



## The Risk of Notoriety in Islamic Banks

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Received Date: 20/4/2019

Accepted Date: 19/8/2019

**Abstract:** In this paper, we demonstrate the importance of the risk of notoriety for Islamic banking, in addition to other financial and non-financial risks. We present the results of a survey carried out targeting the active population of the city of Rabat in Morocco, which main objective is to detect the most decisive criteria that a consumer can adopt in order to form a perception on an Islamic bank. We also focus on the compliance variable to Islamic Sharia because it is directly related to the specificity of Islamic banking, which is conformity with the laws of Islam.

**Keywords:** Islamic bank; reputation; image; compliance.



### 1. Introduction

Throughout the world, Islamic financial institutions have been able to conquer significant market shares and position themselves as strong and leading competitors against their conventional counterparts in the financial sector. This positioning is believed to be the result of a set of policies and strategies that have been designed to create targets in a market characterized by a high degree of saturation and a fierce competition. In order to maintain and strengthen their position in the financial sector, Islamic banks ought to pay significant attention to the study of notoriety. The latter can be defined as the level of knowledge that an individual has of a company, a brand, a product, a service or a person. It is consumer's awareness of a brand that includes positive aspects, negative ones or a combination of both. Although Islamic banks have been increasing their presence in the financial market in Morocco, their perception by Moroccan consumers remains ambiguous. Hence, these institutions will continuously find themselves in the obligation to carry out extensive market research to reveal the underlying behavioral patterns of the prospective target consumers and adjust their various strategies in order to achieve the highest levels of satisfaction.

#### • The concept of notoriety in the banking sector

##### 1. Concept of notoriety

Notoriety can be defined as the measurement of the level of awareness by consumers of a particular brand, product or service. In other words, notoriety is the public's knowledge of a brand. It refers to the identity of a product or a service as measured by the reputation, the brand or the brand image of the company<sup>1</sup>.

<sup>1</sup> Lewi george (2003) « Les marques mythologies du quotidien » Edition village moyen

### 1.1. The reputation

Reputation is an opinion; an appreciation and a positive or negative perception consumer has of a particular person, product, service, institution or event<sup>2</sup>. Accordingly, the reputation of a bank can be defined as the perception of its qualities that are likely to create confidence or distrust in the eyes of the public.

Reputation is therefore a social construct that stems from the beliefs and conception held by individuals. Reputation has become a significant economic variable, seen today by companies as an intangible asset, particularly relevant to the objectives and values of the organization. If it were to be assigned a book value, we could estimate it by the difference between the value of the shares on the market from which we would remove all tangible physical and immaterial assets immediately.

### 1.2. The brand

A brand is a sign or a set of distinctive signs (e.g. name, logo) that creates value for the institution and which is recognizable by consumers<sup>3</sup>. In other words, the brand expresses diverse properties and qualities including value and know-how, expertise and history as well as commitment and guarantee, all of which contribute to improving consumer decision-making.

### 1.3. Branding

Branding is a value's judgment of an individual or a group of individuals about a particular brand. It can be defined as the set of mental representations, evocations and associations related to a company by an individual or a group<sup>4</sup>. This image comes in three different ways:

- The desired image: The brand defines the positioning to adjust the perceived image to its target.
- The perceived image: The image as perceived by the target of the brand.
- The real image: The actual image that the brand possesses.

## 2. The types of notoriety

We distinguish three levels of notoriety: spontaneous notoriety, notoriety assisted and the top of mind<sup>5</sup>.

### 2.1. The spontaneous notoriety

Spontaneous notoriety can be operationalized as the percentage of people who can spontaneously name the brand name when referring to the sector of activity or the segment of the brand in a given population, while the spontaneous awareness rate is the percentage of people who spontaneously mention a brand. The increase of spontaneous awareness points out the effectiveness of advertising investments.

### 2.2. Assisted awareness

Respondents to the above awareness are given a brand list and then asked to indicate the brands they recognize. The rate of awareness is thus defined as the percentage of people who say they know a brand presented in a list or mentioned by the investigator.

