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A Conceptual Framework on Moderating Effect of Frontline Service Employees on Factors Leading to Strong Branding of Small Islamic Banks

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Islamic finance presently grows at a rate of 13 – 15% per annum. More banks are either opening Islamic windows or converting into Islamic financial institutions in order to tap into the growing market. However, small Islamic banks are facing challenges to remain profitable due to lack of economies of scale and inefficiencies associated with being small. Small banks have to reinvent themselves in order to survive in the challenging environment. They have to create their own value and brand themselves well. Small Islamic banks, with their lack of resources, need to effectively connect with customers on an emotional level to a degree that is so strong that customers would want and are proud to forge a strong alliance with the banks. The paper illustrates how having a strong and purposeful brand can positively influence customers' decision to patronage a small Islamic bank. It is designed to guide stakeholders to transform the bank through establishing a higher purpose vision and to effectively communicate their purpose, culture and image to consumers. Nevertheless, despite effort to develop a strong brand, failure to hire, train, motivate, communicate and track performance of frontline service employees who have strong influence on customers' perception and purchasing decision, could moderate the impact on banks' branding effort.

Key words: *Islamic Bank, Small Bank, Branding, Frontline Employees, Internal Branding.*

Introduction

Amidst the rapid growth of Islamic banking globally, small Islamic banks, like their conventional counterpart, lack the resources to compete effectively. While small banks cannot match the size, scale or resources of megabanks, they continue to make the mistake of adopting the strategies of large banks when they lack the capacity and capabilities to do so (Tynan, 2012). If small banks are not able to be competitive, they can be subjected to closure or merger exercises as introduced by many governments to ensure economic stability. Increasing competition is intensifying the pressure on small banks to either become efficient or leave the market. Based on data from The Mercatus Center at George Mason University, the number of small banks in the United States and their share of banking assets and deposits, have all declined substantially since the year 2000. Survival of small banks hinges on how successfully they evolve, where business as usual is not a viable strategy, as margin compression erodes profits and attrition shrinks the customer base (Peirce and Miller, 2015).

There are many studies and articles on how to ensure sustainability and survivability of small banks (Miller, 2015; Shoultz, 2016; Tobik, 2016; Tynan, 2012). There are also various studies performed on efficiency, production technology and general performance of Islamic versus conventional banks (Abedifar et al., 2017; Ahmed et al., 2015; Wani and Agarwal, 2012; Shah and Qureshi, 2016; Garbois et al., 2012). Suitability of Islamic finance in supporting global Sustainable Development agenda, given the principles of Islamic finance that support socially inclusive and development promoting activities, have also been discussed at various financial conventions. However, presently there is a lack of study on the factors to support the growth of small Islamic banks in the highly competitive banking environment. This research intends to demonstrate how strong branding can help grow small Islamic banks. It also will unveil how service quality of frontline service employees can moderate the impact of factors leading to strong branding of small Islamic banks.

Consolidation of Banks

In the year 2000, following the effects of the Asian financial crisis in the late 1990s, 54 banks in Malaysia were consolidated into 10 groups via a merger initiative by the Malaysian Central Bank. The exercise was aimed at achieving a more effective and competitive banking system. Almost two decades later, issues of lethargic loan growth, rising credit costs and compressed profit margins continue to plague the banking industry with many predicting that another round of mergers and acquisitions of banks is inevitable (Tan and Kaur, 2018). However, recent attempts of bank mergers in Malaysia have failed where several efforts were aborted mid-way due to failure in reaching an amicable deal amongst the parties. It has now become an arduous task for many countries to consolidate the banks for financial stability and acquired banks are setting tougher conditions if they are to fulfil government's agenda of consolidation (Mehta, 2017). Also, the consolidation of banks by many governments, aimed at creating stable and stronger banks, is not benefiting consumers. When the industry is competitive and has many players, consumers will have more choices. Hence, small banks which are more agile, adaptive and offer highly personalized services should continue to exist as an alternative to provide services to the market segment which prefers to have a strong and solid relationship with their bankers. Hamilton (2018) asserts that average consumers prefer the services of small banks as there is a major trust gap with big banks.

It is important to note that the non-survival of small banks have been argued and discussed for many decades and yet, many small banks continue to persist due to continued support and demand from consumers. Small banks take pride in a personal approach to service (Tynan, 2012) and they are more flexible (Tobik, 2016). The Move Your Money campaign in the United Kingdom by financial journalist Felix Salmon, who tried to persuade people to move their money from big banks to smaller ones, and many others also prefer the personalized services of small banks (Coppola, 2013). Small banks need to offer a unique proposition that can continue to make them relevant in the financial industry. They must strive to earn customers' trust, demonstrate that the banker understands them extremely well, charging reasonable fees and having flexible policies to accommodate customers' needs— all the characteristics that people do not associate with larger institutions. Hence, even the smallest banks in the smallest communities can find ways to move forward and prevail as long as they can effectively reinvent themselves (Yurcan, 2018).

