 440 responses, the researchers suggested that customer satisfaction had a statistically positive effect on customer loyalty and also intentions to switch for Muslim and non-Muslim customers.

The perception of non-Muslim customers towards Islamic banking products in Malaysia was investigated in the study of Abdul Aziz et.al. (2012). Based on the findings, the study revealed that Islamic banking sector was making headway away among non-Muslim customers. Most of the respondents, however, recorded that they were not sure of increasing popularity of Islamic banking products among non-Muslims in Malaysia.

In one of many studies concentrating on the process of customers' banks' selection, the preferences of Malaysian customers for Islamic bank attributes were investigated (Echchabi & Olaniyi, 2012). By using both qualitative and quantitative methods, it reveals from the study that the preference of Islamic banking attributes in Malaysia was a combination of service quality and convenience associated with it. Based on the findings of the qualitative analysis, the researchers, however, concluded that religious belief was the main factor for selecting an Islamic bank in Malaysia.

The empirical researches on interest-free banking in Turkey are few and far between although the studies dealing with customer satisfaction and customer loyalty in Turkish banking have amounted to significant numbers,

even dating back to early 1990s (see; Kaynak et.al. 1991; Yavas et. al.1997; Çalik et.al., 2006; Bilir & Özgen, 2010; Kırmacı, 2012).

As far as the interest free banking in Turkey is concerned, not many attempts have been made to investigate customers' bank selection criteria, customer awareness, loyalty and satisfaction in one study. Being one of the earlier studies regarding interest free banking in Turkey, Okumus (2005) investigated customer awareness of interest free banking, customer satisfaction and banks' selection criteria. The study revealed that the religious factor was found to be the most important criterion of Turkish customers in bank selection criteria. Most of the respondents chose to deal with a conventional bank as well as a PB since the PBs did not have a widespread branch network. In addition, the respondents reported that the PBs were unable to provide some of the products and services available through the conventional banks. Based on the findings, it appeared that the relationship between the PBs themselves and their customers were staff-based, not product-based.

In recent years it seems that Islamic banks has been striving to capture the highest number of customers to compete with conventional banks by providing a large number of products as an alternative to commercial ones. In Turkey, the PBs also show tendency to compete with their counter partners to attract potential customers as well as to retain their customers. A recent study by Cevik & Charap (2011) attempted to investigate this issue by empirically analysing the rate of return on retail PLS accounts in comparison with that of conventional banks in Turkey. The study used the monthly average data on conventional and Islamic deposit rates for the period January 1997 and August 2010. Based on the empirical findings, it revealed that there was a high degree of correlation between deposit rates and the rate of return on retail PLS accounts in Turkey.

Methodology and Results

Methodology

The purpose of this study is to investigate customers' awareness towards interest free products and services and determine their bank selection criteria and satisfaction towards financial products and services. In order to collect the primary data, a structured survey questionnaire in Turkish was used. The Turkish version of the questionnaires was then translated into English.

The questionnaire is designed in six sections: Section one includes demographic information for the customers of the PBs such as gender, age, level of education, types of employees and jobs, years on job, monthly income and information on type of financial institution where respondents hold their accounts. In the following section, the main reasons behind not solely dealing with a PB are assessed with a number of nine items. Section

three comprises of the information on financial products and services utilised by the PBs' customers when chose to deal with a PB and a conventional bank (if there is the case). In Section four items are selected to determine PBs' customer awareness and their use of interest-free products and services provided by the PBs. Section five engages in the reasons behind dealing with a PB in order to detect the selection criteria of the PBs customers for the PBs by using seventeen selection criteria. Section six evaluates the PBs on fifteen items in order to determine the main drivers of the PBs' customer satisfaction towards the financial products and services offered by the PBs. The survey questionnaire uses the customer satisfaction criteria, adopting it to the PBs operating in compliance with interest-free finance principles.

In total, 56 items were selected to achieve the goal of the study. All items, except for those in Section four, were measures on five-point likert scales from 1 (Not aware of/Very un-satisfied) to 5 (Strongly agree/Very satisfied). In Section four, respondents were invited to express the level of awareness and use of different products/services on the basis of “*Not aware of it*”, “*Aware and do not use it*”, and “*Aware and use it*”.

