
Improvement of Critical Factors in Brand Development by Islamic Banking using QFD Model (Case study: Pasargad Bank, Kish Island Branch)

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ABSTRACT

When there is no alternative for banking services, the customer, to make comparison, tend to use what they have available such as image or brand of the bank to decide for investment. Value equity is one of the most known and critical concepts of marketing, which is now one of the ongoing debates among the researchers and scholars. The strategic role of the value in making managerial decisions and achieving competitive advantages explains its gravity. Brand equity enables the companies to charge higher prices for their products without losing their market share. On the other hand, development of Islamic banking in non-Muslim countries entails determining the critical issues regarding brand development in the domestic environment of the target company. Success at national level paves the way toward development of Islamic banking in the world. The present study is designed in three stages including identifying the weight of the indices of brand equity. The indices were ranked under 4 key aspects of perceived quality, loyalty, information, and brand association. At the second stage, the status of each one of the aspects, from the customer's viewpoint, was determined; in this way, the key indices with unacceptable status were determined. A new aspect "Islamic business morals" was added to the study based on consultations with the experts. The new aspect encompasses 6 indices, which were added to the research model. The new aspect represents the role of Islam in the model. At the last stage, QFD model and deep computation method were used to propose improvement strategies for the indices. The strategies are supposed to result in competitive advantages in long-run for Islamic banking using brand development at international level. Totally, ten improvement strategies were recognized and among them "participation in public charity works" was of the highest priority.

Keywords: Islamic banking, Brand equity, QFD model.

Introduction

Banking industry is one the highly complicated, widely expanded, and vital industries in the world, as currently, economic activities are not feasible without the support of banking system. This hints the

necessity to employ all traditional and novel facilities, including brand management, for further development in banking industry. Given the growth of international investment and status of global economy, it

is clear that all business activities are dependent to the guarantees provided by the banking industry. The role of the banking industry, economically speaking, is evident in the role of the banks as an investment institute that supports economic growth. The banks reduce uncertainty, create job security, and guarantee future income, improvement of welfare, preservation of national wealth, development of investment, and credit. Brand, nowadays, is an integral part of marketing strategy and brand marketing is a centerpiece of the business. Brand equity usually is about mental image and perception of a functional concept that attracts the customer (Hodovic et al. 2011). A brand is characterized with power when it affects the behavior of the customer so that choosing a brand becomes a routine purchase behavior. Brand equity enables the organization to set higher prices for the product without losing its market share (Karakaya and Barnes, 2010).

Several researchers, including Ewing et al. (2010) have maintained that brand equity results in more efficient marketing programming and improves customer's loyalty to the brand; as such, it also lessens costs of promotional activities and through brand development further development and growth of the business is achieved. Furthermore, several studies have shown that actual value is not intrinsic quality of product or services but rather it is a mental image possessed by the customer; so that actual value is created by brand in the mind of the customer (Koh et al., 2009). With intensification of competition in the business world and globalization of business, necessity to gain a place in the mind of the customer is undeniable in all business of whatever nature. The multinationals have created unique mental image in their customer's mind via brand equity. Brand in marketing is the starting point of distinguishing new products and services and already available products and services

and it plays a key role in success of organizations (Veloutsou and Moutinho, 2009). Indeed a well-known brand and its equity represent price difference between strong and average brands. The equity is source of such immense advantages for the organizations that, according to Interbrand Institutes, value of top 10 brand in the world hit 422 billion dollars in 2010 (Hodovice et al., 2011). Researches on top 100 brands in the world revealed that leading brands tend to use modern marketing instead of traditional methods. A notable feature of modern marketing is its focus on creating brand equity for the business and its novel interpretations of a brand with emphasis on its distinguishing features in the international markets. Under the modern marketing approach, the brand has as much economic structure as it has social structure (Helm et al., 2009). Knowing that brand is the centerpiece of marketing relationships and that, the challenges of advertisement are mainly rooted in brand strategy, it is necessary for the businesses to pay special attention to brand equity. In this way, a powerful and valuable brand can be the most valuable asset of an institute; such brand brings in more profit margins, international cooperation channel, distinguishable prices and demand for the business. Therefore, the business can enjoy success and stable competitive advantages in the highly competitive business world of today. As a novel phenomenon, there are not many studies on brand equity. So that one can say that there is an absent of consensus regarding how to create and measure brand equity in a business and what are the structures to be taken into account in the measurement (Grevser, 2009). Unfortunately, there are few studies on brand and brand equity in Iran. Given the importance of brand development and generating brand equity, it is not exaggeration to say that success of national economy and commerce depends on recognition of the sources of creating brand

