“Relationship between financial performances and marketing practices in the banking sector of Jordan”

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RELATIONSHIP BETWEEN FINANCIAL PERFORMANCES AND MARKETING PRACTICES IN THE BANKING SECTOR OF JORDAN

Abstract

The study aims at analyzing the relationship between financial performances and marketing practices in the banking sector of Jordan. A questionnaire was distributed to 45 top, middle, and branch level managers of 15 banks. The financial data was obtained from the financial statements and annual reports of the banks during the five-year period between 2011 and 2015. The three categories of participants, who were recruited, were top-level managers, middle-level managers and branch-level managers from 17 banks of Jordan. No two means were found to differ significantly at 0.05 level by means of Scheffe test. The results revealed that the more positive the perception was of the managers regarding the position of their banks in the market, the more they were inclined to choose an accurate target market in accomplishing their marketing objectives. Therefore, it has been concluded that when the financial needs of the customers were similar, the change in the loan-to-deposit ratio was significantly positive.

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INTRODUCTION

The progress and the economic growth of a country is contingent on a sound banking sector (Rajaraman & Vasishtha, 2002). A poorly functioning banking system is an impediment and a major challenge to the economic progress of a country. Banks invest, allocate, distribute, and mobilize a major portion of savings; and subsequently the performances of the banks have significant implications for the growth of organizations, capital allocation, industrial expansion and a country's economic development. Similarly, the steady growth of a country's economy is essential for the functioning and survival of its industries and its banking sector. In bank-based financial systems, the banks play an essential role in allocating capital and funds, mobilizing the savings, providing risk management options, and managing the investment decisions of the corporate managers (Demirguc-Kunt & Levine, 1999). The liquidity risk is evaluated and measured; however, when this ratio increases, the banks grant more loans without increasing the deposits. It places a big burden on the banks and has a significantly negative effect on the financial performance of the bank (Waemustafa & Sukri, 2016).

The banking sector brings about considerable progress in its efforts regarding the mobilization of deposit and accelerates the rate of the growth of deposits. Bank lending and the subsequent receipts of interests is the primary source of creating funds for the local banks in

Jordan. When the banks receive substantial deposits from customers, the banks' ability to grant advances, loans, and overdrafts to customers also increases. Subsequently, it results in good financial performance and profitability and assists the banks to create liquidity (Al-Alak & Tarabieh, 2011). It is the main source of funds, since the mutual fund and bond markets are in a state of inertia. Apart from this, they are immature and underdeveloped. There has been a steady increase in the number of local and foreign banks in Jordan in the last two decades. There was a total of 25 banks by 2010; out of which, 16 were local Jordanian banks and 9 were foreign banks. The entrance of foreign banks has resulted in competition amongst conventional banks within Jordan (Al-Alak & Tarabieh, 2011).

The banking industry is not only the major source of finance for progressive economy, but also is the major contributor to modern commerce and trade around the world. To survive in this competitive global environment, banks have to adopt competitive marketing strategies and modalities to assure their survival and success (Gul, Irshad, & Zaman, 2011). The survival and growth of banks depend on quality marketing practices and good total quality management (TQM) practices that must be followed by the different levels of management within the banks to accomplish their objectives and goals. However, there are many challenges and questions facing the management in the process of implementation of different marketing strategies. Such questions include: Is the main marketing mix of market information, market segmentation, target marketing and positioning being optimally utilized to affect positive change in the financial performance of the bank? Are the top managers of banks aware of the best market segmentation approach? Will their positioning put them in a leadership spot amongst other banks? Many such questions have not been addressed and there has been no clear direction or objective that is followed by the top leadership in banks in Jordan. This gap has led to the present study, which has evaluated the relationship between the marketing practices of banks and its implication on the various factors of financial performance, such as the return on assets (ROA), return on equity (ROE), loans-to-deposits ratio and net profit margin, along with the evaluation of the overall capital structure of banks. With the onset of the global financial crisis in 2008, Jordan endured rising levels of non-performing loans which adversely affected the lending operations of the banks (Rajha, 2016).

Apart from this, there is a considerable and substantive effect of bank regulation, concentration and institutional and financial development on commercial banks profitability across countries of Middle East and North Africa (MENA). Furthermore, bank characteristics, such as credit risk and bank capitalization have shown to have a significantly positive effect on banks' cost efficiency, net interest margins, and financial performance (Naceur & Omran, 2011). It had been revealed in a study by Demirguc-Kunt and Huizinga (2004) that a lower concentration ratio and a larger ratio of a bank's assets to the Gross Domestic Product resulted in lower bank profitability and low financial margins. Consequently, it was discovered that local banks had lower profits and margins in comparison with foreign banks.

