

PERCEPTION OF CUSTOMERS TOWARDS ISLAMIC BANKING IN LAS-ANOD

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Abstract: Islamic banking products and services are gaining popularity among the Muslim countries across the globe due to its wider product coverage and ability to traverse the global economic melt-down. However, the objective of this paper is to explore the key aspects which effects the perception of customers towards Islamic banks in Lasanod, Somalia. To achieve this goal, the researchers selected for the investigation. A structured questionnaire was designed to know the perception of customers towards Islamic banking. A questionnaire was distributed among 40 respondents including staff of the Islamic banks, teachers and students. The Spearman Correlation technique was used to identify the relationship among major influencing factors. The results revealed that all the factors which research chosen are top influencing factors. Based on the results, mostly respondents are willing to deal with an Islamic bank due to religious Oriented.

Keywords: Perception, Islamic banking, Customers.

1. INTRODUCTION

Islamic Finance is one of the fastest growing financial systems in the international financial system. Banking is the most developed part of the Islamic financial system. The most of las-anod financial system is fully compatible with Islamic law. In general, Islamic banking, by definition of the International Association of Islamic Banks (IAIB), is a banking system which was established to utilize fund in accordance to Islamic Shariah principles. The purpose of IBS is to expand the ring of unity among the Muslims and to ensure a fair distribution and utilization of fund in compliance with the Islamic principles and teaching. This means that all the banking operations right from the deposits transactions, financing and products offered by the Islamic banks to its customers should comply with Shariah law. Shariah is the body of Islamic religious law. (Abdullah, Sidek, & Adnan, 2012).

The last two decades have seen tremendous growth and development in the Islamic banking system. As of 2011, there have been more than 300 Islamic banks across the world. All these 300 Islamic banks control assets of US \$ 200-500 million with annual growth rate of 10-15% as of 2011. By 2012, the annual size of Islamic banking system was US \$ 1.35 trillion with respective annual growth rate of more than 20% (Global Islamic Banking Bulletin, 2012).

The Islamic banks are mainly located in Middle East and Gulf region, which includes Saudi Arabia, Iran, Kuwait, Malaysia, and the United Arab Emirates. 13% of share of Islamic banks has been contributed by Far East Region and South Asia while rest of the world contributes rest of the share, (Islamic Banking Bulletin, 2012).

Started as the modest sized industry, Islamic banking system has become one of the most important and vibrant sectors in the economic system. (Iqbal, Z., & Mirakhor, A. (2011)

The principal reason behind this success is revival of fundamental Islamic values in all over the world during the past two decades. Muslims of the world are estimated as much as 1.2 billion inhabitants, which are nearly 25% of the world's total population. The significance of this Muslim population as the target market of Islamic banks in Muslim countries cannot be underestimated; their continuous support is prelude to ensure the success of this banking system. (ul Hassan, M. (2007).

In Somalia particularly las-anod, Islamic Banks were started in 2012 at private sector, and now they having a significant share in the region financial market. However, there is no full-fledged Islamic banks in the region and the whole country.

Problem Statement

Islamic banking is newly introduced in Somalia but has shown commendable performance giving tough competition to conventional banks operating already. As the name shows, this banking system follows Islamic laws strictly which is mainly based on TWO principles i.e. Profit and Loss Sharing Principle being one and the other being Prohibition of collection on payment of Interest (Abdulsaleh, & Worthington, 2013).

In accordance to the literature reviewed, the ideal situation of perception of customers towards Islamic banking is noted positive due to Islamic banking being interest free banking where there is no fixed rate of return (Ashraf, 2013).

People also trust that Islamic banking does not invest in illegal/sin sectors such as alcohol, pornography and gambling (Iqbal, 1997). The main cause of Islamic banks restriction on interest is to eliminate the source of unjust income and to earn with assuming risk factor (Khan, 2010).

As Somalia is a Muslim country, so people here abide by Shari'ah and prefer Islamic banking so it has grown in Somalia in recent years.

However, there is no research carried out regarding the perception of customers towards Islamic Banking. This system has shown an increasing trend in recent years but still, it lacks behind conventional banks due to unawareness among people about the Islamic banks (Gerrard & Cunningham, 1997)

This study therefore, attempts to fill the research gap by examining the impact of core factors such as awareness, religious orientation, and bank image/reputation on the perception of customers towards Islamic banking in Las-anod.

2. LITERATURE REVIEW

2.0 Introduction

The purpose of making Islamic laws is to encourage welfare of mankind, promote justice, and to safeguard religion and wealth. To protect above mentioned objective, an Islamic legal system plays a vital role which smoothen the progress of Islamic finance and to assist the other financial markets, (Ahmed H, 2006).