equity. The businesses are needed to direct their resources (marketing, human, financial, and so on) toward developing their brand with brand equity at international level. Another point that hints necessity of the present study is its aim to improve critical factors in brand equity of Islamic banking industry. By accepting that as a model of Islamic societies, Islamic countries may undertake a key role in introducing religious factors to other countries, the first step, therefore, is to recognize the critical factors and this is aim of the present study.

Methodology

The study was conducted on Bank Pasargad and thus the type of the research, based on its purpose, is applied. Regarding data

collecting method the study is a descriptive work classified as survey (analytical) study. Taking into account the goals and the nature of the study, questionnaire was the best way for collecting the required data. To this end, a questionnaire covering the four indices of including brand equity (figure 4) was used (Atilgan et al., 2005). Factor weight of the indices and effectiveness of the aspects were determined in Lisrel; then the critical factors were adopted based on importance and performance. These factors were used as input to quality performance development model. A new aspect "Islamic business morals" was also added to the model based on consultation with the expert. The new aspect represents the role of Islam in the model.

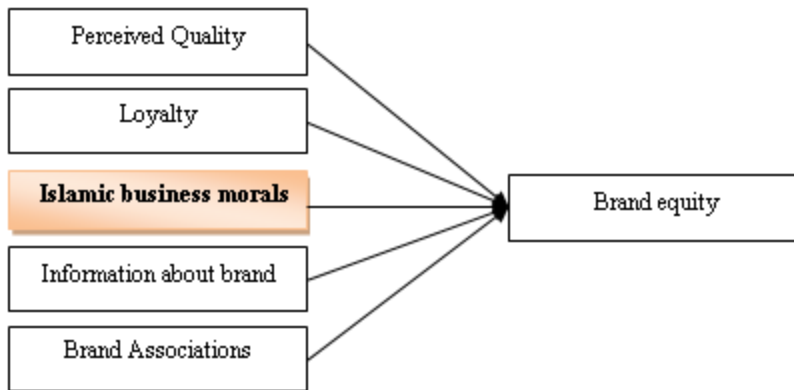


Figure 1. Aspects of brand equity with the new aspect (Atilgan et al., 2005)

The statistic population was comprised of all customers of Bank Parsian, Kish Island in a one month period. The sample group was obtained using sampling in limited society formula.

$$n = \frac{Z_{\alpha/2}^2 \delta_x^2}{\epsilon^2} n = \frac{(1.96)^2 \times 0.034}{0.05^2} = 52$$

A pilot sampling was first conducted to obtain standard deviation of the society. In doing so, the questionnaire was distributed among 30 customers of the bank and the standard deviation was obtained 0.034. With this, maximum sample group size was

obtained 52 individuals at error level of 5%. Totally, 74 questionnaires were returned completed and used as the basis of analyses. Validity and reliability are needed to be ascertained before conducting any data analysis. Although the questionnaire had been used in several studies, reliability and validity of the questionnaire were rechecked considering the new environment that the study was conducted in.

Table 1. KMO and Bartlett tests on the indices of brand equity questionnaire

KMO Coefficient	0.724
Bartlett test	Df 921 Sig. 0.000

Table 2. Cronbach’s alpha (reliability of the questionnaire) for brand equity questionnaire

Question	Is the questionnaire is reliable?	
Hypotheses	H ₀	The questionnaire is reliable.
	H ₁	The questionnaire is not reliable.
Statistic hypotheses	H ₀	$H_0 : Alpha \geq 0.65$
	H ₁	$H_1 : Alpha < 0.65$

		N	%
Cases	Valid	74	100.0
	Excluded(a)	0	0
	Total	74	100.0

a Listwise deletion based on all variables in the procedure.