### 2.3. Top of Mind Awareness

Top of mind awareness refers to the reputation of first rate. This means the number of times a brand is mentioned in the first place in spontaneous awareness. In a broader sense, the fact that a brand is in the top of mind simply means that it is among the brands that naturally come to the

<sup>2</sup> SMAZIENE I. et JUCEVICIUS R. (2009) « Corporate Reputation : Multidisciplinary Richness and Search for a Relevant Definition, Commerce of Engineering Decisions » p. 91- 100

<sup>3</sup> DOUGLAS B. HOLT (2002) Brands and Branding - Harvard Business School Publishing p. 4-5

<sup>4</sup> DOUGLAS B. HOLT (2002) Brands and Branding - Harvard Business School Publishing p. 4-5

<sup>5</sup> LENDREVIE, LEVY et LINDON, (2003) Mercator, Dalloz

consumer's mind when asked a question or in the context of making a purchase. For big brands, the presence in top of mind is obtained often through the mass media.

The top of mind awareness rate is measured as the percentage of people who spontaneously mention the brand first.

### 3. The pillars of notoriety

The reputation of an organization stipulates a set of determinants. These include:

- Differentiation: Presenting a different concept from what other competitors do.
- Positioning: Targeting a potential client base representing particular characteristics.
- Added value: Convincing individuals of a product's added value, service or process compared to competing offers.
- Governance: Openness and transparency of the company, business ethics.
- Citizenship: Social and environmental responsibility of the entity.
- Employment: fair and equitable remuneration contributing to the well-being of employees.
- Innovation: capacity of innovation and the ability to adapt to market's changes.
- Leadership: credibility and charisma of leaders, quality of management and a clear vision of the future.

### • The risk of notoriety

#### 1. Definition

The risk of reputation or notoriety can be defined as the probable loss that an institution may suffer as a result of a negative impact on its image vis-à-vis its clients<sup>6</sup>. Its importance for any organization is paramount because the image represents one of the most essential assets that any structure must have. Unlike the other risks that the company faces in carrying out its activity and that generally have an impact on specific aspects of its business, the risk of notoriety can have serious consequences on all the business lines. Its complexity lies in the difficulty encountered during its evaluation and measurement. This shows that risk is closely related to thoughts and beliefs rooted in the subconscious mind of a target customer. Companies in any business sector often seem to overestimate reputational risk with respect to the costs and benefits generated. The reputation is built over many years and can sometimes be destroyed in a short period of time, but not systematically. Reputational risk, like any type of risk, can be seen as both an opportunity and vulnerability.

#### 2. The risk of notoriety in the banking sector

The risk of notoriety began to increasingly have more importance in the banking sector particularly with the advent of the world financial crisis of 2008. Banking institutions were the main actors responsible for triggering the crisis. As a result, all banks have started giving special importance to the reputation component and have begun investing substantially to improve their image in the face of negative perceptions of banking customers. However, the reputational risk is extremely sensitive in the case of financial institutions including banks since it is generally related to loss of investment capital which in return leads to a further decline in the profits made by the investing company. Despite its considerable importance, the reputational risk is still in the process of being discovered in a sense because our research seems to indicate that it is neglected in the Basel conventions. The latter only recognizes the operational risk dependent on human or material errors. The gravity of this risk lies in the strong correlation between the latter and other types of risk (e.g. credit, liquidity, market-related risks), but also in the complexity of quantifying it in order to be able to measure and evaluate it, because it is essentially based on the image retraced by customers of their bank or the services it provides.

In the context of conventional banking, several measures have been undertaken to facilitate the apprehension of reputation, namely, the establishment of dedicated administrative cells to map out banking marketing strategies to conduct surveys and customer satisfaction surveys. Additionally,

<sup>6</sup> Defining and managing reputation risk-A framework for risk managers-AIRMIC-Guide 2015

the implementation of old information in order to monitor the practices of competitors and adapt to the needs and requirements of the market. Nevertheless, the reputational risk is more complex in the case of Islamic banking. The latter represents a subset of ethical finance. As a result, several parameters have to be taken into consideration, in particular the conformity of the services of this type of bank with the precepts of Islamic law. It is this issue that was the subject of our survey on the active population of one of the most targeted cities by the sector of participatory finance due to its social and economic importance in the kingdom.

