

Understanding Customer Motives and Behavioral Drivers in Islamic Banking Service Adoption: Evidence from Pakistan

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Abstract

Islamic banking is essential for individual and collective well-being due to its built-in merits e.g. transparency, economic justice and profit & loss sharing etc. The study investigates service utilization decisions in Islamic banking based upon motives and behavior. A structured questionnaire was used to collect data from 200 respondents and SPSS was used to analyze the data through descriptive statistics, correlation and regression analysis etc. Results indicate that *Maqāṣad-e-Sharī'ah* is one of the main motives for Islamic banking. However, there is an evident gap that is reported between expectations and perceptions among banking customers. Findings show that there is statistically significant positive association between bank selection motives and banking behavior for Islamic banks customers reported satisfied behavior for banking with Islamic banks. It could enhance understanding of stakeholders.

Key Words: Islamic Banking, service utilization decision, bank selection motives, Pakistan

Introduction

Islamic banking (IB) stimulates savings and investment for *Halāl* earnings. It provides solution for economic and financial crisis by promoting individual and collective well-being. Globalization, continuous innovation and expansion of banking enable to offer customized services. Emergence of IB, in the presence of conventional banking, requires a study to



investigate service utilization decision. IB could accomplish the desire of people for bank services according to Islamic principles¹. It provides financial services according to main tenets of *Shari'ah*. The Holy Quran, *Sunnah* and *Ijtihad (Ijmā' & Qiyās)* are the major sources of *Shari'ah*². IB is not only for the Muslims, but it also fulfills the requirements of Non-Muslim customers. In this modern age, it offers variety of products to non-Muslim customers around the globe³. Interest free banking is getting popularity and success.⁴

IB Industry has Rs. 1495 billion total asset⁵ and acquired 10% market share along with two trillion US\$ asset-base of global Islamic finance industry. Since 2002, IB has made a huge progress 11.4% share in assets and 13.22% share in deposit of the whole banking stream⁶. Islamic and conventional banking could be differentiated based upon interest, risk sharing and

¹ Mark Loo, "Attitudes and perceptions towards Islamic banking among Muslims and non-Muslims in Malaysia: implications for marketing to baby boomers and x-generation." *International Journal of Arts and Sciences* 3, no. 13 (2010): 453-485.

² Alsadek H. Gait and Andrew C. Worthington, "A primer on Islamic finance: Definitions, sources, principles and methods." Research Online, University of Wollongong, School of Accounting and Finance Working Paper Series No. 07/05, 2007.

³ Abdullah A. Abdullah, Rokiah Sidek and Ahmad Azrin Adnan, "Perception of non-Muslims customers towards Islamic banks in Malaysia," *International Journal of Business and Social Science* 3, no. 11 (2012).

⁴ Tarek S. Zaher and M. Kabir Hassan, "A comparative literature survey of Islamic finance and banking." *Financial Markets, Institutions & Instruments* 10, no. 4 (2011): 155-199.

⁵ M. I. Dar, *Inauguration of Centre for Excellence in Islamic Finance (CEIF)* (Karachi: Institute of Business Administration, 2015).

⁶ SBP, *Transforming Strategies to Revitalize Growth: Forging the Next Phase of Progress for Islamic Finance in the Region* (Karachi : SBP ,2016), 1-4.

objectives etc.⁷. The major focus of IB is fair distribution of wealth, stable economy and risk sharing. This is the most controversial concern of economic life of any person⁸. The difference between Islamic and Conventional Banking is mentioned in Table 1.

Table 1 Difference between Islamic & Conventional Banks

Difference	Islamic Bank	Conventional Bank
Principles	It follows <i>Shari'ah</i> Principles for banking operations.	It follows Manmade SOPs for banking activity
Earnings Sources	Profits & Fee is main source of earnings that is variable	Interest is main source of earnings i.e. fixed.
Sharing of Risk	All parties share risk i.e. lender, borrower & bank.	Risk is fully transferred to others.
Activities Nature	As a trading concern generate income by ethical practices	Financial intermediary to maximize wealth, any cost
Income	Income is variable & may be negative in case of loss.	It is constant due to fixed interest

Source⁹

Inception of IB is an important aspect requiring a study of services utilization decision for bank selection motives and banking behavior. 96.28% Muslims population in Pakistan¹⁰ is potential users of IB motivates to conduct the study exploring services utilization decisions among

⁷ Ashfaq Ahmad, Kashif ur Rahman and Iqbal Saif, "Islamic banking experience of Pakistan: comparison between Islamic and conventional banks." *International Journal of Business and management* 5, no. 2 (2010): 137.

