

Impact of Advertising and Promotional Efforts on the Growth of Islamic Banking in Pakistan (A case study of five leading Islamic banks in Karachi)

Maham Fatima Nizam, Tahir Ali

Karachi University Business School (KUBS), Pakistan

mahamfatima1993.m@gmail.com

Abstract

This research study is about the impact of advertising and promotional activities that can lay a role in the growth and profitability of Islamic banking in Pakistan.. The banking industry is constantly growing and achieving new heights over the past ten years, so to sustain in such competition Islamic banking needs to maintain its expansion. This research is based on five full-fledged Islamic banks operating in Karachi, Pakistan. The aspects looked at were their profit returns and expenditure on advertisement and promotion. To support the research, the data was gathered from primary and secondary means, by taking interview and survey from employees at different Islamic banks. For the survey, 50 employees working at different Islamic banks were selected by using stratified random sampling, where they were asked to fill in a questionnaire. The results indicated a positive correlation between advertising and promotion with profitability and growth of Islamic banks. It also highlighted that advertisement alone does not play a role in the growth of Islamic banking, but other factors like customer relations, and effective services also work hand in hand.

Keywords: Advertisement and Promotion, Profitability, Growth, Islamic Banking in Pakistan

Introduction

The Banking industry has come to play a key role in our society. It affects us both personally and collectively as the success of a society depends in large part on the success of this sector. The activities done by banks contribute to a robust economy, which in turn places a country near the top of the list of developed nations. Mass production methods developed during the Industrial Revolution of the 1800s facilitated a rise in commercial and financial activity. There has been an increase in banking's significance as a means of facilitating productive business activities. A bank's ability to thrive in today's global, borderless market may hinge on the quality of its products and the level of satisfaction it provides to its clientele. Today, competition in Pakistan's banking business is fiercer than ever, where both private and sharia banks have flourished and are seeing tremendous expansion. The increased level of competition in the banking industry has resulted in a shift in marketing strategy aimed at raising awareness of and demand for better service. In order to capitalize on the banking industry's bright future, financial institutions need a solid marketing. Advertising with efficient promotional activities are the part of solid marketing plan that can be put into action. It is hoped that by employing an appropriate method of advertising, the intended demographic can be reached, and the company's reputation is enhanced. Banking in Pakistan can be broken down into two categories: Islamic banking and conventional banking. Conventional banks (CB) and Islamic banks (IB) can be differentiated from one another based on their goals, that is the use of *riba*, and risk-sharing practices.

Islamic Banking has been on the rise in the past several years in Pakistan, one thing that often comes in mind is the people's decision to choose Islamic banks in Pakistan is supposedly high because of religion factor. But is it the only factor responsible for the growth of this industry or

there are other factors other than religion. The aim of this research is to find the other factors responsible for expanding the number of sharia banking customers in Pakistan? Our research paper also raises the main question of how much advertisement and promotion has played a role in its growth, popularity and profitability.

Overview of Islamic banking

The idea of Islamic banking is not new. It started during the medieval era when Middle Eastern traders used to do financial transactions with their European counterparts. The banks were able to address the needs of local Muslim businesspeople by employing these tactics. During the colonial period, a number of Muslim nations had interest-free lending institutions and cooperatives, but it wasn't until the early 1960s when institutions resembling banks began to emerge. In Mit Ghamar, Egypt, from 1963 to 1967, a groundbreaking experiment putting the Islamic principles controlling money deals into practise was carried out. Nasser Social Bank, the first establishment with "bank" in its name that was free of interest, was also founded in Egypt in 1971, this was the first time a government in a Muslim nation had expressed interest in establishing an organization that charged no interest. The most significant time in the growth of the Islamic finance industry was between 1975 and 1990. Pakistan, Iran, and Sudan also announced their aim to gradually phase out interest from their economies and replace it with full Islamic banking systems.