Cronbach's Alpha	N of Items
.772	32

With Cronbach’s alpha equal with 0.772 (>0.65), H₀ is supported and thus the questionnaire is reliable.

Table 3. Average factor weight of brand equity aspect

Aspect	Factor weight
Perceived quality	0.763
Loyalty to brand	0.646
Information	0.835
Brand association	0.811
Islamic business morals	0.714

None of the indices of the questionnaire were removed after factor analysis. As listed in Table 1, sampling adequacy test showed acceptable reliability at 0.724. As the next step, effect of the four key aspects on brand equity must be ascertained. To this end, two methods were followed; first, effect of the aspects were confirmed using Student’s t-test and then, level of such effects were measured using Lisrel software. A hypothesis was defined for each aspects (5 hypotheses). As an example, the hypothesis of the first aspect is explained below:

Hypothesis 1- The factors of quality have significant effect of brand equity in Islamic banking.

$H_0 : \mu \leq 3$ The factors of quality have significant effect of brand equity in Islamic banking.

$H_1 : \mu > 3$ The factors of quality have significant effect of brand equity in Islamic banking.

To test the hypothesis and given that Likert’s 5-point scale has been used, the mean point was set at 3.

The hypothesis and other similar hypotheses were tested using T-test. (Table 4)

Table 4. T-test on hypothesis 1

One-Sample Test						
Test Value = 3						
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Factor 1	9.397	73	.000	1.25000	.9834	1.5166

Table 5. T-test on the hypothesis of loyalty

One-Sample Test						
Test Value = 3						
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Factor 2	5.857	73	.000	.75000	.4934	1.0066

Table 6. T-test on the hypothesis of information

One-Sample Test						
Test Value = 3						
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Factor 3	13.654	73	.000	1.42857	1.2189	1.6382

Table 7. T-test on the hypothesis of brand association

One-Sample Test						
Test Value = 3						
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Factor 4	14.021	73	.000	1.35714	1.1632	1.5511

Table 8. T-test on the hypothesis of Islamic business morals

One-Sample Test						
Test Value = 3						
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Factor 5	7.128	73	.000	.78571	.5648	1.0066

The sig. level, upper level, and lower lever need to be taken into account in analyzing the data in the tables above. For instance, regarding Islamic business morals, the sig = 0.000. This means that “Islamic business morals” is one of the effective indices on Islamic banking brand equity. The test rejected H_0 and supported H_1 . Upper and lower limits in the table above must be analyzed as follows:

1. When upper and lower limits both are positive, the mean is bigger than tested value. (the test value here is 3);
2. When upper and lower limits both are negative, the mean is less than the tested value.

3. When the upper limit is negative and the upper limit is positive, the mean is not significantly different from the tested value. Evidently, all the five main aspects have sig. level less than 0.05 with upper and lower limits both positive; which means the aspects are significantly effective. To have more accurate results and given that the new aspect (Islamic business moral) is added to the questionnaire for the first time, the effectiveness of the indices needs to be determined accurately using Lisrel software. (Figure 2).