Islamic Finance

Islamic finance currently accounts for less than 2% of global financial assets despite operating in 60 countries and the world having 1.6 billion Muslims (Mohammed, 2015). Based on research by Pew Centre based in the United States, the Muslim population globally will grow by 29.7% or 2.76 billion by 2050 (Desilver and Masci, 2017), which strongly suggests that Islamic finance will be in high demand in the near future.

Due to Islamic finance promising growth potential, more banks are either converting themselves into full fledge Islamic banks or opening a window for Islamic-based transactions (Ambrose, 2017). Although the growth was affected in recent years due to the decline in oil prices, slow economic growth and the "Arab springs", Islamic finance is anticipated to experience steady growth of 13 – 15% per annum due to the increased tendency of Russia and the United States towards Islamic finance (Mughai, 2017).

A study conducted by Hasan and Dridi (2010) found that Islamic banks have shown stronger resistance during a period of financial crisis, mainly during the early stages of the crises. This is mainly due to the fact that Islamic banking activities are related to the real economy and they are not exposed to the risks of toxic products; many assets are kept in liquid form. Full adherence to the principles of Islamic law can form the ideal base for all financial transactions (Loo, 2010). Nevertheless, most of the financial operations offered by Islamic banks could not fully adhere to this principle due to certain regulatory issues and supervision constraints (Čihák et al., 2008). This could subject Islamic banks to become as vulnerable in times of financial crises where small Islamic banks, due to their lack of resources, may become more susceptible to closure or merger exercises if they fail to be competitive.

In order to be competitive and relevant in the financial industry, small Islamic banks must strive to offer a unique value proposition to customers. In line with Porter's (1985) argument on competitive advantage, when opting to be unique and adopting differentiation strategy to create and sustain superior performance, small Islamic banks should aim to develop and strengthen their brand.

In complying with Maqasid al-Shariah (objectives of Islamic law)**,** where profit maximisation should not be the only objective of Islamic financial institutions, small Islamic banks must ensure that the Islamic values embraced by the organisation are highly visible to consumers (Ahmadi, 2016). It is therefore vital that small Islamic banks overall image is showcased as a brand where they focus on promoting their values-based corporate brand. Although there are many literatures on Islamic banking which focus on commercial and economic aspects, not many are being studied on social issues in relation to Islamic finance (Shah and Qureshi, 2015) which may indicate that Islamic banks are not making significant marks in its contribution to address social issues. Small Islamic banks should therefore promote social values in its operations and daily activities where the service reputation of small Islamic banks should reflect their nature as an Islamic bank as well as the values that they advocate via an effective internal branding strategy. Noting that Islamic values include being transparent, courteous and efficient, small Islamic banks' frontline service employees, the ones who liaise directly with customers, must uphold these values failing which the branding effort of the organization can be substantially weakened.

Strong Branding

Changing consumer behaviour and preferences have challenged banks' abilities to compete effectively (Garvey, 2012). In the current highly competitive environment, building a brand is no longer optional but it is essential (Yazdanifard, et al., 2011). A brand has an impact on the consumer purchase decision-making process where it creates associations that affect the mind of the consumer in the purchase process.

A strong and well-managed corporate brand qualifies as a sustainable valuable resource which enable companies to command a price premium, foster greater customer loyalty, as well as support growth and greater profitability (Malmberg, 2008). Frederikson (2017) contends that strong brands require focus, coordinated effort, and consistent resources over time.

Maintaining strong brands can be achieved through corporate brand promotion, product branding, or a combination of the two (Benge, 2018). Benge further asserted that a company's reward for possessing strong brands includes name recognition that builds trust in the product or corporate brand. This sense of trust builds consumer loyalty that affects final choices in purchasing and establishing a repeat customer base. Garnering a niche of a particular market share then permits the business more leeway in increasing pricing on preferred products.

According to Madsen (2012), the cohesion of Vision, Culture and Image (VCI), the concept which was first introduced by Hatch and Shultz in 2003, greatly affects brand strength where the greater the coherence of vision, culture, and images, the stronger is the brand.

Brand Strength= Reputation x Visibility (Benge, 2018).

A weak brand, according to Dontigney (2018), can result in a forgettable product, inability to capture bigger market share, potentially gives no repeat business and provides minimal brand equity. Temporal (2015) argued that in order to achieve sustainable high performance, brand strategy must be supported by effective brand management. It is critical to understand that branding is not marketing or design but the key strategy that supports and directs the whole business. Branding is fundamental to business's success, longevity and ongoing profitability (Carter, 2018).