Pakistan from the time of its emergence was looking forward to operating under Islamic principles in every aspect. In the 1950s, the Research Department of SBP established an Islamic Economic Division, the task was doing research on the Islamic economic system and serving as the secretariat for the Council of Islamic Ideology (CII). Steps were taken to remove Riba from the economy completely in 1980's. In April 2004, the Shariah Board of the Central Bank authorized the basics of Islamic finance to ensure Pakistani Islamic banks follow Shariah standards. The model

agreements for nine Islamic modes of financing were created to promote Islamic banking products and making it easier for existing and new market entrants to adopt.

Due to the steady expansion of Islamic institutions in the financial industry and economy, Pakistan has earned the eighth spot on the global Islamic economic indicator list. The Islamic banking sector has experienced impressive expansion. By the end of the first quarter of 2022, the size of Pakistan's Islamic finance sector predicts to have surpassed 42 billion US dollars (5.5 trillion rupees), according to a recent Fitch Ratings article. The potential for further development of Islamic banking in Pakistan is enormous.

Review of Literature

According to the research by Rabia Rasheed et al. (2015), the marketing of Islamic Banking products in Malaysia comes with its challenges. In spite of its phenomenal expansion, Islamic banking cannot compete with the volume and acceptability of traditional banking. Studies have shown that although eighty percent of banking clients in Malaysia are familiar with Islamic banking, the vast majority of them are not familiar with the various Islamic banking products available, such as Ijarah, Mudarbah, and others. The study outlines the difficulties associated with marketing Islamic banking products in Malaysia and identifies the lack of a customer-centric focus as the underlying cause of the issue.

The difficulties encountered in marketing can be broken down into two categories: those that are controlled, and those that are not controllable. It further added that The Islamic banks should not only design products that are centered on the customer, but they should also pay attention to marketing strategies that are centered on the customer. The conventional "four Ps" of marketing are given primary attention in conventional product marketing. In a manner very similar, Islamic

financial institutions ought to center their attention, in addition to product strategies, on pricing, marketing, and location strategies. For instance, it appears that some of the Islamic banking products have prohibitively high entry costs (ranging from 5% to 6.5%) for potential clients who wish to use them. Only if the product guarantees a return of 10-15% or higher can costs of this nature be considered justified. Then there is a need for an improvement in the promotion of Islamic banking products (Doraisamy, Shanmugam, and Raman, 2011; Thambiah et al., 2011). It is necessary to devise appropriate marketing strategies in accordance with the characteristics of the location, whether it be urban, rural, or international. Research on customer behaviour and detailed customer profiles are necessary components of customer-centric marketing research.

A research paper by Abdul Jumaat bin Mahajar and Jasmani Binti Mohd Yunus (2011) looked at the effectiveness of promotional tools that create awareness of customers of Islamic Banking. The purpose of this research is to investigate the efficacy of various promotional strategies, including personal selling, direct marketing, advertising, sales promotion, publicity, and public relations, in increasing customer awareness of Islamic banking. The analysis of 120 responses using multiple regression revealed that two promotional tools, such as sales promotion and publicity, gave very little impact in creating customer awareness, whereas direct marketing, advertising, and personal selling did not contribute at all in any way to the process of creating customer awareness regarding Islamic banking.

According to the findings, it was demonstrated that sales promotion and publicity have an influence in the process of creating customer awareness; however, the correlation between these two factors is quite weak. It was shown that components of sales promotions, employing a variety of methods to reach the targeted audiences with certain messages in order to achieve specific organizational objectives, create customer awareness on Islamic banking. This research also

demonstrated that publicity has an impact on the process of bringing an issue to the attention of customers.

Role of advertising and promotional activities on profitability

To understand this further let's, review first what is advertising and promotion, with its actual role. Advertising is a powerful tool that can help you attract customers, inform them about your products and build customer trust. Most companies use some type of advertisement to help them promote their products or services. Understanding what advertising is and why it's important for organizations to use it can help you develop effective ads for your company. The results show that, in the long term, advertising has a positive effect on "profitability" while promotion too has shown interests in customers. Last, we estimate that the long-term effects of promotions on sales are negative overall, and about two-fifths the magnitude of the positive short-term effects. Advertising, like other promotional tools, aims at getting across message to customers about products offered by an organization. Accordingly, effectiveness of ads is assessed in term of the level of awareness they create among customers. However, research on the effectiveness or awareness of Islamic banking products in Muslim countries is sparse. In this section, we would further present the role of promotion in Islamic banking by the help of study conducted in this area by Fadi Mohammed Alshannag et'al ,respectively.