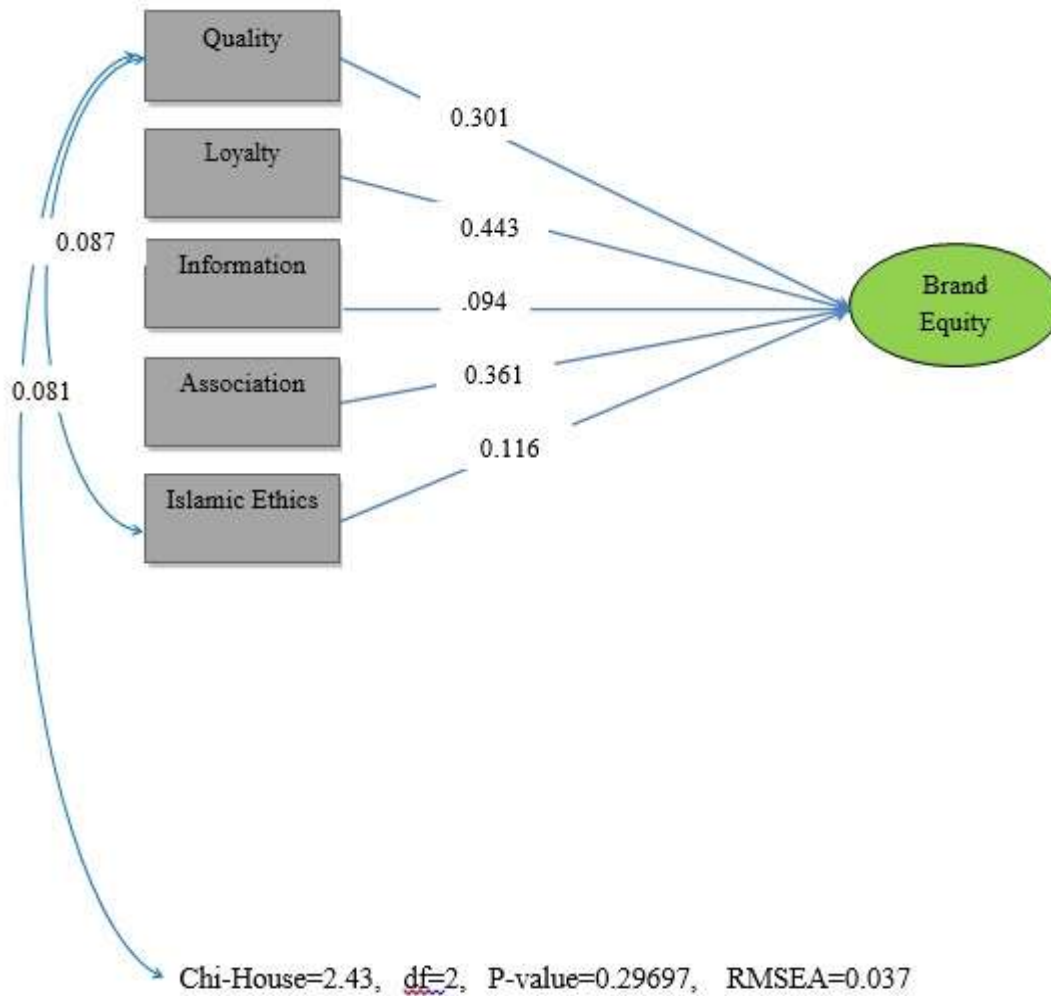


Figure 2. Structural equations and effectiveness of the aspects on Lisrel

As pictured in the diagram, all the aspects are effective on brand equity with high fitness level and as the relations between the aspects show, the relation between the quality and Islamic business moral is noticeable. At any rate, the direction of the effect is not determined in the software. Thus far, we showed that all the aspects are effective; here, gap analysis test is used to evaluate the status of the index. Using the data from the questionnaire, current and optimum status of the aspects with gap are determined for which improvement strategies are proposed in what follows. Pathology of the gap between expectation and perception regarding the five aspects of brand equity increases the probably of finding the root of the gap in misunderstanding on the part of the authorities. To show this, Wilcoxon's non-parametric test was used. The test is recommended to assess similarities between two dependent samples of rank scale. Moreover, McNemartest, which is prescribed for past and future plans (a sample in two

different conditions) or for two samples of one society was used. The test measures differences between ranks. Thus, the variables may result in different answers and/or distances. The test corresponds to two-sample t-test and it is used when the requirement of the latters are not met. The reason that non-parametric tests are used here is that the data distribution is not normal as the result of Kolmogrov Smirnov (KS) showed. It is noticeable that the sample used in Wilcoxon test must be paired to their other characteristics. To this end, some hypotheses were proposed regarding brand equity.

H0: There is no significant relationship between expectations and perceptions of the customer of Bank Pasargad regarding brand equity.

