

## How Market Orientation Can Sustain Islamic Microfinance Institutions?

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### Abstract

Even though Islamic microfinance has flourished in the last two decades, still it faces some problems related to its sustainability and outreach. Market orientation has generally developed some strategies for organizations aiming to retain the current customers and attract new ones. In addition, organizations, which are addressed as Islamic, should be Shariah-compliant in all aspects. This paper introduces the market orientation concept which is adapted to Shariah rules and recommends a solution for sustainability problems of Islamic microfinance institutions. Current study tries to provide some intangible instances and evidences to introduce and use Islamic market orientation concept for Islamic microfinance institutions, in particular.

**Key words:** market orientation, Islamic microfinance institution, sustainability.

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### 1.0. INTRODUCTION

Poverty is the most significant moral challenge in the recent century. More than three billion people are living below the poverty line (Obaidullah, 2008) and half of that proportion of people's

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income is less than USD\$1 a day ("United Nations Millennium Development Goals," 2009). Thus, many programs for poverty alleviation have been promoted by governments and international development organisations as well as non-governmental organisations (NGOs) in low income countries and also within poor communities in high income countries, such as microcredit and micro savings (Khan, 2008). However, fighting with poverty needs a financial package which can support poor people in every possible condition. Microfinance is defined as "the provision of small financial services and products to those whose low economic standing excludes them from conventional financial institution or programs" (Chowdhry, 2008). The proponents of some programs strongly believe that access to small loans by poor people can create a virtuous cycle of investment and also increase their income. This procedure creates opportunities to be self-employed. In other words, as this cycle is continually repeated with successive loans the "poor" borrower will gradually climb out of poverty (Khan, 2008).

However, conventional microfinance and loans are based on interest (pre-determined interest) which creates new financial problems for borrowers, especially the poor ones. For instance, loan providers never bear any risks and also never lose. In addition, usually paying back the interest of loans creates heavier loans for the borrowers (El-Komi & Croson, 2007).

On the other hand, about these two particular examples, based on Islamic financial rules interest based transactions are prohibited and in each transaction risks, losses and benefits should be shared fairly (Shirazi, 2008). What's more, It is estimated that over 1/3 of the world's poor are Muslims (Economist, 2008); it means conventional microfinance doesn't have any appeal for many potential clients (Muslims) and many non-Muslim clients because of the disadvantages (Obaidullah, 2008). Associated with it and based on Islamic concepts, if every person in an Islamic society does their duties well, poverty will decrease. Concepts like "Brotherhood" and "Al-Adl" which mean, every Muslim must be responsible for others' conditions and getting Allah's satisfaction is the most important point (Shirazi, 2008).

After adopting Microfinance with Islam Sharia rules, most problems of paying predetermined interest and bearing risk only by the loan users have been solved (Akhter Waheed, Akhtar Nadeem, 2009). The demand for Islamic Microfinance (Islamic MFI) is growing rapidly in recent years. Because, there are more than 1.2 billion people of the Islamic faith worldwide. Except for a few countries in the Middle East and Southeast Asia, the poverty rates in all of the Islamic countries are quite high. Half of Indonesia's population (about 129 million) and nearly 10% of Malaysian people is living below the poverty line of US\$2 a day. Just in India, Pakistan and Bangladesh in South Asia, 222 million Muslims are living below the poverty line (Seibel, 2005).

Islamic microfinance was borne in South East Asia. Despite countries in South East Asia are very experienced and old in the Islamic microfinance business, but after more than 2 decades of working on Islamic microfinance, high demand for microcredit services and the high poverty level in this region reflects that IMF's performance and outreach are not as good as expected. As estimated, only less than 60% of people in this scope are familiar with or use microfinance (WSBI, 2008). Furthermore, because of the lack of outreach in IMFs and despite having many customers and a great potential market, the IMFs in this scope are collapsing after a few financial periods. In other word, the most significant in microfinance provider's problems (including Islamic MFIs) are that they do not have sustainable performance (financial and social) and lack of outreach (Paxton & Cuevas, 2002).