⁸ Muhammd Imran Usmani, *Meezan bank's Guide to Islamic Banking* (Karachi: Dārul-Ishā‘at, 2002).

⁹ Ahmad, Rehman and Iqbal, "Islamic banking experience of Pakistan, 137.

¹⁰ Census, *Population by religion*, Pakistan Bureau of Statistics, Government of Pakistan, 1998.

customers; to compare expectations & perceptions of Islamic Bank's customers and to investigate role of Bank Selection Motives in Banking Behaviors in terms of Services Utilization Decision.

2.0 Literature Review

Meezan Islamic Bank started its operations in 2002 by getting license from SBP as first full-fledged Islamic Bank in Pakistan. Moreover, legislation, governance and internationalization etc. posing a challenge in terms of profitability and loyalty of customers that is dependent on products/services offered by banks¹¹. Principles of IB are risk sharing, PLS, purity of contracts, property rights, commitments, transparencies and fair deal¹². Ethical standards are involved in Islamic banking to safeguard its stakeholders. Islam is grounded on the brotherhood and equality of humanity¹³. IB should take care of customers to solve their problem by providing consultancy services and their employees should have to deal ethically¹⁴. Selection of any bank is important for customers to fulfill their wants and needs. Bank selection is based on referral by

¹¹ Apena Hedayatnia and Kamran Eshghi, "Bank selection criteria in the Iranian retail banking industry." *International Journal of Business and Management* 6, no. 12 (2011): 222.

¹² Ashfaq Ahmad, Iqbal Saif and Nadeem Safwan, "An empirical investigation of Islamic banking in Pakistan based on perception of service quality." *African journal of business management* 4, no. 6 (2010): 1185.

¹³ M. Saeed, Zaffar U. Ahmed, and Syeda-Masooda Mukhtar, "International marketing ethics from an Islamic perspective: a value-maximization approach." *Journal of Business Ethics* 32, no. 2 (2001): 127-142.

¹⁴ Abul Hassan, Abdelkader Chachi and Salma Abdul Latiff, "Islamic Marketing Ethics and Its Impact on Customer Satisfaction in the Islamic Banking Industry." *Islamic Economics* 21, no.1 (2008): 27-46.

family & friends¹⁵; late banking hours and physical facilities¹⁶. It was found that majority of Muslim customers select bank only on the basis of religious motives rather than the features of a bank¹⁷. Therefore, some banks use Religious factors as a strategy to retain their customers¹⁸. It is noted that there is no difference in banks selection among non-Muslims and Muslims¹⁹.

Product differentiation is the major factor to choose the IB, religious factors is much important. There are many other factors like location, services charges, reputation, staff behavior, interest charged on loan and availability of credit²⁰. IB could be selected based on confidence, core banking services; corporate efficiency²¹; bank environment²²; product

¹⁵ Chin Tiong Tan and Christina Chua, "Intention, attitude and social influence in bank selection: a study in an oriental culture." *International Journal of Bank Marketing* (1986).

¹⁶ Saad A Metawa and Mohammed Almosawi, "Banking behavior of Islamic bank customers: perspectives and implications." *International journal of bank marketing* (1998).

¹⁷ Kamal Naser, Ahmad Jamal and Khalid Al-Khatib, "Islamic banking: a study of customer satisfaction and preferences in Jordan." *International journal of bank marketing* (1999).

¹⁸ Dusuki, Asyraf Wajdi and Nurdianawati Irwani Abdullah, "Why do Malaysian customers patronize Islamic banks?" *International Journal of Bank Marketing* (2007).

¹⁹ P. Gerrard and C. Barton, "Islamic banking: a study in Singapore, " *The International Journal of Bank Marketing* 15, no. 6 (1997): 204-216.