### • General Presentation of the survey

The risk of notoriety is one of the most strategic risks that financial institutions should apprehend and control. Better still, as participative banks have only been recently present on the Moroccan banking sector, they have been quite encouraged to identify (recommended) their position for a better understanding of their perception in the mind of Moroccan consumers' vis-à-vis the conventional banks benefiting from an increasing dominance of the market and by an important history of existence. This study, conducted having as respondents potential clients of the Moroccan participative banks, aims to reveal the extent of the risk of notoriety and also defines the determinants of this risk as conceived by members of the population surveyed.

#### 1. The general context of the investigation

This survey was conducted to apprehend the risk of notoriety in the participating bank launching phase in the Moroccan banking sector. Several debates have been held to better position this ethical institution against its classical competitor and several issues have been formulated in order to clarify the ambiguity that it represents in the mind of Moroccan consumers. The present survey fits in with the same approach and makes it possible to make a contribution towards a better definition of the concept of participative banks among the respondents.

#### 2. The objectives of the investigation

This survey was conducted with the objective of revealing the importance of one of the risks incurred by Islamic banks, namely the risk of notoriety, illustrated by the Moroccan experience which is marked by the very recent launch of Islamic banks called participatory banks. Through the realization of our survey, we set the following objectives:

- Determine the importance of the risk of notoriety in participative banks.
- Raise the position occupied by participative banks in the eyes of Moroccan consumers.
- Detect the explanatory variables of the participative banks awareness' among the potential Moroccan clients.
- Measure the degree of involvement of compliance with Islamic Sharia Law in the shaping of such notoriety.
- Evaluate the attractiveness of participative banking's offers at the latter.

#### 3. The research hypotheses

The survey on the risk of notoriety in the Moroccan participative banks was preceded by the questioning of a set of well-formulated hypothesis, namely:

- The Moroccan customer's perception of the participative bank is marked by a considerable ambiguity requiring the adaptation of the strategies carried out in order to reach a maximal satisfaction.
- The risk of notoriety is one of the most important risks for the participative bank.
- The constraint of abiding by Islamic Sharia Laws is one of the main variables explaining this risk.

#### 4. Research Methodology

The survey was conducted according to an appropriate research methodology through the following steps:

##### 4.1. The target population

The survey was conducted on active population of the city of Rabat which is considered as one of the leading cities in the launch of participative banking products in Morocco. The choice of active consumers is explained by their representativeness as potential customers of the bank.

The overall size of the target population was determined on the basis of the latest census report published by the HCP in 2014.

#### 4.2. Sample selection

The sample was selected using the quota method. An online sample calculation application was used to define a sample size of 316 people with a margin of error of 5% and a 95% confidence level.

#### 4.3. Design of the questionnaire

The questionnaire designed to conduct this survey consists of a set of sections based on the assumptions initially made each encompassing a set of multiple-choice questions. These are the three main sections and fourteen questions:

- A first identification section to provide information about respondents.
- A second section concerning the position of the respondent in relation to conventional banks.
- A final focus on the perception of participative banks in the eyes of the Moroccan consumer.

#### 4.4. Administration of the survey

The questionnaire was distributed directly to the respondents. The choice of this administration technique has the following advantages:

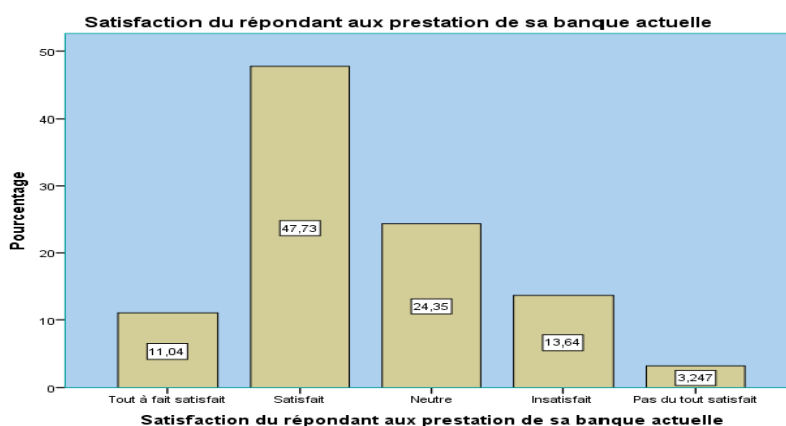
- Better assurance against the criteria of respondents answering the questions.
- Possibility to clarify questions that may not be understood or presented with ambiguities for the respondents.
- Rapidity of the feedback from the respondents.
- Collection of additional information during the discussions with the respondents.