The main problem of MFIs is that they cannot retain their customer in order to catch sustainable financial sources to have warranty about their sustainability, and then design new plans for attracting new customers (Conroy, 2003). In other word, why after many programs, debates and report on how to alleviate poverty level, Islamic microfinance providers are still facing sustainability and outreaching problem of their clients? This paper suggests an answer by examining the ways in which market orientation has outlined three dimensions and three constructs, namely customer orientation, competitor orientation and inter-function coordination, intelligence generation, intelligence dissemination and responsiveness, respectively to address the issues.

The remainder of this paper is organized as follows: the next section reviews previous studies on market orientation concept and sustainability of MFIs; followed by the development of market orientation where the specific view of a practical understanding of market orientation attributes are discussed. Finally, the last section summaries and concludes the paper.

## **2.0. PREVIOUS STUDIES ON MARKET ORIENTATION AND SUSTAINABILITY OF MFI**

There are many studies in the recent two decades in terms of introducing and measuring impacts of market orientation in various businesses. For instance, Kohli and Jaworski (1990) concluded that if an organisation wants to follow the market orientation strategies (become a market oriented organisation), it should have some of these characteristics. First of all, at least one department should be involved with knowing and recognizing customer's current and future demands and the factors affecting them as well (intelligence generation). Secondly, this gathered information should be shared in all departments of the organisation (intelligence dissemination) and then, meeting customer's current and future needs requires several departments to be involved (responsiveness).

In another study, Jaworski and Kohli (1993) addressed three questions: first, why are some organisations more market oriented than others? Second, what effect does a market orientation have on employees and business performance? Third, does the linkage between a market orientation and business performance depend on environmental context? The results showed that market orientation is related to top management emphasis on the orientation, risk aversion of top managers, interdepartmental conflict and connectedness, centralization, and reward system orientation. In addition, the findings suggest that market orientation is related to overall (judgment) business performance (but not market share), employee's organisational commitment, and esprit de corps. Finally, the linkage between market orientation and performance appears to be robust across environmental context that are characterized by varying degrees of market turbulence, competitive intensity, and technological turbulence.

Furthermore, some bodies of literature have investigated sustainability of microfinance institution. For instance, Zeller and Meyer (2002) analyzed formal and informal financial transactions, and also evaluated the success of innovative approaches of some MFIs, in nine Asian and African countries in the 1990s. The main objective of this survey was clarifying conditions under which state investment in microfinance programs might improve life for poor people more than state investment of the same funds in education, health, nutrition, or infrastructure development. The research led to the concept of the *critical triangle of microfinance*. Based on findings, all of the

MFIs should manage the issues related to “financial sustainability” (meeting operating and financial costs over the long term), “outreach” (reaching the poor in terms of both numbers and depth of poverty) and “impact” (being discernible on client’s quality of life). This research concluded that the most successful MFIs expand all sides of this triangle, simultaneously. But, social indicators like occupation, education, geographical location and even gender differences do not have any significant impacts in terms of outreach and sustainability of MFIs. To Babandi (2011), determined the outreach performance and sustainability of microfinance institutions in Nigeria. The findings showed that microfinance has significantly outreached to the poor households. In addition, microfinance services can cover all forms of occupational distributions for both male and female microfinance services recipients. Geographical location of people is also not a significant factor in outreach performance of microfinance institutions in Nigeria. A microfinance institution operates in both rural and urban areas.

Even though Islamic microfinance has flourished in the last two decades, it is clear that not many researches have been conducted that are directly related to the Islamic type of microfinance industry and particularly on the sustainability of Islamic MFIs. In addition, market orientation is known as a secured way for solving sustainability problems, but there not enough researches for investigating its impacts on sustainability of MFIs.