The goal of the study by Fadi Mohammed Alshannag et'al (2020) was to determine how marketing promotion affected customer acceptance of Islamic banking in connection to other characteristics, including bank reputation, awareness, relative benefit, compatibility, religion, and social impact. In the hierarchical regression was used to evaluate the hypotheses. Data was gathered via a questionnaire in order to empirically test the model. 173 Jordanian students made up the sample, which had a total of 173 participants. The questionnaire included both statements about the model

and questions about the respondents' demographics. The analysis's findings revealed that all of the aforementioned criteria had a substantial influence on consumers' adoption of Islamic banking. Additionally, it was shown that moderation in marketing advertisements was also important. The study offered a discussion that connected the results to prior research, as well as suggestions for further investigation. The promotion of Islamic banking products will be effective in changing consumer perceptions and reducing attitude. According to Wahid and Ahmed (2011), advertisements serve as the primary means of influencing consumer desire and intention, which in turn influences how they will behave while making purchases. The results of the study by Fadi Mohammed Alshannag et al (2020) revealed that advertising has a direct influence on consumer behaviour and the propensity to use Islamic banking products.

Research methodology

Islamic banking products come in a variety of modes to accommodate consumer needs, which should be met but in the correct way. The banking industry is characterized by its tumultuous nature and fierce competition among its players. The level of competition demands that Islamic banks look for creative ways to meet the requirements of society as a whole rather than only meeting the "religious commitments of the Muslim community." An expanding industry should examine its marketing strategy to achieve sustainability, but the case is a bit different in Islamic banking as it is facing problems in marketing because of its newfound growth and the little attention towards research. Just like any other institute, Islamic banks must inform their customers about the availability of the goods. Simply having a product on the market without buyers knowing about it ensures its failure.

According to previous studies, promotion and advertising are connected with the revenue and profitability of Islamic banking. To make their promotional policies effective, banks must review

them as they will boost the banking industry's sales and profitability. Furthermore, it is also suggested that because to spread proper awareness about the Islamic banking products. The hypothesis is as follows:

Statement of Hypothesis

“The profitability of Islamic banking has increased in the past five years mainly due to advertising and promotion.”

According to the hypothesis generated in response to the problem statement, profitability is a variable that depends on a variety of different circumstances, and in this case, profitability depends on advertising and promotional efforts done by the banks. Similar to other studies, it also suggests that the rise in advertising and promotion will have an impact on the profitability of Pakistan's banking industry.

Data Collection

To support this hypothesis, data is collected through both primary and secondary sources. The primary sources were Bank employees and management. For secondary sources research articles, reports, and other publications were used. To procure more knowledge and to share detail analysis for this study we also reviewed annual reports of Islamic Banks which is further defining the relationship between advertising and promotion with profitability

Sampling

This research used stratified random sampling method by selecting a sample of 50 employees at random within Karachi only. They filled out a questionnaire based on prior research and an interview was conducted by the member of an upper management working in the bank.

Results and Discussion

The Islamic banks is chosen to support this hypothesis, that barring other factors, banks can increase their profits when they commit to an effective plan and execution with ample spending that can allow for the growth of Islamic banking. In the 10-year annual reports from five different Islamic banks in Pakistan, we see that with good spending on promotion and advertisement of

Islamic banking, banks can get high return in profit for the current year and the next. Meezan's