There are significant issues associated with the evaluation of the performance and efficiency of financial institutions. The evaluation of financial performance and its comparison with similar business or industry standards is a crucial phenomenon as the performance of banks monitors the health of the business (Riasi, 2015). The main problem is regarding the adoption of methods that can help in assessing the financial efficiency and performance of banks. The evaluation of financial performance helps the banks to grow and achieve competitive advantage over other banks due to increased competition in a market (Riasi, 2015). The financial statements are a critical tool in examining the financial standing of banks in the market as they show how effectively a bank operates as compared to other banks. In light of this, the present study aims to analyze the relationship between financial performances and marketing practices in the banking sector of Jordan.

Research question

1. What is the significant relationship between the financial performance of Jordanian banks and the marketing practices prevailing in the banking sector of Jordan?

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1. LITERATURE REVIEW

The banking sector functions as a backbone of modern trade in any country's economic development as the country's economy is stimulated by the working of banking sector that is assisted by the government. The country's economy is greatly affected if the banking sector does not perform efficiently as it allows the important financial and business transactions (Faizulayev, 2011). The condition of a banking sector can be evaluated by the performance of banks specified as a significant parameter (Barros et al., 2007). In the modern world, banking sector contributes to the development of a country's economy, and is considered as a significant service industry. The banking sector functions as an important source for financing most of the businesses. According to financial statistics, the banking sector of Jordan contributes approximately 11.6% of the country's Gross Domestic Product (GDP) (Isik, Omran, & Hassan, 2016). However, the Jordanian banks tend to face many challenges; some of which are globalization, heightened competition, and the emergence and development of various financial innovations. Jordan has initiated and launched essential social and economic reforms to promote and develop effective financial institutions and markets to achieve consistent economic growth (Isik, Omran, & Hassan, 2016). Performance measures of organizations are either financial or operational. Operational measures include growth in the market shares and sales of the organization. Whereas, financial performance, such as maximizing profits and maximizing shareholders' benefits play an imperative role in the functioning of every organization. The evaluation of financial performance of banks is a critical factor to determine the net worth and operating performance of banks. The financial statement provides knowledge regarding the potential and competitiveness of banks that help the banks in the decision-making process. Positive association between financial performance and marketing practices can enhance investments and mobilize their resources, which can help these financial institutions to assume roles in the economic development of countries (Mengistu, 2015). The banks continuously evaluate and examine their management practices in the increasing competitive environment to maintain the growth and viability.

In a study conducted by Zaman et al. (2011), various determinants that play a significant role in the performance of the banks were examined. The study was conducted over a period of five years from 2004 to 2008 and the top 10 banks participated in it. The effect and impact of internal determinants, such as loans, equity, assets and deposits were investigated on one of the major financial performance and profitability indicators, namely, Return on Asset (ROA). The method to conduct the study was the pooled ordinary least square analysis. The results revealed that all the internal factors had a strong influence on profitability and financial performance of the banks. Apart from this, it was also discovered that having large total assets did not inevitably lead to higher profits. Deposits and equity were found to have a significant effect on the financial performance of banks. However, though higher loans contribute to the increase in the financial performance, their effect on the profitability of the banks was not too significant (Zaman et al., 2011).

Optimal target marketing by banks leads to the positive impact on the loans-to-deposits ratio financial performance indicator. However, many banks have seen high non-performing loans globally, including Jordan, following the global financial crisis of 2008. A study was conducted by Rajha (2016), which investigated the factors of non-performing loans in the Jordanian banking industry. This study was conducted during the period from the year 2008 to 2012. This research used bank specific factors and other macroeconomic elements to identify and evaluate the causes of non-performing loans in the Jordanian banking sector. The factors that affected the non-performing loans positively were the ratio of loans total assets and the lagged NPLs. The results revealed that smaller banks were more effective in screening loan customers and assessing the customer's creditworthiness than big banks. Apart from this, it was also revealed that high inflation rate and low economic growth of a country had a significantly negative impact on the customers' ability to repay the loans (Rajha, 2016). The market structure and assets of banks in Jordan are concentrated in a few hands that results in concentrated market power and lack of contestability (Demirguc-Kunt & Martinez Peria, 2010). The financial performance of banks under a monopoly is not optimal because of increase in input prices leading to an increase in marginal costs and decrease in revenues.