²⁰ W. Anderson, E. Cox and D.H Fulcher, Bank Selection Decisions and Market Segmentation. *Journal of Marketing*, 40, no.1 (1996): 40-45.

²¹ I., Osman, H. Ali, A. Zainuddin, W. Rashid and K. Jusoff, Customers Satisfaction in Malaysian Islamic Banking. *International Journal of Economics and Finance*, 1, no.1 (2009)197-202.

features & quality of services; religious belief²³; cost & benefits; Halāl aspects of business and customer's confidentiality etc.²⁴ and friends' recommendation²⁵.

Religion is psychological attachment to empower emotional association²⁶ and it is an important element of IB selection.²⁷ Moreover, IB is not serving only on religious basis, customer's satisfaction is also essential²⁸. Bank reputation and *Shari'ah* acceptable products could increase client satisfaction level.²⁹ There are also some other factors to increase utility of

²² H. Rehman and A. Saima, "An empirical analysis of the determinants of bank selection in Pakistan: A customer view." *Pakistan Economic and Social Review* (2008): 147-160.

²³ H.,Awan and K. Bukhari, "Customer's criteria for selecting an Islamic bank: evidence from Pakistan." *Journal of Islamic marketing* (2011).

²⁴ K. Naser, J. Ahmad and A. Khalid, "Islamic banking: a study of customer satisfaction and preferences in Jordan." *International journal of bank marketing* (2006)

²⁵ M. Marimuthu, C. Wai Jing, L. Phei Gie, L. Pey Mun, & Yew Ping, "Islamic Banking: Selection Criteria and Implications." *Global Journal of Human-Social Science Research* 10,no.4(2010): 53-60.

²⁶ Lee A. Kirkpatrick, *Attachment, evolution, and the psychology of religion* (Guilford Press, 2005).

²⁷ Tarek S Zaher and M. Kabir Hassan, "A comparative literature survey of Islamic finance and banking." *Financial Markets, Institutions & Instruments* 10, no. 4 (2011): 155-199.

²⁸ Farah Amalina Md Naw, Ahmad Shukri Yazid and Mustafa Omar Mohammed, "A critical literature review for Islamic banks selection criteria in Malaysia." *International Business Research* 6, no. 6 (2013): 143-151.

²⁹ S. Metawa and A. Mohammed, "Banking behavior of Islamic bank customers: perspectives and implications." *International journal of bank marketing* (1998).

products/services.³⁰ Quality of services is very essential for reputation of banks and consumer behaviors to develop the good relationship.³¹ The customer's feelings and thinking related to products/services plays very important role for customers' services utilization. It was reported that for bank selection, customers check the fund safety, transaction speed and efficient services.³² Services quality plays a very important role for satisfaction of a customer.³³

Religion shapes the people's beliefs, attitude and decision for *Halāl* and *Harām*. Bank image, customers' care, competitiveness and services quality are factors for bank selection. Management of IB is well educated, expertise of banking and understand demands of customers.³⁴ Decision making requires information to increase reliability, consistency and accuracy of decision for services utilization based on customers' intuition, analysis, knowledge & experience. IB provides many products based on *Mudāribah*, *Murābahah*, *Musāwama*, *Istisnā'*, *Salam*, *Ijārah* and Diminishing *Mushārka*. Moreover, *Quard*, *Bai'-Muajjal*, savings deposits, current account, letter of credit, savings bond etc. are also offered by Islamic banks.

³⁰ Hayat M. Awan and Khuram Shahzad Bukhari, "Customer's criteria for selecting an Islamic bank: evidence from Pakistan." *Journal of Islamic marketing* (2011).

³¹ S. Haron, A. Norafifah and L. Sandra "Bank patronage factors of Muslim and non-Muslim customers." *International Journal of Bank Marketing* (1994).

³² O. Omar and E. Orakwue, "Gender-based choice of retail banking in Nigeria." *Journal of business & retail management research (JBRMR)* (2006).

³³ Jasim Al-Ajmi, Hameeda Abo Hussain and Nadhem Al-Saleh, "Clients of conventional and Islamic banks in Bahrain." *International Journal of Social Economics* (2009).