### **3.0. DEVELOPMENT OF MARKET ORIENTATION FOR ISLAMIC MFIs**

Nowadays, sustaining customers is known as a valuable success key for each organisation in any type of businesses (Kotler, 1997). Furthermore, one of the main objectives of corporations which follow the marketing strategies is capturing market share as much as possible via retaining current customers and attracting new ones (Grant, 1999). Thus, market orientation can play a remarkable role in assisting MFIs in this particular issue. However, Islamic organisations should follow Shariah recommendations in addition to market orientation strategies simultaneously, in terms of behaving with clients, competitor and internal decisions since institutions which are addressed as Islamic should obey Islam’s rules in all areas related to their businesses (Shirazi, 2008).

### **3.1. CONSTRUCTS AND DIMENSIONS OF MARKET ORIENTATION**

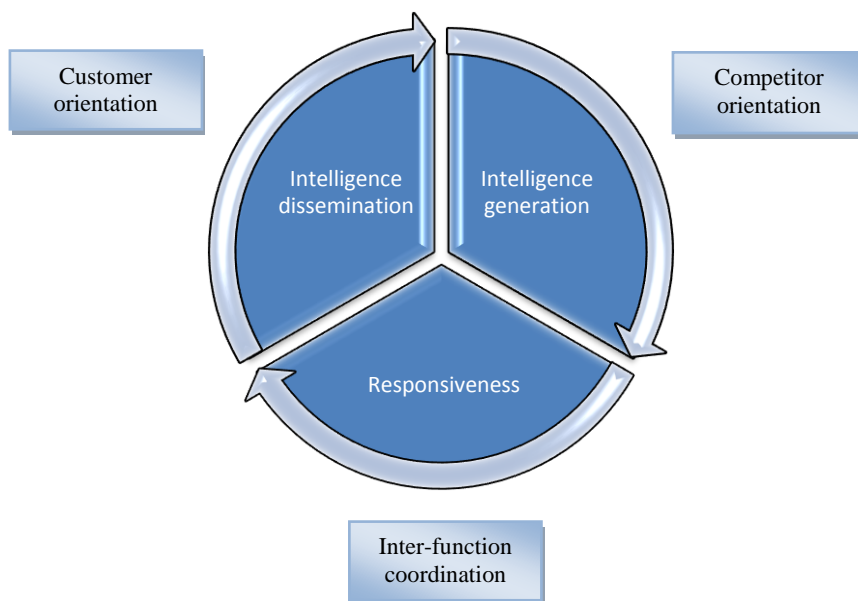
The framework that Kohli and Jaworski (1990) and Narver and Slater (1990a) suggested is the basis for most market orientation researches. In the current study, we adopt their widely used perspectives. Market orientation is constructed from three items namely, *intelligence generation, intelligence dissemination and responsiveness*. In fact, constructs of market orientation focus on the free circulation of information within the organization. Starting from gathering data about every issue related to business, continuing by transmitting this gathered data to top management level and finishing by making appropriate and just in time decisions by the management (Kohli & Jaworski, 1990).

To Grinstein (2008), Narver and Slater (1990a) and Kohli and Jaworski (1990) suggested that *customer orientation, competitor orientation and inter-function coordination* are three dimensions of market orientation. These subsets of market orientation are related to guiding organization in terms of behaving with its clients, competitors and internal members and decisions.

The constructs and dimensions of market orientation are shown in Figure 1.

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**Figure 1. Market Orientation; dimensions and constructs**



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*Source: Adopted from (Kohli & Jaworski, 1990; Narver & Slater, 1990a)*

### 3.1.1. Constructs of market orientation for Islamic MFIs

According to Kohli and Jaworski (1990), *Intelligence generation* is the starting point of market orientation. The term, intelligence, in this part refers to a broader concept than some data related to customer's verbalized needs and preferences. Actually, it contains a comprehensive analysis of exogenous factors that influence those needs and preferences. For instance, an Islamic MFI should monitor governmental regulations, competitor's actions that can impress the market, any significant changes in its market share, client's repayment rate and investigating about reasons of client's failure and so on. The main objective of each Islamic organization should be getting God's blessings (Alserhan, 2011), so it is necessary for Islamic MFIs to identify reasons for its client's failures based on Islamic recommendations, in order to provide some extra services like extending repayment cycle or giving another loan, for letting them survive.