The questionnaires in Turkish were randomly hand distributed to the account holders at the branches of the PBS. The process of data collection continued for two months, from January 2009 through March 2009. Respondents were selected from PBs customers visiting the sampling branches during the chosen time intervals, in order to eliminate the sampling frame errors and to ensure the representation of the population under study in the sample unit. Although 350 questionnaires were distributed, the actual sample size (i.e. usable returned and completed questionnaires) was 281 customers with a response rate of 80 per cent.

In order to test the reliability of the responses, Cronbah's alphas were computed. The computed Cronbah's alphas of responses are in the range of between 80 and 89 per cent. This indicates considerable internal consistency of the responses. Finally, SPSS 19.0 version was to be applied for the data analysis.

Results

Respondents' Profile

Based on Table I below, 80 per cent are male and 20 per cent are female respondents. More than 75 per cent of the respondents regarded themselves that they partly fulfil the requirements of Islam religion. The largest age group of respondents is from the age group of 20 to 39 years old which accounted for 69 per cent. Besides that it seems that most of the respondents graduated from high school which consists of 55 per cent and followed by respondents from primary and secondary level, which comprised of 27 per cent. Percentage of respondents holding a bachelor degree and above is 6 per cent. The majority of the respondents (86 per cent) are either

self-employed or working at a privately-owned firms, mostly engaging in the trade and service sectors. It reveals from the Table I that more than 64 per cent of the respondents had a working experience of less than 10 years. More than 58 per cent of the respondents received salary between minimum government salary and TL 2000. One quarter of respondents earned more than TL 3000 on average per month.

Table I: Socio-Demographic Background of the Respondents

n=281		Frequency	%
	Age		
20-39 years old		194	69
40-60 years old		87	31
	Gender		
Male		224	79.7
Female		57	20.3
	Practicing Religion		
Absolutely		61	21.7
Partly		210	74.7
None		7	2.5
Missing Value		3	1.1
	Level of Education		
Literate only		33	11.7
Primary & Secondary School		76	27
High School		155	55.2
Bachelor's degree and +		17	6
	Type of Employers		
Private		158	56.2
State		20	7.1
Self-employed		87	31
Retired		9	3.2
Housewife		6	2.1
Student		1	0.04
	Type of Business Job		
Manufacturing		43	15.3
Trade		68	24.2
Agriculture		1	0.04
Services		100	35.6
Food & Beverage		18	6.4
Construction		23	8.2
Education		16	5.7
Textile		0	0
Missing Value		12	4.3
	Years in Business / Job		
Less than 5 years		103	36.7
5-9 years		76	27
10-14 years		39	13.9
15-20 years		22	7.8
More than 20 years		30	10.7
Missing Value		11	3.9
	Monthly Net Income		
Minimum Government Salary (MGS)		0	0
MGS - 1000 TL		55	19.6
1 000 TL - 2 000 TL		109	38.8
2 000 TL - 3 000 TL		37	13.2
More than 3 000 TL		72	25.6
Missing Value		8	2.8

Type and Duration of Banking: Participation vs Commercial Banks

It is important to explore where the respondents hold their accounts and what kind of interest-free products they utilise from the PBs. For example, banking with a PB as well as a conventional bank (if this was the case) enables customers to make useful comparisons while evaluating

service quality. Table II below summarises responses on customers’ bank preferences; interest free banks *versus* conventional banks.

Table II: Type of Banks in which Respondents Held Their Accounts and Utilised Services

Value Labelled	Frequency	%
Participation Bank Only	126	44.83
Conventional banks & PBs	155	55.16

It appears that almost 45 per cent of the respondents held accounts and/or utilised the products/services offered by the PBs. 55 per cent, however, indicated that they banked in a conventional bank as well as a PB. At this point it is indicative to explore the main factors of why the PBs’ customers also chosen bank with a conventional bank operating in accordance with interest based principles. Based on the findings from the analysis, as presented in Table III below, of those who preferred dealing with both PBs and conventional banks, about 66 per cent cited *some products not available at PBs* while almost 54 per cent attributed *insufficient branch network* of PBs. Almost 53 per cent of the respondents indicated that their primary reason to bank with conventional banks is the *lack of available credits with favourable terms* while almost 44 per cent recorded the criterion of *lack of credit cards with favourable terms*.