³⁴ Agha Tahir Ijaz and Asghar Ali, "Assessing service attitude: Service quality measures taken by Islamic banks in Pakistan." *Journal of Business and Management* 8, No. 5 (2013): 61-68.

3.0 Research Method

The study was carried out to investigate services utilization decisions by collecting data from customers of Islamic banks through structured and self-administered questionnaire based upon Likert Scale of five points from 1 to 5 ranges. Data was gathered from active customers of IBs operating in Sargodha Region through purposive sampling. A multi-item research instrument was devised³⁵ for the selected variables i.e. bank selection motives³⁶; banking behavior³⁷ and services utilization decision (³⁸; ³⁹). Total questionnaires of 250 were distributed and 200 (80%) questionnaires (properly filled) were processed for data analysis through SPSS-21. Selected statistical tools were applied e.g. descriptive statistics; Regression Analysis and Pearson's Correlation etc. to report the results.

4.0 Data Analysis & Findings

This study examined the services utilization decision for Islamic banking based upon bank selection motives and banking behavior. Demographics of the respondents are presented in Table 2.

³⁵ Chin Tiong Tan and Christina Chua, "Intention, attitude and social influence in bank selection: a study in an oriental culture." *International Journal of Bank Marketing* (1986).

³⁶ Chin Tiong Tan and Christina Chua, "Intention, attitude and social influence in bank selection: a study in an oriental culture." *International Journal of Bank Marketing* (1986).

³⁷ Chin Tiong Tan and Christina Chua, "Intention, attitude and social influence in bank selection: a study in an oriental culture." *International Journal of Bank Marketing* (1986).

³⁸ Jasim Al-Ajmi, Hameeda Abo Hussain and Nadhem Al-Saleh. "Clients of conventional and Islamic banks in Bahrain." *International Journal of Social Economics* (2009).

³⁹ M. Marimuthu, C.Wai Jing, L. Phei Gie, L. Pey Mun & Yew Ping, Islamic Banking: Selection Criteria and Implications. *Global Journal of Human-Social Science Research* 10, no.4 (2010): 53-60.

Table 2
Summary of Demographics of the Respondents

Demographics	Classification	Frequency	Percentage
Gender	Male	135	67.5
	Male	65	32.5
Marital Status	Single	63	31.5
	Married	137	68.5
Religious Level	High	106	53.0
	Moderate	85	42.5
	Low	9	4.5
Age	Less than 20 year	10	5
	20-29 year	80	40
	30-39 year	66	33
	40-49 year	36	18
	50 year or above	8	4
Educational Level	Up to Matric	24	12.0
	Intermediate	30	15.0
	Bachelor	72	36.0
	Master	69	34.5
	Others	5	2.5
Household Income	Less than 25000	50	25.0
	25000-49000	78	39.0
	50000-74000	48	24.0
	75000-99000	15	7.5
	100000-124000	3	1.5
	125000 or above	6	3.0

Table 2 indicates that majority of respondents are male and married within the age group of 20 to 30 years. Mostly, indoor activities are

performed by female and outdoor by male^{40,41}. Similarly, qualification, and household income of the respondents is placed in Table 2 that is self-explanatory. Moreover, majority of the customers are using banking services of Meezan Bank. Internal consistency and reliability of selected constructs/variables were analyzed through Cronbach's Alpha that is presented in table 3.

Table 3

Reliability & Internal Consistency

Variables/Dimensions	N	Cronbach's Alpha
<i>Maqāṣad-e-Sharī'ah</i> Motives	10	0.883
Bank Staff and Process Motives	12	0.847
Financing and Deposit Motives	11	0.793
Bank Selection Motives	33	0.930
Behavior for <i>Maqāṣad-e-Sharī'ah</i>	10	0.904
Behavior for Bank Staff & Processing	12	0.854
Behavior for Financing & Deposit Products	11	0.812
Banking Behavior	33	0.937
Banking Decision	33	0.892

Table 3 indicates the reliability and consistency of the variables. Results of Cronbach alpha indicate that variables/dimensions are consistent and reliable. Islamic banking industry is growing due to interest free products/services by facilitating financial needs of the people. Islam is complete code of conduct that provides a complete economic system besides social and spiritual guidelines.