H1: There is a significant relationship between expectations and perceptions of the customer of Bank Pasargad regarding brand equity.

Table 9. Wilcoxon test on the variables

		Ranks		
		N	Mean Rank	Sum of Ranks
VAR00002 – VAR00001	Negative Ranks	43 ^a	38.62	1660.50
	Positive Ranks	27 ^b	30.54	824.50
	Ties	41 ^c		
	Total	111		

a. VAR00002 < VAR00001

b. VAR00002 > VAR00001

c. VAR00002 = VAR00001

Test Statistics ^b	
	VAR00002 VAR00001
Z	-2.598 ^a
Asymp. Sig. (2-tailed)	.083

Given that sig.>0.5, Bank Pasargad, in short, does not have proper perception of its customer's expectation. The Wilcoxon test

was repeated for all the aspects to obtain the inputs of quality house. In this way, the

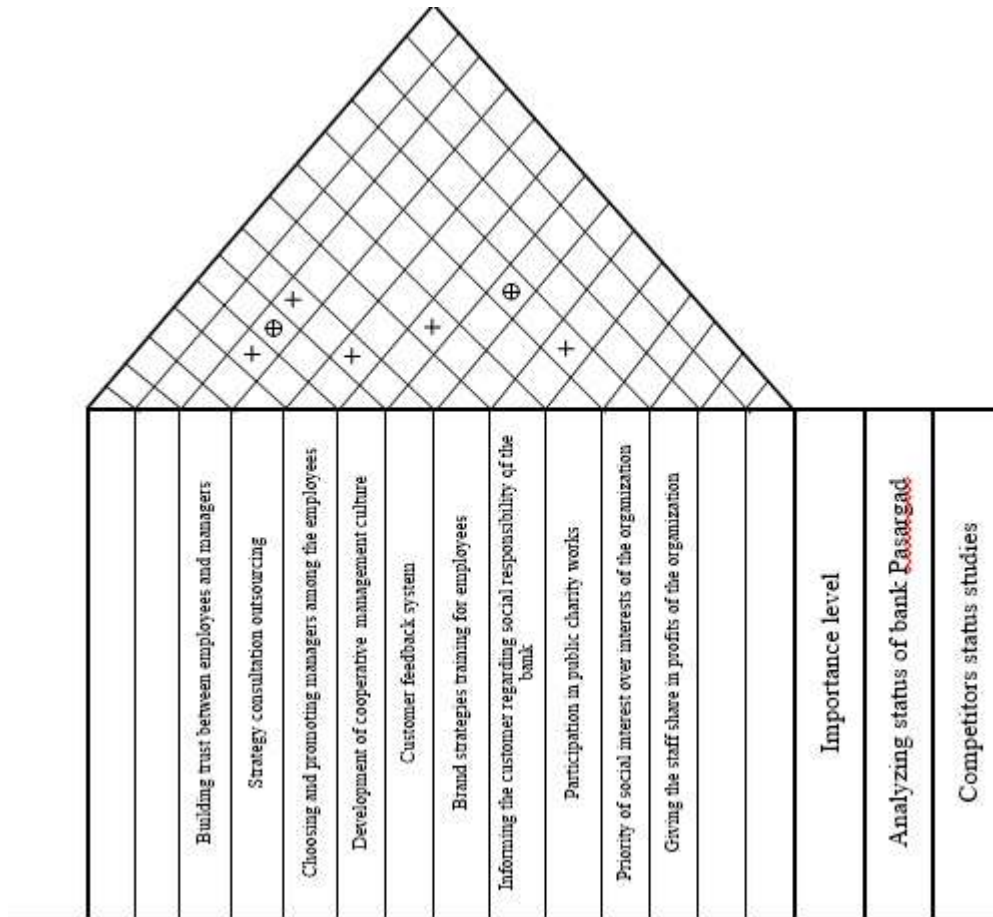
aspects with poor status were adopted as input to the quality house.