Table III: The Main Drivers that the Respondent(s) has/have chosen to deal with PBs as well as Conventional Banks

n=155	Agree		Disagree		No view		Missing Value
	Frequency	%	Frequency	%	Frequency	%	
Some products not available at PBs	93	60.0	51	32.9	11	7.1	0
Insufficient branch network	83	53.5	61	39.4	8	5.2	3
Lack of efficient & effective IT	38	24.5	113	72.9	2	1.3	2
Lack of financial counselling provided by employees	22	14.2	118	76.1	14	9.0	23
Lack of short-term investment opportunities	50	32.3	69	44.5	34	21.9	2
Lack of available credits with favourable terms	82	52.9	46	29.7	25	16.1	2
Lack of fixed-income investment opportunities	45	29.0	82	52.9	26	16.8	2
Higher commission and fee on transactions	60	38.7	19	12.3	74	47.7	2
Lack of credit cards with favourable terms	68	43.9	61	39.4	24	15.5	2

Customers’ Selection Attributes

The participants were invited to express the extent of their agreement with a set of reasons that may explain their banking with the PBs. A brief of their answers is given in Table IV below.

Based on the results in Table IV, it was noted that *religious reasons solely* was the most important criterion for choosing to deal with a PB. It registers the highest mean score (4.29). This is followed by *interest free financial institutions* and *availability of products and services offered by banks* (4.18 and 4.11, respectively). *Provision of fast and efficient service*

and *financial counselling provided by employees* are said to be the fourth and fifth important factors with the mean scores of 3.85 and 3.83. *Return on investment (profitability)* registered the lowest score among the seventeen criteria.

Customers' Awareness and Use of Products/Services Provided by PBs

Table V reports the findings in connection with the types of accounts held by the respondents and the length of time they held their accounts and services utilised. It reveals from analysis that more than 67 per cent of the respondents (in the case of PBs) held current accounts with a PB for more than one year. However, only approximately 35 per cent of those have kept up their relationship with a PB for more than three years. This might imply a low level of customer loyalty towards PBs. It appears that only 25 per cent of the respondents held credit cards given by the PBs for more than 3 years. Likewise, more than 28 per cent of the respondents had the credit cards given by the conventional banks for the same period and almost 47 per cent of the respondents also held current accounts with conventional banks. Less than approximately 28 per cent of the respondents had resorted to the individual finance products of the PBs in the form of consumer credit, which operates in compliance with the principle of *Murabaha*. Furthermore, more than 11 per cent of the respondents held time deposit accounts with conventional banks which gain interest.

The figures from Table V also reveals that more than 45 per cent of the respondents did not have an investment account with a PB in the form of PLS arrangements. In other words, almost half of the respondents who banked with a PB did not show a demand to specific interest-free accounts like *Mudarabah* and *Muskaraha*. This outcome needs to be assessed in connection with the following where the degree of awareness among the respondents about interest-free products/services offered by the PBs.

It is expected that the customers of the PBs understand the interest-free banking terminology since almost 99 per cent of the population are Muslim, and more than 75 per cent of them consider themselves partly fulfilling the requirements of Islam religion. Therefore, this study also attempted to reveal the customers' awareness towards the specific meaning of interest free banking terminology. In the questionnaires, respondents were required to express the degree of awareness of the products and services based on certain Islamic principles.

Table IV: Customers’ Selection Attributes for Dealing with PBs

n=281	Strongly agree		Agree		Disagree		Strongly disagree		No view		Missing Value Frequency	Mean	Std. Deviation	Rank
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%				
Religious reasons solely	126	44.8	92	32.7	23	8.2	8	2.8	4	1.4	28	4.296	0.879	1
Interest-free financial institution	122	43.4	86	30.6	25	8.9	10	3.6	10	3.6	28	4.186	1.032	2
Profitability	16	5.7	43	15.3	77	27.4	24	8.5	38	13.5	83	2.874	1.192	17
Assurance Fund	56	19.9	88	31.3	24	8.5	17	6.0	27	9.6	69	3.608	1.303	9
Religious and profitability combined	30	10.7	63	22.4	52	18.5	19	6.8	28	10.0	89	3.250	1.257	14
Recommendations by friends&families	55	19.6	76	27.0	43	15.3	17	6.0	15	5.3	75	3.675	1.167	6
Resistance to financial crises	37	13.2	73	26.0	39	13.9	12	4.3	32	11.4	88	3.368	1.321	13
PB's reputation and image	25	8.9	74	26.3	57	20.3	16	5.7	15	5.3	94	3.417	1.081	12
Provision of fast&efficient service	56	19.9	84	29.9	41	14.6	12	4.3	7	2.5	81	3.850	1.011	4
Lower service charges	55	19.6	81	28.8	49	17.4	13	4.6	16	5.7	67	3.682	1.143	7
Available credit with favourable terms	29	10.3	56	19.9	58	20.6	10	3.6	33	11.7	95	3.204	1.287	15
FC transactions with favourable terms	33	11.7	68	24.2	40	14.2	9	3.2	43	15.3	88	3.202	1.394	16
A wide range of services offered	42	14.9	69	24.6	48	17.1	12	4.3	28	10.0	82	3.427	1.281	11
Availability of products&services offered by banks	86	30.6	89	31.7	18	6.4	6	2.1	11	3.9	71	4.110	1.036	3
Financial counselling provided by employees	54	19.2	92	32.7	28	10.0	7	2.5	15	5.3	85	3.832	1.108	5
Location near my home/place of work	30	10.7	75	26.7	59	21.0	18	6.4	15	5.3	84	3.442	1.094	10
Interior comfort	41	14.6	84	29.9	42	14.9	19	6.8	13	4.6	82	3.608	1.113	8