⁴⁰ V. O. Ogenyi, Cultural and societal impediments on the performance of female personnel managers in Nigerian work environment. *Unpublished dissertation, Thames Valley University* (London:1997).

⁴¹ Ngozi G. Iheduru, "Women entrepreneurship and development: The gendering of microfinance in Nigeria." In *8th international interdisciplinary congress on women* (2002): 21-26.

<i>Table 4 Services Utilization Decision of Respondents</i>					
Element	Yes%	No%	Element	Yes%	No%
Maqāṣad-e-Sharī'ah					
<i>Maqāṣad 1</i>	95	5	<i>Maqāṣad 6</i>	75	25
<i>Maqāṣad 2</i>	94	6	<i>Maqāṣad 7</i>	84	16
<i>Maqāṣad 3</i>	93	7	<i>Maqāṣad 8</i>	88	12
<i>Maqāṣad 4</i>	88	12	<i>Maqāṣad 9</i>	93	7
<i>Maqāṣad 5</i>	88	12	<i>Maqāṣad 10</i>	86	14
Bank Staff and Process					
Bank S & P 1	95	5	Bank S & P 7	88	12
Bank S & P 2	94	6	Bank S & P 8	84	16
Bank S & P 3	91	9	Bank S & P 9	89	11
Bank S & P 4	94	6	Bank S & P 10	74	26
Bank S & P 5	85	15	Bank S & P 11	95	5
Bank S & P 6	69	31	Bank S & P 12	92	8
Financing and Deposit Products					
Fin & Dep 1	86	14	Fin & Dep 7	71	29
Fin & Dep 2	58	42	Fin & Dep 8	66	34
Fin & Dep 3	89	11	Fin & Dep 9	52	48
Fin & Dep 4	91	9	Fin & Dep 10	80	20
Fin & Dep 5	95	5	Fin & Dep 11	70	30
Fin & Dep 6	90	10			

Table 4 indicates services utilization decision for Islamic banking to select or reject IB. Majority of respondents like these factors and believe these factors are very supportive for bank selection. 16% respondents dislike due to lack of relevant information. People demands *Sharī'ah* compliant product and require awareness about services of IB. To capture the Agriculture, SME and Microfinance SBP has launched inclusion strategy for Islamic banking industry.⁴²

⁴² SBP, *Islamic Banking Bulletin*, Islamic Banking Department; State Bank of Pakistan (Karachi: SBP, 2016), 1-23.

Table 5 Gap in Expectations & Perception for Services Utilization

Dimensions with each items	E*	P**	Gap***
Maqāṣad-e-Sharī'ah	α=.88	α=.90	
You selected IB because it offers <i>Ḥalāl</i> transactions.	4.43	4.20	-0.23
IB is complying with Islamic rules & principles.	4.17	4.05	-0.12
You prefer it for fair & trustworthy dealings.	4.16	3.95	-0.21
IB enables you to attain <i>Maqāṣid-e-Sharī'ah</i> .	4.11	3.91	-0.2
You have understanding of IB system.	3.97	3.76	-0.21
IB fulfills requirements of <i>Sharī'ah</i> standards.	3.95	3.59	-0.36
IB enables to attain social and religious objectives.	3.92	3.72	-0.2
You have awareness of IB & willing to deal.	3.88	3.80	-0.08
IB follows justice, equality & societal well-being.	4.05	3.89	-0.16
You selected IB because it performs ethical work	3.98	3.85	-0.13
Bank Staff and Process	α=.85	α=.85	
Behavior of employees is polite & cooperative.	4.32	4.20	-0.12
IB is improving data quality & consistency.	4.09	4.06	-0.03
You prefer IB due to friendly environment.	4.10	3.96	-0.14
IB maintains privacy of customers.	4.21	4.13	-0.08
You choose IB due to flexible banking hours.	3.98	3.80	-0.18
IB has the appropriate No. of ATM machines.	3.89	3.44	-0.45
ATM is always functional & operational.	4.11	3.93	-0.18
IB selected by you has convenient location.	3.95	3.86	-0.09
IB has latest machines, technology/facilities.	4.03	3.87	-0.16
IB has branch-network in approachable locations.	3.78	3.56	-0.22
IB has large, secure and free parking space.	4.02	4.08	0.06
IB selected by you provides online banking.	4.25	4.33	0.08
Financing and Deposit	α=.79	α=.81	
IB receives low services charges than others.	4.03	3.93	-0.1
IB selected by you offers higher profits.	3.48	3.18	-0.3
IB selected by you has no hidden charges.	4.08	3.91	-0.17
IB has a variety of products & services.	3.96	3.94	-0.02
IB provides fast efficient services.	4.15	4.08	-0.07
IB products price is affordable.	3.86	3.85	-0.01
IB has good reputation in banking sector.	4.07	3.59	-0.48
You prefer IB because it is large in size.	3.72	3.36	-0.36
IB provides customized interest-free loans	3.47	2.97	-0.5
Loan procedure of IB is easy & friendly.	3.79	3.72	-0.07
IB provides diversity in loan facilities.	3.73	3.32	-0.41