A very important point in intelligence generation is that gathering data is not the burden of one or two specific departments of the organization, exclusively. All departments and all organizational members should know that whatever they monitor as impressive factors could be important. For example, for an Islamic MFI, any changes in client's attitude could be important, because the majority of MFI's products are limited to short-term products. Therefore, their clients can easily decide to leave their current microfinance service provider at the end of the loan cycle (Wright, 2000). So, any changes in customer's attitudes and satisfaction level should be monitored by all Islamic MFI's employees.

In the next stage after intelligence generation, namely *intelligence dissemination*, the gathered information should be disseminated to the decision maker level of organization for analyzing the effects of these intelligences and data on organization's operations. The important point in intelligence dissemination is the channels for transferring this data. In this part, one particular department like R&D can bear this responsibility and it is not necessary that gathered data is transmitted by each department. At last, R&D department should inform the management level about all the important intelligences the soonest possible (Kohli & Jaworski, 1990).

As it is clear, when management is informed about any changes, news, information related to customers, competitors, or even employees and all the internal and external effective factors on the organization's progress, they have to make proper and just in time decisions based on accurate analysis of the current situation. This level is named *responsiveness* (Kohli & Jaworski, 1990). For instance, the management teams of Islamic MFIs can provide some special financial services for clients whose crops have been damaged by famine. It is necessary that this information is gathered from branches in rural areas and transmitted to the management level as soon as possible. Then, the management can assist these people based on the "Brotherhood" concept of Islam, by, for example, extending the repayment cycle, giving another special loan or some extra services like getting some experts to consult and guide these people.

### **3.1.2. Dimensions of market orientation for Islamic MFIs**

As mentioned above, *customer orientation*, *competitor orientation* and *Inter-function coordination* are three dimensions of market orientation (Narver & Slater, 1990a). Islamic microfinance institutions as organizations which provide financial services as well as following Islamic recommendations and rules can sustain their customers by following market orientation strategies (Wilson, 2007). Actually, dimensions of market orientation are widely adaptable to Islamic ethics and concepts in terms of teaching better ways in behaving towards customers, competitors and every issue related to the market and business. In other words, Islamic MFIs can sustain their clients and attract new ones by following an Islamic market orientation.

The first dimension of market orientation is *customer orientation*. Customer orientation means driving corporations based on customer's current and future needs which require knowledge of customer target market, knowing and analyzing their current demands and predicting the future ones to be a step ahead of the clients, and creating superior customer value by focusing on meeting their needs in order to make them satisfy (Narver & Slater, 1990a). On the other hand, Islam's point of view about behaving towards customers is very close to the market orientation concept. From the Islamic perspective, customers of Islamic organisations should feel that they

are partners of the organisation and not looked at as only organisation's financial sources. They should know their comments, needs, and ideas are important in driving the organisation's outline. Therefore, organisations should ensure that the customers are satisfied with the quality and quantity of services or products, because in the Islamic corporations, the main objective of each business is getting God's blessings which are directly related to making people happy and satisfied (Alserhan, 2011). For instance, based on the "brotherhood" concept, an Islamic microfinance provider can extend the repayment period for failed customers or give them another chance by guiding them in recognizing their shortcoming and giving new loans. What is more, Islamic MFIs can ask the customers ideas, comments and criticisms in providing services and driving the organisation based on the customer's tendencies. Hence, clients of this organisation will feel that they are counted as part of the organisation and even the managers of these Islamic MFIs are trying to solve their problems, and will never leave the organisation. In addition, these kinds of manners to clients will create significant attractions for other people to use this particular Islamic MFI's services.