Al-Alak (2014) studied and examined the effects of different marketing activities on the quality of relationship in the banking industry in Malaysia. It was revealed that the greater the employee relational orientation with the client, the greater was the quality of the relationship. It resulted in the customer maintaining continuity and patronizing the bank. Subsequently, the committed client relationship resulted in customer loyalty and retention that lead to profitability and good financial performance by the banks. Furthermore, it also results in customer satisfaction, positive word of mouth, and promotion of the banks employees (Al-Alak, 2014). Banks strive to maximize their outputs (profits) and minimize their inputs (expenses); however, it has become difficult in recent years for the banking sector to properly analyze their overall efficiency. The efficiency measurement can help policy makers, managers, market analysts, government regulators, investors, shareholders, and clients (Andries & Capraru, 2014). The key objective of banking sector in Jordan is to efficiently transform their inputs into outputs and achieve sustainability through banking services, deposits and loans.

Another study assessed the effects that the capital structure had on the overall performance of a corporation. 167 Jordanian companies were recruited during the years between 1989 and 2003. This study also examined the consequences that Jordan's corporations and other industrial sectors faced due to external shocks. The results demonstrated that a company's capital structure had a significant negative impact on both the market measures and the financial measures of the firm's performance. The findings disclosed that an organization's internal issues may result in higher debt in the capital structure. Additionally, it was revealed that the short-term debt to total assets level had a positive effect on the market performance variable. It was found to support Myers' (1977) argument that companies with a high short-term debt to total assets level result in a high performance and a high growth rate. Many global events had influenced the growth of Jordanian economy. Major exports of Jordan were directed to West Bank, and the outburst of Intifadah in Gaza and the West Bank in September 2000 had a negative effect on the performance of corporations around Jordan. On the contrary, the Gulf crisis of 1990–1991 did not have a negative impact on the performance of organizations, since the Jordanian market was open to Iraq (Zeitun & Tian, 2014).

2. METHODOLOGY

A questionnaire has been distributed to 45 top, middle, and branch level managers of 15 banks. The inclusion criteria were that all the managers must have been working for the 5 years between 2011 and 2015. The managers' perception of the four main factors of marketing mix, such as the market information, market segmentation, target marketing and product and service positioning, was determined, compared and contrasted. Furthermore, the managements' perspicacity and clear-sightedness about the relationship between the four marketing characteristics were also ascertained and analyzed. Subsequently, their discernment about the effects of optimal marketing strategy on the financial performance of the banks was determined. All the independent variables were measured on five-point Likert scale. Various financial performance variables were focused for evaluating their relationship with the marketing features, including return on assets, return on equity, loans-to-deposits ratio and net profit margin. The financial data was sought from the financial statements and annual reports of the banks during the five-year period between 2011 and 2015. Some other sources to gather financial information were obtained from the statistical yearbooks of the Central Bank of Jordan covering the period from 2011 to 2015. Descriptive correlational methodology included regression analysis, one-way Anova, and t-tests to uncover the relationships and the differences between the marketing variables and the financial performance determinants.

3. RESULTS

Three categories of participants that were recruited were top-level managers, middle-level managers and branch-level managers from 17 banks of Jordan. The detailed classifications for each characteristic, which include the age, gender, years of association with the bank, educational qualification, specialization and the area of services offered are provided in Table 1. Amongst the total number of participants, 45 were males and 4 were female managers. Their ages were ranged from 20 to 50 years and above. Out of these, 2 were between 20-19 years of age, 13 were between 30-39 years of age and 17 each belonged between 40-49 and 50 and above age groups, respectively. In addition, 8 responders specialized in economics and 11

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participants specialized in banking. Moreover, 6 had specialization in accounting, 2 in marketing and 1 in finance.

Table 1. The major demographic characteristics of the 49 potential respondents

Specialization	Frequency
Banking	11
High school	8
Economics	8
General education	6
Accounting	6
Law and English	3
Marketing	2
Commerce	2
Finance	1
Strategic planning	1
Management	1
Age	
20-29 years	2
30-39 years	13
40-49 years	17
50+ years	17
Gender	
Male	45
Female	4
Years employed at a current establishment	
5-9 years	14
10-19 years	24
20-29 years	3
30-39 years	7
40+ years	1
Years employed at the banking industry	
5-9 years	7
10-19 years	19
20-29 years	12
30-39 years	10
40+ years	1
Highest level of education attained	
High school	8
A.A.	10
Bachelors	20
Masters	8
PHD/D.B.A	3
Bank services offered	
Investment banking	29 (56.9%) out of 49
International banking	17 (33.3%) out of 49
Corporate banking	27 (52.9%) out of 49
Assets based banking	8 (15.7%) out of 49
Retail banking	45 (88.2%) out of 49