Table V: PBs versus Conventional Banks : Length of the Accounts Held and the Services Utilised

n=281	Do not have or not applicable		Less than 1 year		1-3 year		3-5 year		More than 5 years	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Participation Banks										
Current Accounts	31	11	61	21.7	91	32.4	35	12.5	63	22.4
P/L Participation Accounts	127	45.2	43	15.3	53	18.9	22	7.8	36	12.8
Consumer Credit	201	71.6	11	3.9	38	13.5	14	5	17	6
Commercial Credit	236	83.9	12	4.3	14	5	7	2.5	12	4.3
Leasing	265	94.3	2	0.7	5	1.8	5	1.8	4	1.4
International Foreign Trade Transaction	271	96.4	6	2.1	1	0.4	1	0.4	2	0.7
Credit Card	88	31.3	44	15.7	79	28.1	25	8.9	45	16
Cheque	203	72.3	11	3.9	22	7.8	14	5	31	11
POS	237	84.4	6	2.1	14	5	9	3.2	15	5.3
Others	267	95	4	1.4	6	2.1	3	1.1	1	0.4
Commercial Banks										
Current Accounts	148	52.7	22	7.8	23	8.2	21	7.5	67	23.8
Time Deposit Accounts	249	88.6	4	1.4	3	1.1	5	1.8	20	7.1
Consumer Credit	212	75.5	7	2.5	24	8.5	8	2.8	30	10.7
Commercial Credit	247	87.9	5	1.8	6	2.1	5	1.8	18	6.4
International Foreign Trade Transaction	270	96	1	0.4	3	1.1	0	0	7	2.5
Bond/T.Bills.	266	94.7	4	1.4	3	1.1	2	0.7	6	2.1
Mutual Funds	265	94.2	3	1.1	1	0.4	3	1.1	9	3.2
Credit Card	165	58.7	13	4.6	23	8.2	20	7.1	60	21.4
Cheque	236	84	2	0.7	6	2.1	5	1.8	32	11.4
POS	258	91.8	4	1.4	5	1.8	4	1.4	10	3.6
Other	277	98.6	2	0.7	0	0	0	0	2	0.7

Table VI: Customers' Awareness and Use of Products/Services Provided by the PBs

n=281	Well aware		Aware of		Not aware of	
	Frequency	%	Frequency	%	Frequency	%
Interest free principles	181	64.4	95	33.4	5	1.8
Mudarabah	113	40.2	104	37	64	22.8
Musharaka	87	31	119	42.3	75	26.7
Assurance Fund	186	66.2	51	18.1	44	15.7

Based on Table VI, it seems that the majority of the respondents showed a good understanding of *interest free principles (Riba)* (64 per cent). However, the findings indicate that terms such as *Mudarabah* (40 per cent) and *Musharaha* (30 per cent) were not well understood. Over one fifth of the respondents cited that they were not aware of specific Islamic banking terminology such as *Mudarabah*, *Murabaha* and *Musharaka*. Surprisingly, over 84 per cent of the respondents were aware of the *Assurance Fund* whereas only 16 per cent of respondents were totally had no knowledge of it.

Customer Satisfaction from Products/Services Offered by the PBs

Various aspects of customer satisfaction with the PBs in Turkey were explored in this study. The customers of the PBs in the sample were asked to express their degree of satisfaction towards various aspects of the products and services provided by the PBs. The outcomes of this part of the study are reported in Table VII below.