#### 4.5. Data processing and analysis

The data collected was processed and analyzed by the SPSS Statistics 20 software. It is software specially designed for statistical analysis in social sciences. It means Statistical Package for Social Sciences. SPSS is dedicated to statistical processing of data and includes several modules (e.g. Basic System, Regression Models, Advanced Models, Tables, and Exact Tests).

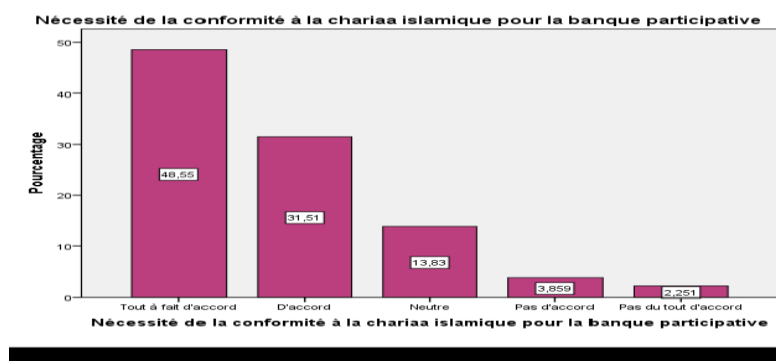
## 2. Analysis of results

The results of the survey allowed us to make several conclusions about the composition as well as the importance of the risk of notoriety in participative banks in Morocco. First of all, it should be noted that despite the dominance of their conventional competitors, participative banks have access to a very broad market, giving the high dissatisfaction level expressed by the current customers from their classical competitors. This represents important market shares to acquire and target for participative banks by offering products well suited to the needs of customers looking for alternatives and new benefits that meet their needs.

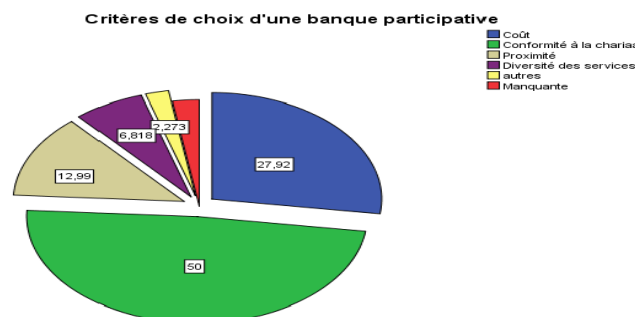


Participatory banks must therefore conduct more satisfaction surveys and behavioral studies of Moroccan customers using banking services in order to reframe their strategies and policies according to the eventual results.

The risk of notoriety must occupy a primordial position in the strategy adopted by participative banks, along with the other types of risk threatening their sustainability. This risk is even more complex in the case of a bank offering a new category of benefits based primarily on the respect of Islamic laws. Other parameters than those defining the reputation of the classic bank are therefore to be considered for the survey's respondents. Since participatory banks are more oriented towards a client target that requires an acceptable level of conformity of the services presented to Islamic Sharia law, they must in principle guarantee maximum exchange and communication with their partners in order to make their image unambiguous. However, it should be noted that despite the official consent of the CSO (Higher Council of Ulemas - HCU) on the contracts carried by Moroccan participatory banks, the obscurity of this statement remains very present among the Moroccan consumer. It is then necessary to ask about the communication efforts undertaken by banks in terms of flow and efficiency as well.



The means of communication are not exploited optimally by participatory banks including New Information and Communication Technology such as the Internet. Participatory finance is a branch of ethical finance; it has the specificity of presenting a concept related to the values and beliefs of target consumers to whom it is addressed. In the case of potential Moroccan clients, compliance with Sharia norms is a top priority at the forefront. Thus, Islamic or participative banks must justify a maximum of adaptability to the good practices of Islam. This leads us to conclude that this compliance parameter plays a major role in shaping the image of the participative bank among Moroccans. Other determinants add up to the criterion of conformity namely, cost and proximity. Moroccan consumers, being rational in the majority of their purchasing acts seek to take advantage of the most optimal offer presenting the best conformity-cost-proximity relationship.