*E = Expectations; **P = Perceptions; ***Gap = Expectations - Perceptions

Table 5 reflects gap between expectation and perception, customers have a high level of expectation to meet their needs related to IB but low level of perception. Existence of gap between expectation and perception that is evident from table 5 reveals the actual scenario and may create anxieties and unrest related to religious and social issues. Level of perception is less than level of expectation; it is easily judged that customers are dissatisfied except two items, indicating existence of the gap to be addressed. It could be lack of proper *Sharī'ah* advisory board or absence of trust among the stakeholders. Innovative & efficient services, *Sharī'ah* compliance and customer care can reduce gap for social, religious economic objectives. Table 6 shows association among selected variables.

Table 6

Correlation between Bank Selection Motives and Banking Behavior

Variables/Construct	N	R	Sig.
Bank Selection Motives and Banking behavior	200	0.757**	0.000

Table 6 reveals strong positive correlation between Bank Selection Motives and Banking Behavior; p-value shows association is statistically significant. Findings are consistent with literature as 'r' is presenting significant results.⁴³ Table 7 reveals results for regression model.

Table 7

Bank Selection Motives & Banking Behavior-Linear Regression Model

Constant	BSM	R²	F-Statistics
0.468 (0.207) [2.259] <i>0.000</i>	0.848 (0.052) [16.294] <i>0.025</i>	0.573	265.484

Predictor: Bank Selection Motives; Dependent Variable: Banking Behavior
(Coefficients, Standard Error in parentheses, t-value in bracket & p-values in Italics)

⁴³ Fred Ramsey and Daniel Schafer. *The statistical sleuth: a course in methods of data analysis* (Engage Learning: 2012).

Table 7 reveals regression results as R^2 value is indicating 57% change in banking behavior due to bank selection motives. Moreover, Standard Error, T-value, F-statistics, p-values, constant and β are also placed to report the findings. β enables to predict one unit change in bank selection motives to speculate the banking behavior. Moreover, p-value for constant is .025 and for BSM is 0 .000 indicates the impact of bank selection motives on banking behavior is statistically significant, as p value is less than 0.05.

5.0 CONCLUSION

The study examined services utilization decision by using a structured questionnaire for data collection from active customers of IBs through purposive sampling by application of SPSS-21. Findings indicate that majority of customers are willing to deal with Islamic banks due to *Maqāṣad-e-Sharī'ah* motives. Results indicate a positive association between bank selection motives and banking behavior that is statistically significant. Moreover, a significant impact is also documented between the selected variables through regression model. However, an evident gap is identified between perception and expectation of customers for IB. Majority of customers is unaware with IB, its practices and code of conduct. Bankers are unable to provide complete information to customers regarding available products/services. Some problems were noticed regarding perception and mind-set among employees, customers and general public. Therefore, top management has to focus on the expectations and perceptions of the customers. Banks should increase the number of branches, provide diversified products and ensure compliance to *Sharī'ah* Principles. Moreover, awareness and promotion is needed by arrangement of seminars and other awareness campaigns to capture niche market.