As seen in Table VII that vast majority of the respondents expressed a considerably high level of satisfaction towards various aspects of the PBs' products and services. The *reception received at PB branches* showed the highest mean score was 4.51, followed by *the awareness of employees from new developments*, *the provision of fast and efficient service confidentiality of PB*, and *working hours*, respectively (4.30, 4.24, 4.13, and 4.05). As far as the performance of bank personnel was concerned, the majority of the respondents were satisfied about almost most aspects of customer-client interaction. However, *the parking facilities and accessibility* and *the availability of loans with favourable terms* did not get better response from the customers with the mean scores of 2.78 and 3.31, respectively.

Determinants of Customers' Bank Selection and Socio-Demographic Factors

In the survey, the customers with diverse socio-demographic backgrounds were involved. To ascertain whether or not the average perceptions about the variables (i.e. gender, age, practising religion, education, type of employers, type of business, years of business and monthly income) were identical for all participants in the sample data set. To achieve this, χ^2 was computed, and the results of the relationship between determinants of the PB selection and different socio-demographic variables associated with respondents were reported in Table VIII.

It appears from the results in Table VIII that there are differences in bank selection criteria according to gender, age, practising religion, education, type of employers, type of business, years of business and monthly income of the PBs' customers. As an example, based on the results the factors like *religious reason, financial counselling provided by staff and interior comfort* were considered as more important by male respondents than the female respondents in their selection of a PB. Furthermore, *recommendations by friends & families* played a more important role for the PBs' customers under the age of 40 in comparison with other age group studied. *Practising religion* has been identified as a critical factor influencing the choice of a PB by customers. It reveals that the PBs' customers who had more than primary and secondary school education considered *a wide range of services offered, Assurance Fund, provision of fast efficient service, FC transactions with favourable terms* more important than those who only had primary and secondary education. The respondents who were from the lowest monthly income group gave more importance to *financial counselling provided by staff and religious and profitability combined*. The respondents dealing in the sectors of trade and services exhibited more tendency to opt for interest free banking based on religious motives, as well as business motives such as *availability of products and services by PBs and profitability*. Moreover, the respondents who work on private and self-employed basis gave more weightage to *Assurance Fund and PBs reputation and image*. The respondents having business less than 5 years expressed that guaranteed deposits in the form of *Assurance Fund* was the main driver dealing with a PB.

Customer Satisfaction and Socio-Demographic Factors

The results from Table IX shows the respondents expressed a certain degree of satisfaction with most aspects of the services and products provided by their PBs. Most of the respondents (70 per cent) declared that they were satisfied or very satisfied with *IT network of the PBs*. As such, they had a positive impression about *the use of IT and the quality of it (provision of fast and efficient service)*. Most of the respondents cite that they were satisfied with *the reception received at branches* as a customer. Furthermore, over 61 per cent of satisfied customers receiving high level of reception at PBs held university degree or above.

The respondents who work at private institutions or were self-employed cited that they were very satisfied or satisfied with *efficient and effective IT network, a wide range of services offered, and quality of advice offered by staff*. Moreover, most of the respondents banking with PBs less than 5 years recorded that they were satisfied or very satisfied *working hours*.

Table VIII: Relationship Between Determinants of Dealing with a PB and Socio-Demographic Factors