Before embarking on a brand strategy, Miller (2015) suggested that small banks must first identify its target market and the customers "problem" that they want to solve. They then have to be creative in providing the solution to the problem and communicate visibly (how and how often) through the right media channel.

Developing A Strong Islamic Brand

The rapid changes and dynamism of the banking industry require Islamic finance to strive and continuously carve its own branding and distinctiveness to provide wholesome value propositions. Despite such abundance of opportunities, the effort in brand creation for Islamic products has been slow. However, with the changing times, a trend has emerged where Islamic companies are actively exploring on having immense brand development potential (Temporal, 2015).

Islam, as with any other well-known religion, has an image. Islamic brands must fulfil many conditions in order to comply with shariah requirement where businesses are transformed into ethical entities whose goals rise beyond sales and revenues (Alserhan, 2010).

According to Temporal (2015), the reasons why there is a need for strong Islamic brands are mainly western brands are often non-shariah compliant. Secondly, Islamic countries want to create their own global brands as a strategic business assets and global brand ambassadors. Thirdly, the growth of educated middle-class in Muslim-minority cultures and countries has created an impetus for developing businesses, products, and services which are compatible with the long established and accepted brands.

Factors Affecting Strong Branding of Small Islamic Banks

The following are key factors in designing a strong brand for small Islamic banks.

Corporate Brand

Small Islamic banks should embark on a corporate branding strategy which is the practice of promoting a corporate entity's brand name, rather than its services or products. The scope of corporate branding is generally broader compared to service and product branding. It involves marketing of various products or services under the name of the company. It requires an overall message, with elements such as values, beliefs, ideals, goals and behaviour as the focus of corporate brand strategies.

Brand by Purpose

The corporate brand should be based on a meaningful purpose in line with the bank's shariah-compliant nature. Based on 10-year research by Jim Stengel, companies with a higher sense of purpose outperform others by as much as 400% in ROI (Wick, 2012). People are shifting away from prioritizing the pursuit of money, status and personal achievement with more people supporting higher purpose companies. Great leaders want to inspire their customers, rather than manipulating them into buying. Inspirational leaders are building employees' and customers' trust as well as hiring others who share their vision (Sinek, 2009). More companies are connecting with customers through specific defined well-articulated purpose (Couchman, 2017).

Internal Branding

Internal branding is the process of building a brand from the inside out where corporations must ensure that its members are guided by the purpose and behave appropriately, in line with the brand (Yazdanifard, et al, 2011). It is a corporate philosophy that focuses on bringing the company's core culture, identity and premise to its employees as well as its consumers, and usually looks to make employees, at all levels, "ambassadors" or true representatives of the company and its values. Successfully implemented, internal branding lifts brand equity, customer focus and ultimately shareholder value.

Brand Visibility

The purpose and ideals of the small Islamic bank must be made visible to consumers. Brand visibility is about communicating and projecting the intended brand image to customers. Lasting emotional connection must be forged in order to create brand awareness to enhance the ability of consumers to recognize one brand over the others (Grimsley, 2018).

Impact of Frontline Service Employees

In the current digitalized world where experiences and reviews are free-for-all and accessible 24/7, any negative review can bring down a brand overnight. Suffice to note that failure to provide positive customer experience will result in negative review by the customers which will negatively affect the bank's image. Therefore, providing excellent customer service is imperative for strong branding where provision of excellent customer experience by frontline service employees, the ones who are closest to customers, will contribute to company's long-term continued existence and prosperity. As Hall (2016) aptly stated, engaging and aligning employees to the company brand may be the single greatest priority to ensure business success.

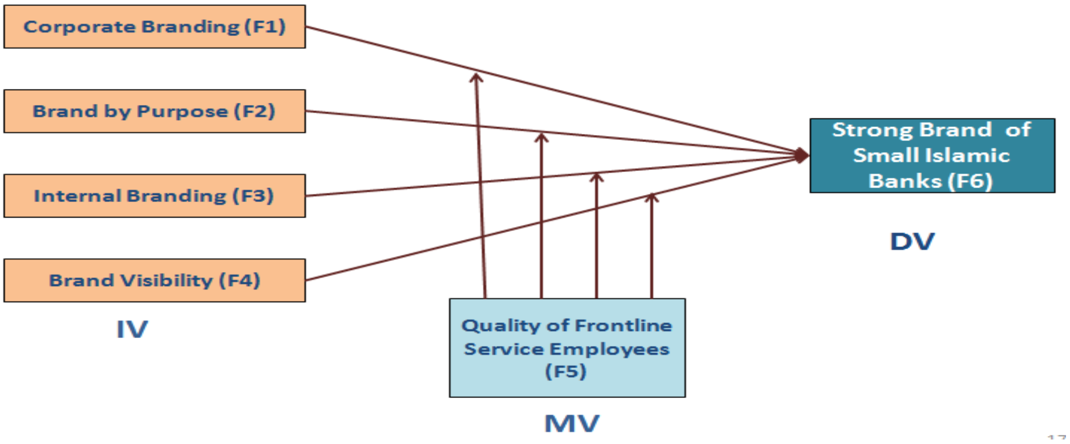
Despite a bank massive effort to create strong brand, customers who feel they were poorly treated by the employee of the organization will tell numerous people, friends, relatives, and neighbours about their experience and each of this individual, in turn, will tell others what the dissatisfied customers told them. Consequently, just one unpleasant contact between a dissatisfied member of the business and one of its customers can be reported to over one hundred prospective customers influencing their feelings about your company and the people in it which at the end cause your company loss of customer loyalty. Hence, it is important to place high emphasis on hiring, training and continuously developing frontline service employees in line with the bank's vision under the corporate brand.