Table 10. Wilcoxon test on each one of the aspect

Aspects	Perceived quality	Loyalty	Information	Brand association	Islamic Business morals
Z	-1.217	-2.053	-2.816	-1.187	-1.918
Asymp. Sig. (2-tailed)	.114	.072	.058	.241	.093

Given the level of error of the test (5%), the sig. level conveys that regarding all the aspects, there is a significant gap between expectation and perception. It is noticeable that, this result is common in gap analysis as usually expectations are more than perception. As the next step, using QFD model, strategies for further improvement

are proposed for each one of the five aspects of brand equity. The strategies were designed based on detailed interview with six professors of management in Kish Island Campus, University of Tehran. All the scores assigned to the quality house are based on these interviews.



Perceived quality			9	3	1	9	9	9	9	9	3	9			4.1	2.9	1.9
Loyalty			3	3	3			1	1	3	3	3			3.9	1.6	3.2
Information			9	3	9		1	9	9	9	9	9			4.8	3.2	2.1
Brand association			1	3	1			3	1	9	9	3			3.1	1.2	2.4
Islamic business moral			3	3		9	9	3	9	9	9	1			2.9	1.3	3.1
Hardship of meeting the goals			3.5	4.5	2.4	1.5	2.9	4.2	4.7	2.1	3.2	4.6					
Cost of meeting the goals			2.3	1.8	2.1	1.2	1.6	2.2	3.9	1.5	2.1	2.4					
Status of the organization			1.2	2.7	1.1	1.4	3.2	1.3	1.3	2.7	2.8	1.3					
Status of the competitors			2.7	2.3	2.4	3.6	2.6	1.9	2.6	2.7	2.7	2.4					
Definite weight			107	56	62	63	68	102	113	146	121	104			942		
Relative weight (%)			11	6	7	7	7	11	12	15	13	11			100%		

Figure 3. Quality of house of converting brand equity aspects into improvement strategies

Conclusion

Two key goals were sought after in this study. One was to test the aspect “Islamic business morals” in comparison with the standard aspects of brand equity; and the statistical tests results confirmed the aspect. Another goal was to propose operational strategies to improve brand equity in Bank Pasargad. The 10 proposed strategies are listed in diagram 3.

As pictured in the diagram, the first stage toward improvement of the brand was to determine inputs of quality house; as mentioned, the five aspects of brand equity were adopted as the inputs.

Stage one: determining the factors in improvement of 5 input aspects: based on consultation with the experts (six university professors, Kish Island Campus, University of Tehran) ten functional indices (building trust between the employees and the management, strategic consultation outsourcing, choosing and promoting managers among the employee, development of cooperative management culture, customers’ feedback system, brand strategy training for the employees, information the customers about social responsibility of the organization, participation in public charity works, priority of the society’s interest over organization’s interests, giving the

employees a share in profit of the company0) were listed.

Stage two: ceiling of quality house: mutual effectiveness of the 10 indices was measured in this stage. The indices are removed when the two or more indices have negative effect on each other. Based on consultations with the experts no negative effect was observed (+ stands for highly positive effect and “+” stands for low positive effect).

Stage three: level of importance: the experts were asked to assign a score between 1 (very low) to 5 (very high) to each of the five aspects. In addition, the status of the Bank in comparison with its competitors was determined based on this scoring. We found that the status of the bank, except for two aspects, is better than that of its competitors. It is noticeable that by “competitors” the experts thought about Iran’s banking industry as a whole.

Stage four: Matrix of effects: the middle matrix in the house of quality represents the effect of each one of the 10 indicators on the 5 aspects (9 = highly effective, 3 moderately effective, 1 lowly effective, and empty houses = no effect).

Stage five: weights: below the quality house the hardship of realization of the 10 strategies, the costs, and status of the organization and the rival are listed. The figures are based on 5-point scale. In addition, the bank has outperformed its rival

regarding three indicators and is at the same level regarding another indicator. Therefore, the other six strategies must be dealt first. To prioritize the strategies, the hardship and costs of the strategies must be taken into account. Implementation of the strategies in Bank Pasargad and the banks in other Islamic countries can improve competitiveness of the banks at regional and international level as they may improve brand equity as well.

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