n=281	Gender		Age Group		Practising Religion		Level of Education		Type of Employers		Type of Business		Years of Business		Monthly Income	
	X ²	Sign.	X ²	Sign.	X ²	Sign.	X ²	Sign.	X ²	Sign.	X ²	Sign.	X ²	Sign.	X ²	Sign.
Religious reasons solely	8.460	0.076***	0.787	0.940	9.138	0.331	17.840	0.120	23.980	0.243	30.570	0.166	7.420	0.964	10.877	0.540
Interest-free financial institution	3.540	0.471	1.570	0.813	18.177	0.020**	10.102	0.607	16.210	0.783	28.220	0.251	6.077	0.987	13.506	0.333
Profitability	4.795	0.309	5.905	0.206	17.946	0.022**	17506.000	0.132	24.320	0.229	34.470	0.077***	12.373	0.718	13.929	0.305
Assurance Fund	4.019	0.403	1.416	0.841	5.534	0.699	29.920	0.071***	29.920	0.071***	27.770	0.270	10.230	0.037**	14.435	0.274
Religious and profitability combined	3.301	0.509	5.930	0.204	15.531	0.050**	20.350	0.061***	22.260	0.326	33.710	0.090***	31.702	0.011**	27.856	0.006*
Recommendations by friends&families	5.715	0.221	8.450	0.076***	15.595	0.049**	6.976	0.859	25.637	0.178	21.413	0.614	9.494	0.892	9.509	0.659
Resistance to financial crises	6.649	0.156	3.560	0.468	13.809	0.087***	12.320	0.420	10.390	0.960	21.770	0.593	11.950	0.747	11.303	0.503
PB's reputation and image	3.123	0.337	4.547	0.337	3.474	0.901	10.778	0.548	28.698	0.094***	46.350	0.004*	19.494	0.247	8.351	0.757
Provision of fast&efficient service	0.612	0.962	0.872	0.990	8.626	0.375	18.717	0.096***	17.646	0.611	19.213	0.741	17.260	0.369	10.315	0.588
Lower service charges	2.443	0.655	1.294	0.862	4.932	0.765	13.375	0.342	20.721	0.414	20.061	0.693	17.463	0.356	12.028	0.463
Available credit with favourable terms	6.302	0.178	1.209	0.877	7.692	0.464	15.149	0.233	20.223	0.444	25.061	0.402	14.330	0.574	6.996	0.858
FC transactions with favourable terms	6.157	0.188	0.966	0.915	10.306	0.244	20.841	0.053***	16.007	0.716	25.990	0.354	11.056	0.806	8.356	0.757
A wide range of services offered	4.581	0.333	2.017	0.733	14.502	0.070***	24.678	0.016*	16.020	0.715	26.305	0.338	14.021	0.530	10.091	0.608
Availability of products&services offered by banks	6.541	0.162	2.156	0.707	6.476	0.594	11.489	0.488	16.627	0.677	36.176	0.053***	18.288	0.307	10.315	0.588
Financial counselling provided by employees	8.458	0.076***	6.191	0.185	8.436	0.392	10.283	0.591	20.359	0.436	32.908	0.106	21.250	0.169	26.633	0.009*
Location near my home/place of work	7.646	0.105	6.222	0.813	6.382	0.605	17.188	0.143	21.160	0.131	22.130	0.561	18.141	0.316	9.122	0.693
Interior comfort	9.528	0.049*	4.491	0.344	5.560	0.696	14.670	0.260	23.295	0.275	28.745	0.230	23.133	0.110	10.261	0.593

Notes: (*), (**), and (***) denote the significance level of 1 per cent, 5 per cent and 10 per cent, respectively

Table IX: Relationship Between Customer Satisfaction and Socio-Demographic Factors

n=281	Gender		Age Group		Practising Religion		Level of Education		Type of Employers		Type of Business		Years of Business		Monthly Income	
	X ²	Sign.	X ²	Sign.	X ²	Sign.	X ²	Sign.	X ²	Sign.	X ²	Sign.	X ²	Sign.	X ²	Sign.
Provision of fast and efficient service	5.586	0.232	0.756	0.944	34.664	0.000*	21.208	0.047**	17.540	0.617	19.328	0.734	10.670	0.829	12.800	0.384
Availability of loans with favourable terms	6.302	0.178	1.209	0.877	7.692	0.464	15.149	0.233	20.223	0.444	25.062	0.402	14.330	0.511	6.996	0.858
Efficient and effective IT network	16.781	0.002*	0.084	0.999	16.085	0.041**	14.798	0.253	48.391	0.000*	26.317	0.337	16.131	0.444	20.367	0.060***
A wide range of services offered	6.718	0.152	3.298	0.509	12.654	0.124	19.743	0.072***	34.446	0.023**	22.032	0.577	14.340	0.573	18.219	0.109
Internet services provided by PB	6.445	0.092***	11.914	0.008*	13.171	0.040**	19.953	0.018**	41.496	0.000*	45.629	0.000*	20.505	0.058***	16.924	0.050**
PB's reputation and image	0.489	0.975	4.990	0.287	12.722	0.122	17.185	0.143	20.982	0.398	18.089	0.799	19.816	0.229	15.895	0.196
Awareness of employees from new developments	2.361	0.670	6.237	0.182	21.080	0.007*	10.836	0.543	13.946	0.833	26.556	0.326	19.467	0.245	13.354	0.344
Confidentiality of PB	5.791	0.215	6.773	0.148	11.263	0.187	11.972	0.448	17.166	0.642	26.174	0.344	18.697	0.285	12.044	0.442
Reception received at PB	1.405	0.843	4.311	0.366	10.092	0.259	23.434	0.024**	27.221	0.129	26.415	0.332	19.016	0.268	13.155	0.358
Financial counseling provided by employees	1.299	0.862	3.860	0.425	11.686	0.166	10.253	0.594	34.322	0.024**	19.117	0.746	17.291	0.367	11.699	0.470
Informing customer about new products&services	6.373	0.272	4.703	0.453	13.797	0.182	21.691	0.116	65.692	0.000*	20.443	0.671	17.415	0.359	17.237	0.141
Working Hours	3.439	0.487	5.469	0.243	6.366	0.606	20.936	0.051	22.390	0.320	21.956	0.581	2.600	0.046**	11.461	0.490
Interior comfort	2.738	0.603	4.709	0.319	10.788	0.214	12.925	0.375	19.426	0.494	25.393	0.385	13.949	0.603	11.080	0.522
Location near my home/place of work	4.456	0.348	5.445	0.245	5.816	0.668	16.015	0.191	24.692	0.213	18.858	0.760	21.896	0.147	11.953	0.450
Parking facilities & accessibility	31.240	0.000*	3.759	0.440	10.254	0.248	11.727	0.468	30.850	0.014**	22.744	0.535	21.047	0.177	8.846	0.716