Figure 1 Analysis from Meezan Bank

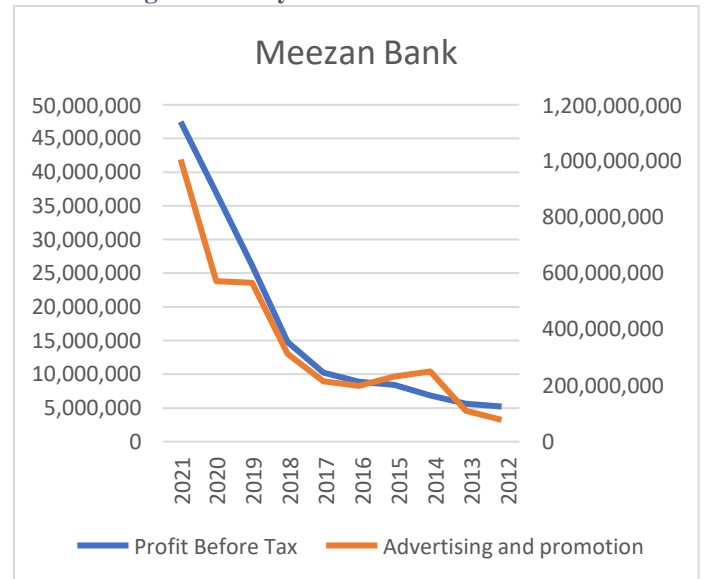
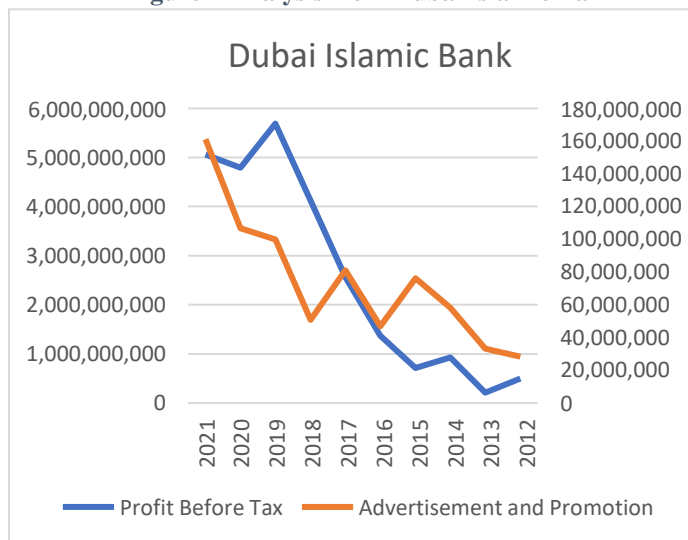


Figure 2 Analysis from Dubai Islamic Bank



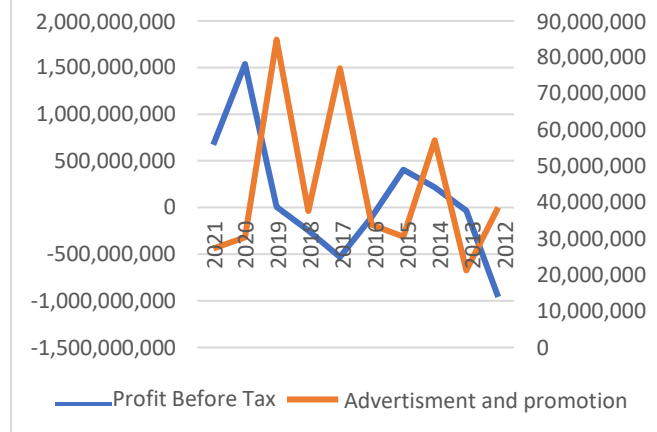
2012-2021 spending is an example presented in figure 1. The bank's profits grew steadily from 2012 to 2020, but when it increased spending, they grew exponentially. Bank Islami is another example of how cutting advertising and promotion hurt revenues. The bank's earnings before tax increased from 626

million in 2012 to 3.3 billion in 2021. Dubai Islamic Bank shows how consistent advertising and promotion of Islamic banking may boost profitability. Dubai Islamic Bank's profits have grown over time due to increasing advertising and marketing of Islamic banking and its services as presented in figure 2. Dubai Islamic Bank, like many other Pakistani banks, has cut expenses in

some years, but its consistent spending on advertising and promotion has maintained profits rising from 2012 to 2021.