This tripartite composition reminds us of the pillars of an operational marketing touching four essential components which are: the product, the price, the communication and the distribution. Understandably, bank marketing is called upon to develop a distinctive brand image that is considered the reputation-capital of financial institutions. It is a set of strategies aimed to set up a process of segmentation of the market, or the customers allowing reaching a positioning declined in a service offer in order to maximize the satisfaction of the target customers. Apart from their specificities and characteristics, the banking institutions face the necessity to practice marketing because of their position being simultaneously oriented towards two different markets: financial capital market and the job market intended for individuals and businesses. This duality requires intervention on the downstream and upstream markets underlines the importance for the bank to develop a policy that must imperative be articulated on a marketing plan. For participative banks, marketing practice is even more complex than their conventional competitor. This is due to the originality of the contracts they offer on the market and their strong attachment to the religious context. The policies of product, price, communication and distribution will then have to be further adapted and made more flexible according to the particular concepts they present.

Corrélations

		image_banq	Satisfaction du répondant aux prestations de sa banque actuelle	xconf	X1_conformité	X2_coût	Revenu du répondant	Âge du répondant
image_banq	Corrélation de Pearson	1	-,023	,047	-,002	-,130	-,220	,010
	Sig. (bilatérale)		,693	,406	,975	,022	,000	,864
	N	311	303	310	311	311	311	310
Satisfaction du répondant aux prestations de sa banque actuelle	Corrélation de Pearson	-,023	1	,107	,054	,058	,091	,004
	Sig. (bilatérale)	,693		,064	,348	,309	,112	,950
	N	303	308	303	308	308	307	307
xconf	Corrélation de Pearson	,047	,107	1	,237**	-,123*	-,015	-,111
	Sig. (bilatérale)	,406	,064		,000	,030	,799	,051
	N	310	303	311	311	311	310	310
X1_conformité	Corrélation de Pearson	-,002	,054	,237**	1	-,596**	,154*	-,056
	Sig. (bilatérale)	,975	,348	,000		,000	,006	,320
	N	311	308	311	316	316	315	315
X2_coût	Corrélation de Pearson	-,130*	,058	-,123*	-,596**	1	,020	-,148**
	Sig. (bilatérale)	,022	,309	,030	,000		,726	,009
	N	311	308	311	316	316	315	315
Revenu du répondant	Corrélation de Pearson	-,220**	,091	-,015	,154**	,020	1	-,008
	Sig. (bilatérale)	,000	,112	,799	,006	,726		,885
	N	311	307	310	315	315	315	314
Âge du répondant	Corrélation de Pearson	,010	,004	-,111	-,056	-,148**	-,008	1
	Sig. (bilatérale)	,864	,950	,051	,320	,009	,885	
	N	310	307	310	315	315	314	315

### 3. Conclusion

In conclusion, it should be noted that reputational risk is strong for any institutional entity wishing to penetrate a market, especially for participative banks which offer a concept that has only been recently exploited and which remains underestimated and largely ignored by the majority of the financial actors. Moroccan participative banks are called upon to invest more in development, implementation and monitoring of their marketing strategies aiming in the medium and long term to form an appropriate image to better control and influence the psychological aspects contributing to the shaping of Moroccan consumer behavior. This survey allows us to deduce that the participative bank has a very wide field of maneuver taking into consideration the high level of dissatisfaction of Moroccan consumers vis-à-vis conventional banks.

The criterion of compliance with Islamic Sharia, being at the forefront of the variables determining the position of consumer's vis-à-vis participative banking offers, should be highlighted in any strategic action taken by this type of banks. It can even represent a peculiarity of the latter on which they could position themselves in a market characterized by the dominance of strong and experienced competitors. Participatory banks should therefore enrich this concept of conformity in

order to transform it into a clear point of differentiation in the minds of their potential clientele. However, the compatibility with the laws of Islam alone could never strengthen banks' position in the financial market, as other major variables must be considered in the same way. It is therefore the factor of cost and proximity: the Moroccan consumer is a rational buyer; he seeks the optimization of its satisfaction through the combination of various elements such as the quality of services, availability and cost. A big challenge for participative banks is therefore to align themselves at the same level of competence compared to competing traditional banks, but also to adopt flexible strategies in respect of their peculiarities and specificities mainly related to the need to respect Islamic Sharia.

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