Notes: (*), (**), and (***) denote the significance level of 1 per cent, 5 per cent and 10 per cent, respectively

Conclusions and Implications

This study aimed to detect the bank selection and satisfaction criteria of the in Turkey as well as the priority and importance of these criteria for the customers. On the basis of analysis above, the customers of the PBs are mostly young males with a upper-low income but considerably well-educated. This should be considered as a valuable asset by the PBs in terms of introducing the new financial products and services they provide and new IT technology such as internet banking as a part of their marketing strategy. However, it should be expected that such customers' profile also has a potential of a-high level of sensitivity towards the commissions and fees charged by the PBs. It is most likely that they would put this criterion in to the first place in their bank selection process. Based on the findings, we suggest that the PBs should continue investing in Information Technologies as their young and educated customers demand it so.

Our findings do highlight areas of some concern for the PBs. Most of the respondents reported not having sufficient knowledge of the Islamic terminology used in interest free banking. This finding implies that the PBs are in need of educating their customers about the tenets on which interest free banking is built and revamping their marketing strategies accordingly. Based on the sample data, it appears that customers; however, are well aware of that their PLS accounts with the PBs are guaranteed by the *Assurance Fund*, that is the one of the main criterion for the customers' loyalty, though constituting contrary to the original Islamic banking paradigm.

One of the main findings of this study is related to customers' bank selection process. It reveals that *religious belief* is the main driver of banks' selection criteria for the customers of PBs. On the other hand, the factor such as *rate of return* is ranked the last among the other banks' selection criteria. This study found support for the arguments by Metawa & Almossawi, 1998; Naser et.al., (1999); Gaith & Worthington (2008), and Lee & Ullah (2011) suggesting that religious motivation is the key driver to select a bank operating in compliance with Islamic principles.

As for the customer satisfaction, it appears that low customer satisfaction about the *limited number of branches, the availability of a wide range of credits with favourable terms and high service commission and fees* means that the PBs do need to pay attention to improve these aspects of their product and service features. Moreover, given that majority of the respondents banking with the PBs less than 5 years, this could cause more negative impacts on customer loyalty in the future. Most of the respondents deal with PBs as well as conventional banks, that gives an indication about inability of the PBs to provide a substitute to their conventional counterparts. It is also worth noting that the main reason for dealing with a conventional bank as well as a PBs for the customers is product and also cost-related.

It is hoped that the findings of this paper provide some important insights that would be helpful on the development of interest free banking sector in Turkey.

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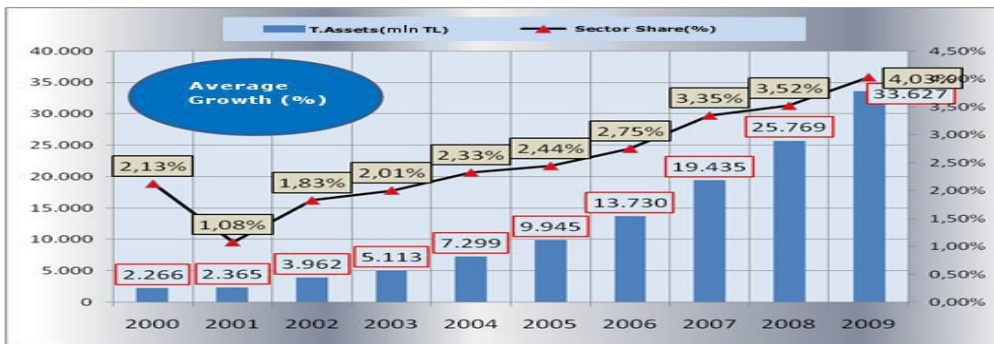
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Appendix I