Al Baraka Bank and MCB are instances of how an inefficient advertising and promotion plan and unpredictable spending can affect profits and losses over the past decade. Al Baraka Bank has

**Figure 3 Analysis from Al Baraka Bank
Al Baraka Pakistan**



been increasing and decreasing expenditure, which has caused instability as shown in figure 3.

However, MCB Islamic Bank is relatively new in the market compared to other banks, which could indicate that it may take time for the bank to turn its losses into profits each year, or that other variables may be at play and that advertisement alone may not promote Islamic Banking.

Opinion of Employees

The responses gained through questionnaire were evaluated using the central tendency test of arithmetic mean and frequency, where the average value of each questionnaire factor was computed and studied. The questionnaire presented to the bank employees was based using Likert scaling technique. The data was gathered from the 50 respondents. We are dividing our research analysis into 3 sections; First section consists of the questions like importance of Islamic banking and how it is perceived by the customers. Upon analyzing the responses from SPSS the results showed that the Islamic banking is perceived as one of the most viable option as majority of the respondents agreed towards it with the riba prohibition being the major attraction for this. In our next section the respondents were asked if they promote their products and services on different platforms. It was also asked if their advertisement attracts customers, making them fully aware of

the services and products being provided by the bank. The majority of respondents showed positive response regarding this

Table: 1 Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Islamic Banking is Perceived as a viable alternative to conventional banking	50	1	5	3.24	1.422
Riba prohibition attracts Muslims to Islamic Banking	50	1	5	3.14	1.325
Product and services by our bank is promoted on different platforms	50	1	5	3.22	1.329
Customers are fully aware about the product & services provided in our bank	50	1	5	3.28	1.230
Advertisements captures the attention of customer.	50	1	5	3.20	1.212
Advertisement boosts Islamic Banks growth	50	1	5	3.14	1.161
Seminars helps to promotes Islamic banking and its products	50	1	5	3.18	1.190
Effective promotional strategies helps to reach potential customers	50	1	5	3.34	1.206
Advertisements are the easiest way to inform about new bank offers	50	1	5	3.34	1.303
Profits depend heavily on promotional efforts	50	1	5	3.54	1.297
Usage of islamic banking products by individuals & corporate sector has increased due to advertisement, seminars & other promotional activities	50	1	5	3.54	1.265
Valid N (listwise)	50				

In the third section the findings from the survey of Islamic banking employees shows that the significant number of employees agreed with the fact that advertisements boosts Islamic banking growth. Around 38% of employees agreed with the advertisements being the growth factor while 16% disagreed with it. Furthermore it was also recorded that advertisements are

the most easiest way to inform customer about new bank offers with 38% employees agreeing with it.

The study supports the idea that effective promotional strategies helps reaching to potential customers, also the significant number of employees showed positive response on the usage of Islamic banking products and services are being relatively increased both by individuals and corporate sector with the help of promotional activities like advertisements and seminars. As for the main purpose for this research which was to determine the importance and at what extent does the promotional efforts effects profitability of Islamic banks, for this the responses were that 36%

employees agreed that profits are heavily depending on the promotional efforts done by the bank while 14% disagreed with this fact all explained in table 1. The mean and standard deviation calculations further corroborate the study's hypothesis and demonstrate the validity of the collected data. The study's findings, based on the responses of employees from Islamic banks, confirm the hypothesis that advertising and promotional efforts plays an important role in the growth of Islamic banks, which also affects profitability. The results demonstrate a positive correlation between advertising and promotion with profitability and growth of Islamic banks. The clustering of the data around the mean provides significant support for the hypothesis and demonstrates the data's reliability. To add further frequency distribution tables will summarize all data, which aids in identifying the frequency of responses and how they appear whether more or less frequently.