The results were analyzed and evaluated on the responses to the question regarding the extent of awareness related to environmental changes that were influencing the target market groups. Table 2 illustrates the analysis of variance for mean differences between the three groups of managers concerning the extent of awareness of environmental changes affecting target market groups. The results revealed that no two means were found to differ significantly at the 0.05 level by means of the Scheffe test. In addition, Table 2 demonstrates that the combined mean of 4.3673 for the three groups fell in the "aware" portion of the scale.

Table 2. Analysis of variance for mean differences between three management levels concerning the extent of their awareness of changes in the environment that had a bearing on the bank's target markets

Source	Sum of DF	Mean squares	F squares	F ratio	Prob.
Between groups	2	.1304	0.652	.1025	.9028
Within groups	46	29.2574	.6360		
Total	48	29.3878			

Display of means			
Management group	**N**	**Mean**	**Standard deviation**
Total level	16	4.4375	.8139
Middle level	17	4.3529	.7019
Branch level	16	4.3125	.8732
Total	49	4.3673	.7825

Table 3 shows the analysis of variance for detecting mean differences between the three groups of managers in terms of using market segmentation activities in their decision-making. No two means were found to differ significantly at 0.05 level by means of Scheffe test. Furthermore, Table 3 illustrates that the combined mean of 3.8052 for the three groups fell in the "much used" portion of the scale. The findings disclosed that the three groups of managers extensively used market segmentation activities in their decision-making.

Table 3. Analysis of variance for mean differences between the three management levels in terms of the extent of use of market segmentation activities in their decision-making

Source	Sum of DF	Mean squares	F squares	F ratio	P-value
Between groups	2	.4877	.2439	.3790	.6866
Within groups	46	29.5949	.6434		
Total	48	30.0826			

Management group	N	Mean	Std. deviation
Top Level	16	3.7045	.9154
Mid-level	17	3.7701	.7266
Branch level	16	3.9432	.7562
Total	49	3.8052	.7917

Table 4 illustrates the analysis of variance for mean differences between the three groups of managers concerning the perceived importance of bank's position in the service market as it affects the market strategy selection. In Table 4, no two means were found to differ significantly at the 0.05 level by means of the Scheffe test. In addition, Table 4 illustrates that the combined mean of 4.0816 for the three groups fell in the "high importance" portion of the scale. The results have revealed that the more positive the perception was of the managers regarding the position of their banks in the market, the more they were inclined to choose an accurate target market in accomplishing their marketing objectives.

Table 4. Analysis of variance for mean differences between the three management levels concerning the perceived importance of bank's position in the service-market as it affects target market strategy selection

Source	Sum of DF	Mean squares	F squares	F ratio	P-value
Between groups	2	.2948	.1474	.2308	.7948
Within groups	46	29.3787	.6387		
Total	48	29.6735			

Management group	N	Mean	Std. deviation
Top level	16	4.0000	.8944
Mid-level	17	4.0588	.6587
Branch level	16	4.1875	.8342
Total	49	4.0816	.7863

Table 5 presents the correlations between the attributes of target marketing and the market position and financial performances of the banks in Jordan. There was a negative linear association between the financial performance indicator Loans-to-Deposits Ratio (L/D) and the extent of the differences that the managers perceived in their various customers' needs (r = –.5180, p = .040). This finding has also revealed that there were generally higher values of Loans-to-Deposits ratio, when the needs of the various customers were very similar. The loans-to-deposits ratio refers to the bank's liquidity in relationship to the extent to which the deposits have been utilized to meet the loan requests. In a similar way, there were positive linear associations between the perceived importance of bank position in the service market and the financial performance variables "Change in Return on Assets (ROA)", "Change in Return on Equity (ROE)", and "Change in Net Profit Margin (NPM)" (r's are r = .6243; r = .6458; r = .5761, and p's are p = .010; p = .007; p = .025), respectively. This means that when more importance was given to a bank's position in the service market, the Return on Assets, Return on Equity and the Net Profit Margins increased exponentially.