Figure 1: Total Assets Growth



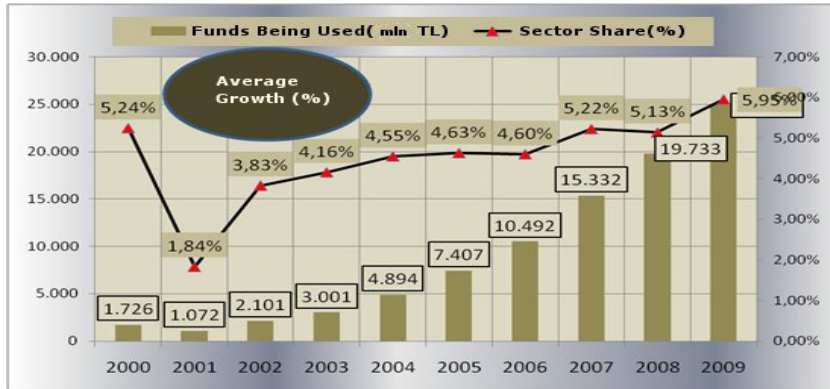
Source:http://www.tkbb.org.tr/index.php?option=com_content&task=blogcategory&id=89&Itemid=979 (downloaded on 26.03.2012)

Figure 2: Growth of Funds Collected



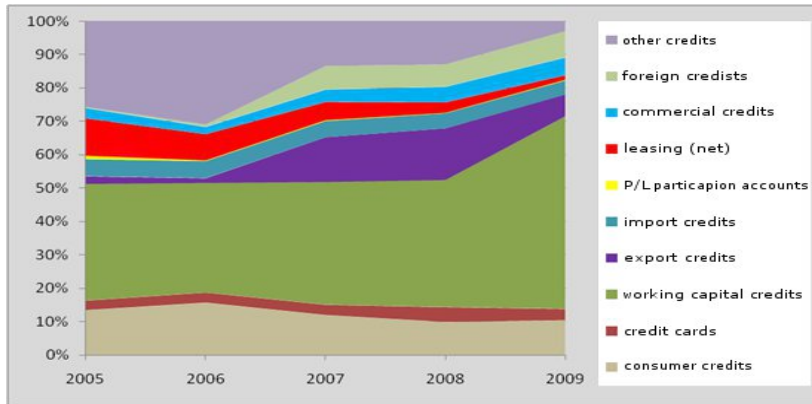
Source:http://www.tkbb.org.tr/index.php?option=com_content&task=blogcategory&id=89&Itemid=979 (downloaded on 26.03.2012)

Figure3:Growth of Funds Being Used



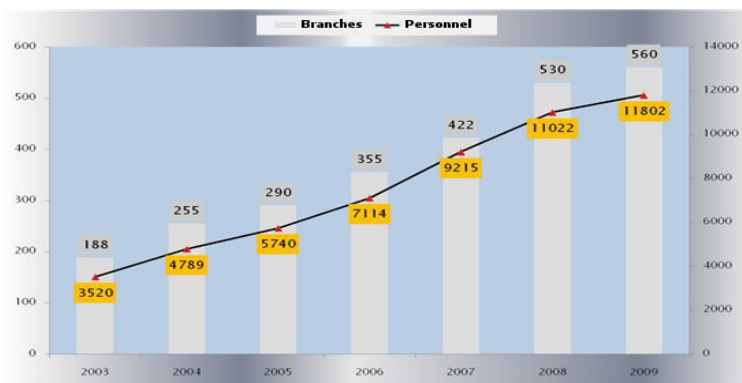
Source:http://www.tkbb.org.tr/index.php?option=com_content&task=blogcategory&id=89&Itemid=979 (downloaded on 26.03.2012)

Figure 4: Composition of Funds Being Used



Source:http://www.tkbb.org.tr/index.php?option=com_content&task=blogcategory&id=89&Itemid=979 (downloaded on 26.03.2012)

Figure 5: Personnel and Branch Numbers



Source:http://www.tkbb.org.tr/index.php?option=com_content&task=blogcategory&id=89&Itemid=979 (downloaded on 26.03.2012)