Table: 2 Frequency Distribution

Table 2.1

Product and services by our bank is promoted on different platforms

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	8	16.0	16.0	16.0
Disagree	8	16.0	16.0	32.0
Neutral	6	12.0	12.0	44.0
Agree	21	42.0	42.0	86.0
Strongly Agree	7	14.0	14.0	100.0
Total	50	100.0	100.0	

Table 2.2

The usage of islamic banking products by individuals has increased due to advertisement.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	5	10.0	10.0	10.0
Disagree	7	14.0	14.0	24.0
Neutral	5	10.0	10.0	34.0
Agree	22	44.0	44.0	78.0
Strongly Agree	11	22.0	22.0	100.0
Total	50	100.0	100.0	

Table 2.3

Advertisement boosts Islamic Banks growth

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	6	12.0	12.0	12.0
Disagree	8	16.0	16.0	28.0
Neutral	13	26.0	26.0	54.0
Agree	19	38.0	38.0	92.0
Strongly Agree	4	8.0	8.0	100.0
Total	50	100.0	100.0	

Table 2.4

The usage of islamic banking products By corporate sector has increased due to seminars and other promotional activities

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	4	8.0	8.0	8.0
Disagree	12	24.0	24.0	32.0
Neutral	7	14.0	14.0	46.0
Agree	18	36.0	36.0	82.0
Strongly Agree	9	18.0	18.0	100.0
Total	50	100.0	100.0	

Table 2.5

Advertisements are the easiest way to inform about new bank offers

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	7	14.0	14.0	14.0
Disagree	6	12.0	12.0	26.0
Neutral	9	18.0	18.0	44.0
Agree	19	38.0	38.0	82.0
Strongly Agree	9	18.0	18.0	100.0
Total	50	100.0	100.0	

Table 2.6

Profits depend heavily on promotional efforts

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	5	10.0	10.0	10.0
Disagree	7	14.0	14.0	24.0
Neutral	7	14.0	14.0	38.0
Agree	18	36.0	36.0	74.0
Strongly Agree	13	26.0	26.0	100.0
Total	50	100.0	100.0	

Opinion of Management

In an interview to the manager in Islamic Bank, we learnt that the bank considers advertisement and promotion a vital tool for the bank to promote new services and products. The banks also look at new ways they can promote every new product that they launch. We also learnt that other than marketing techniques, Islamic Banks in Pakistan also rely on relevant mediums like social media and TV commercials to bring light to their new products to customers. In addition, the manager also emphasized how the modern Islamic Banks in Pakistan are not solely made for Muslims, as the services provided offer the same if not all benefits and features that a commercial bank has to offer. Lastly, The bank also highlighted that advertisement and promotion is just one aspect that helps in the growth of Islamic banking, where in their opinion, customer relation is also key in when it comes to retaining customers in the long run.

Conclusion

The primary goal of this research is to establish whether or not advertising and promotion has a major impact on the growth of Islamic Bank of Pakistan during the past decade. Data from both

primary and secondary sources were analyzed to determine the reliability of each variable. Both questionnaires and in-person interviews were utilized to collect primary data, while a selection of yearly reports from the past ten years and a variety of scholarly articles were reviewed to provide context for the study's findings.

The survey's results show that respondents ranked advertising as a highly significant factor for the growth of Islamic banks, suggesting that banks should give more weight to this variable in the future when devising strategies to increase their profitability as it is the easiest way to inform customers about offers. The evaluation was done by the Mean along with FDT (frequency distribution table). The research indicated that the hypothesis was accepted based on the primary and secondary data collected, since advertising does play a significant influence in the growth. This research aims to help Pakistani Islamic banks expand, develop, and perform better by identifying areas for improvement in advertising and adopting characteristics that may be employed in campaigns.

Recommendations

To keep growing more, Islamic banks should work on awareness of their product and services and educate customers regarding the mechanisms involved in it. The rapid development in digitalization necessitates the development of fresh promotional approaches and methods. In order to maintain customers trust in bank, its image and accountability, the banks should put immense efforts across all digital platforms. Furthermore, Islamic Banking should not be limited to Muslim customers only. The banks should highlight this important fact that its available for people related to any religious or ethnic background. It can be done with the help of different marketing campaigns. And lastly Islamic Banks should also work on their personnel by training and educating them as they are the bank ambassadors leaving lasting image by their exceptional services.

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