Table 5. Correlations between target marketing attributes and the four financial performance measures

Source	ROA	ROE	L/D	NPM
Awareness of differences and similarities of the various customers' needs/wants	r = .0234 N = 16 p = .931	r = –.1615 N = 16 p = .550	r = –.5180 N = 16 p = .040	r = .0038 N = 15 p = .989
Perceived importance of bank position in the service-market as it affects target market strategy selection	r = .6243 N = 16 p = .010	r = .6458 N = 16 p = .007	r = .1894 N = 16 p = .482	r = .5761 N = 15 p = .025

4. DISCUSSION

In a study of banks in Saudi Arabia, it was revealed that there was a significantly positive relationship between capital investment and profitability of the banks. Moreover, banks with higher non-per-

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forming loans were less profitable in comparison to banks, who were more conservative when extending big amounts of loans. The study also discovered that larger size banks were less profitable (Saif-Alyousfi, Saha, & Md-Rus, 2017). Therefore, it is essential to get the right information when extending loans to organizations. Subsequently, it is observed that appropriate market information regarding customers affects the loan-to-deposit financial performance measure. In a similar study, the two main determinants, namely, return on average assets and return on average equity, were examined and evaluated. The market concentration, credit risk, management efficiency and liquidity risk had a direct influence on the profitability of banks, and on the return on average assets and return on average equity. In addition, it was revealed that there was a positive influence of competition on the profitability of the banks (Petria, Capraru, & Ihnatov, 2015). The present study is relevant to these studies as it also assesses the change in financial performance indicators according to the marketing practices employed by the banks.

The banking sector plays a critical role in the capital formation because of its inherent nature, therefore, this sector has been given more attention as compared to any other economic units. The banking sector has undergone numerous changes in the form of norms, regulations, and reforms since past years. The fact that the Jordanian economy is very small, consistent with the country's limited resources, makes the country virtually unable to cope with crises of any nature. Rosman, Wahab, and Zainol (2014) conducted a study to evaluate Islamic banking as an alternative model to overcome the existing financial crises targeting the Islamic banks in Asian and Middle Eastern countries. The study examined the efficiency of the Islamic banks and also evaluated the risk and bank-specific factors associated with them. The results obtained showed that Islamic banks were capable of sustaining operations through the crises. However, capitalization and profitability were found to be the main determinants of Islamic banks. Similarly, Adam (2014) evaluated the financial performance of banks using financial ratios. The results showed that few variables were responsible for influencing the financial performance of banks. Liquidity ratios, credit performance, and assets quality of the selected bank improve. The study recommended that the bank operations can be improved to improve the financial performance of banks.

A country like Jordan represents a unique spectrum of evolution of banks' role in the state of inter-mediation with respect to different regions at different stages of development. Moreover, the banking sector places considerable reliance on deposits mobilization from the public for the development of finance programs and they are the main reason of the world's recent financial crisis. The deterioration of their asset portfolios largely due to distorted credit management was one of the main structural sources of the crisis. Banking regulations tend to prohibit banks from engaging in real estate investment, development, and management. Moreover, banks can also participate in brokering, underwriting, and dealing in securities, regulations control, and limit banks' ability to own shares in non-financial companies and to conduct insurance activities. The banking system of Jordan comprises of both commercial and Islamic banks. However, both the Islamic and the commercial banks have a credit policy that necessitates the banks to provide more short-term loans as compared to long-term loans (Zeitun & Tian, 2014). The credit policy of the Islamic banks is different from the conventional banks that affects the default risk and the corporate and financial performance of the banks. This restrictive banking credit policy has a negative impact on the overall capital structure of the borrowing companies because of compromised capital structure. Moreover, it can also make them more susceptible and exposed to chances of bankruptcy and insolvency due to the high interest rates.

CONCLUSION

It has been concluded that when the financial needs of the customers were similar, the change in the loan-to-deposit ratio was significantly positive. Conversely, when customers had vastly varying needs, it affected the change in the loan-to-deposit ratio negatively. Furthermore, there were positive direct associations between the perceived importance of bank position in the service market and the financial performance variables "Change in Return on Assets (ROA)", "Change in Return on Equity (ROE)", and "Change in Net Profit Margin (NPM)". Apart from this, it has also been concluded that the more positive the perception was of the managers regarding the position of their banks in the market, the more they were inclined to choose an accurate target market in accomplishing their marketing objectives. It is becoming a matter of conjecture to attempt to judge the extent of the present applicability of this study. Thus, the present study would help bank managers in improving their service market strategy. However, additional studies must be conducted to get an insight into the opinions of the customers, competitors and other personnel involved in the banking industry.

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CONFLICT OF INTEREST

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