Furthermore, an Islamic microfinance institution, which tries market orientation for retaining its current customers should be *competitor oriented*, as well. By definition, competitor oriented organisations monitor and analyze the competitors actions and capabilities for making just in time decisions in order to show the best reactions (Narver & Slater, 1990b). A competitor oriented organisation should be first informed about the level of competitive intensity by knowing the competitive environment. It should be able to evaluate its own and other competitors' ability and power. This organisation should have a systematic procedure for gathering and transferring information from the competitors to top management for making suitable and just in time decisions (Armstrong & Green, 2007; Kohli & Jaworski, 1990). On the other hand, from the Islamic perspective, all organisations are recommended to take part in a fair competition for achieving wealth and financial benefit, nevertheless, they have to behave with competitors under shariah's behavioural recommendations which are based on avoiding in destroying the image of the competitors in the market and even helping them for getting God's blessings (Shirazi, 2008). For example, they can attract the competitors' failed clients, identify their disadvantages and help them improve and give another chance based on the "Brotherhood" concept in shariah. In terms of marketing, for instance, the Islamic MFIs should avoid criticizing competitors in front of clients or even discussing the disadvantages of the competitors' services. They should only introduce and do marketing about the advantages of their own provided services.

As mentioned earlier, because of the nature of the microfinance business, which is based on short-term loans, sustaining customers in this market is much more difficult than other businesses and markets. Because, if a MFI cannot satisfy its clients, it will lose them once they repay back the loans. In fact, it is the client's right to choose a microfinance provider with the best quality of services, compared to others. Competitor orientation is a necessity in sustaining customers (Wright, 2000).

Market oriented organisations should have some innovations to impress the market and customers. This item is directly related to the top management's attitude of whether they want to be the best in the market or otherwise. If so, how much is their risk tolerance? Alternatively, do they have the capability for doing some innovations? (Gresham, Hafer, & Markowski, 2006). Islamic microfinance institutions (MFIs) can consult with experts in Islamic finance rules before making decisions or introducing new services in order to make sure that these new services are shariah-

compliant. In addition, Islamic financial concepts still have many potential aspects, which are definitely favorable to Muslim clients, for example, Islamic MFIs can introduce “Tawarruq” and “Qard-al-Hassan” as other Shariah-compliant services, based on Muslim clients’ appeals.

#### **4.0. CONCLUSION**

Islamic microfinance has become very popular and improved during the last three decades. Since most microfinance users are Muslims, they are interested in following the Sharia financial rules like avoiding “riba” or sharing the risk between loan provider and borrower which are favorable even for non-Muslim customers. Therefore, the number of Islamic microfinance providers has increased during these years. Despite having a great potential market, the IMFs have not outreached and performed as much as expected and most of the IMFs collapsed after a few financial periods.

Many financial researchers believed that the main problem of IMFs is that they do not have sustainable customers; because of the low outreach, they are collapsing after a few financial periods. The market orientation concepts have some strategies for sustaining customers which can help IMFs to have a wider reach and sustain their customers based on the “stakeholder theory”. These strategies are also supported by some Islamic concepts like “Al-Adl” and “Brotherhood”, like creating superior customer value and driving corporations based on customer’s current and future needs; for instance interviewing their customers once a year to find out what services they will need in the future; taking corrective action immediately, when they find out customers are unhappy with the quality of their services; having some strategies to support clients after losses in order to minimize the effects of losses to corporation and customers; measuring customer satisfaction systematically and frequently; having some strategies to maximize the benefits and minimize the losses of customers in the corporation’s target market; attracting the competitors’ failed clients, identifying their disadvantages and helping them to improve and giving another chance; introducing new kinds of Islamic financial services based on customer needs and etc.

Following these strategies can convince the customers that they have some extra value for the IMFs, more than being just a financial source which can motivate the old ones to continue their cooperation with the IMF provider and attract new ones. All of these strategies are attempting to help IMFs to retain current customers in addition to attracting new ones which means sustaining customers.

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