This paper is the first of 2 papers with regards to the study on the moderating effect of frontline service employees on factors leading to strong branding of small Islamic banks. The first part will propose the conceptual framework of the research and the reliability outcome of the pilot survey. The second part will analyse the full data obtained for the study to determine if there are significant relationships amongst the identified variables.

The Conceptual Framework

Based on the variables explained earlier in this paper, the following is the conceptual framework for the study.

Figure 1. Conceptual Framework



The Hypotheses

As illustrated in the conceptual framework above, the hypotheses for the research are as follows:-

Hypothesis 1 (H1)
There is a positive relationship between Corporate Branding (F1) and the Strong Brand of Small Islamic Banks (F6)

Hypothesis 2 (H2)
There is a positive relationship between Brand by Purpose (F2) and the Strong Brand of Small Islamic Banks (F6)

Hypothesis 3 (H3)
There is a positive relationship between Internal Branding (F3) and the Strong Brand of Small Islamic Banks (F6)

Hypothesis 4 (H4)
There is a positive correlation between Brand Visibility (F4) and the Strong Brand of Small Islamic Banks (F6)

Hypothesis 5 (H5)
Quality of Frontline Service Employees (F5) will strengthen/weaken the impact of Corporate Branding, Brand of Purpose, Internal Branding and Brand Visibility on the Strong Brand of Small Islamic Banks.

Research Methodology

In order to test the above hypotheses, the researcher will use quantitative methodology, which is a systematic analysis via statistical and mathematical techniques. The researcher will adopt the Positivist philosophy point of view where the scientific approach taken to analyse the findings is designed to prove the hypotheses based on concepts which have earlier been introduced by other researchers where the researcher acts as a neutral recorder. For the conclusion of the study, inductive reasoning will be used to derive a logical conclusion from various similarities or patterns of the research outcome. Online survey will be used as the data collection instrument since it is the most cost-effective method with almost no possibility of bias. Respondents can also answer sensitive questions with ease. The study will be cross-sectional which is one-off and analyse different samples at a point in time.

The researcher has designed 37 questions adapted from various related studies for the survey. Since the researcher is based in Malaysia, respondents, who will be selected based on simple random sampling, will be active banking customers of a small Islamic bank in Malaysia. The survey will be in dual languages i.e. in English as well as in the native Malay language. This is to prevent any miscommunication and misunderstanding of the questions.

Pilot Test

Before embarking on the actual survey, a pilot test was performed on a small sample of 32 respondents who have performed banking transactions with a small Islamic bank within the last 12 months. Test results from the survey were analysed for reliability based on Cronbach Alpha test vide SPSS. As evidenced in Table 1 below, the items in each variable are found to be highly consistent and reliable.

Table 1 : Reliability Test

No	Variable	No of Items	Cronbach Alpha
1	IV1	6	0.829
2	IV2	5	0.890
3	IV3	9	0.902
4	IV4	7	0.887
5	MV	4	0.767
6	DV	6	0.912

Normality tests were also performed on the variables and the results show that the data is normally distributed.

Based on the success of the above pilot test, the researcher will proceed to perform the actual survey on 400 respondents who are customers of small Islamic banks. The sample size is based on a published formula for determining sample size by Krejcie and Morgan (1970). According to the formula, as population increases, the sample size will increase at a diminishing rate and remains relatively constant at 384.

The subsequent paper on this study will provide further information on the relationship amongst the identified variables and whether the conceptual framework as described in Figure 1 above, is fully supported.

Conclusion

Having a strong brand is important for the prosperity of small Islamic banks. To have a strong brand, small Islamic banks should embark on a corporate branding strategy with a visible meaningful purpose, in line with their shariah-compliant nature. The banks should then instil their defined vision and purpose to their employees to make them the “ambassadors” of the banks and their values. At the same time, they have to ensure that customers’ liaison with any frontline service employees would consistently give them the best customer experience which will result in great referrals for new and recurring business.

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