Considering the previous researches, no matter all the Muslims incorporate religion in all their life dealings but they are willing to lead their lives as according to the Islamic Shari'ah and laws., which states that all sort of interest are totally forbidden in Islam because not only it pushes the economy into crises but also affect the entire society, (Ahmad, 2008).

As Islamic Banks are newly introduced system, they are struggling to acquire abundant number of customers just to give tough competition to conventional banks who already have perfect brand imaging in customers' mind. As conventional banks provide interest based products which means they give surety to their customers regarding the return on investment, On the contrary, Islamic banks have found a way to attract more of the potential customers by providing interest free products/services therefore; they started progressing by leaps and bounds. Strictly speaking, since the payment on fixed dividends is prohibited in Islamic law (Shari'ah) therefore, no preferred shares will be issued by Islamic banks, (Kadubo, 2010).

2.1 Awareness

As Islamic banks and conventional banks offer different products/services, so awareness related to provision of services is a key element to attract customers. Many researches have been conducted to find out a relationship between customer's awareness and the bank selection. According (Gerrard & Cunningham, 1997) and (Ellahi, Khattak, Rehman, & Jamil, 2010) conducted in Singapore and Pakistan which revealed that religious factor is not the most essential key element to drive customer's towards Islamic banks but knowledge of products is very important. They discovered that there is a general lack of awareness among people which hinders them to choose Islamic banks. To support the argument i.e. awareness has an impact on the selection of an Islamic bank; a study has been conducted by (Ahmad & Haron, 2000) which states that degree of knowledge of Islamic bank products/services, marketing strategies and service quality have contributed to increase the market share.

A research conducted in UK by (Ahmad W., 2008) gave more importance on awareness as he stated that it is most essential for growth and progress of Islamic banking system to increase the number of its users. But in due course proper awareness is a source to increase account holders. To clearly understand the variable awareness, a research was conducted by (Ahmad, 2010) who stated the importance of service quality in terms of awareness. His study revealed that the provision of improved service quality would only satisfy those customers who are well aware of the products and services.

Similarly, another study was conducted by (Naser, Jamal, & Khatib, 1999) in which they came out with the idea that most of the customers do have a little bit knowledge about particular products i.e. Mudarabah and Murabaha but, most of them are not willing to use these products. Thus, we can say there is a balance between awareness of products/service and service quality as some people weigh awareness as a priority to select an Islamic bank while other researches proved that service quality is a key element to select any bank. (Kamso, N. (2013).

2.2 Religious Orientation

In simple words religious orientation can be defined as a person's strong association with his religion and religious beliefs. Through various researches, it has been proved that religious orientation has been one of the most essential elements of selecting an Islamic banking system. (DESA, U. (2009)

According to (Omer, 1992) in which he revealed that majority of Muslims selected Islamic banking system due to religious factor and found that mostly Muslims were enrolled to Islamic banks and the conventional banks who have Islamic windows. He further elaborated that majority of customers were ignorant of the products/services offered by the Islamic banks but the only reason of choosing an Islamic bank is the religious factor and the strong belief that it is an interest-free banking system.

There is another research conducted by (Metawa & Almosawi, 1998) who also supported the idea that the religious orientation is primarily the essential element of selecting an Islamic bank. For further validity one more remarkable study conducted by (Bashir, 1999) in Kuwait and (Naseer, Jamal, & Al-Khatib, 1999) in Jordan who mainly focused the Islamic banking selection criteria and found out that religious belief served as a major motivational element of selecting an Islamic bank which was rated by the 70% of the respondents.

Additional researches conducted by (Ahmad & Haron, 2000), (Bley & Kuehn, 2004) and (Worthington, 2005) supported the idea that people's strong religious association has been considered the most essential factor of choosing an Islamic banking system as Muslims consider Islamic banking as an ethical banking system that is operated as Riba-free banking which is strongly prohibited in Islamic Shari'ah. (Dusuki & Abdullah, 2007) Also found out by their research that most of the customers regarded religious orientation as the most essential element while dealing with Islamic banking system.

A remarkable study conducted by (Gerrard & Cunningham, 1997) in which he revealed that 62.1% Muslims are willing to keep their deposits in Islamic banks no matter if they get sufficient returns because of the strong religious association that Riba-free banking will direct to wellbeing of the society (Al-Ajmi, Al-Saleh, & Hussain, 2009) in their research they described various other motivational factors other than religion like friendly and well-informed bank staff, and considered service quality as a key element to attract and retain customers. From which we can easily come to the conclusion that mostly Muslims give importance to religious beliefs if the study is conducted in an Un-Islamic state the results would vary as not only few Muslims but majority of non-Muslims consider other factors i.e. bank image, service quality and investment opportunities.

Bank Image

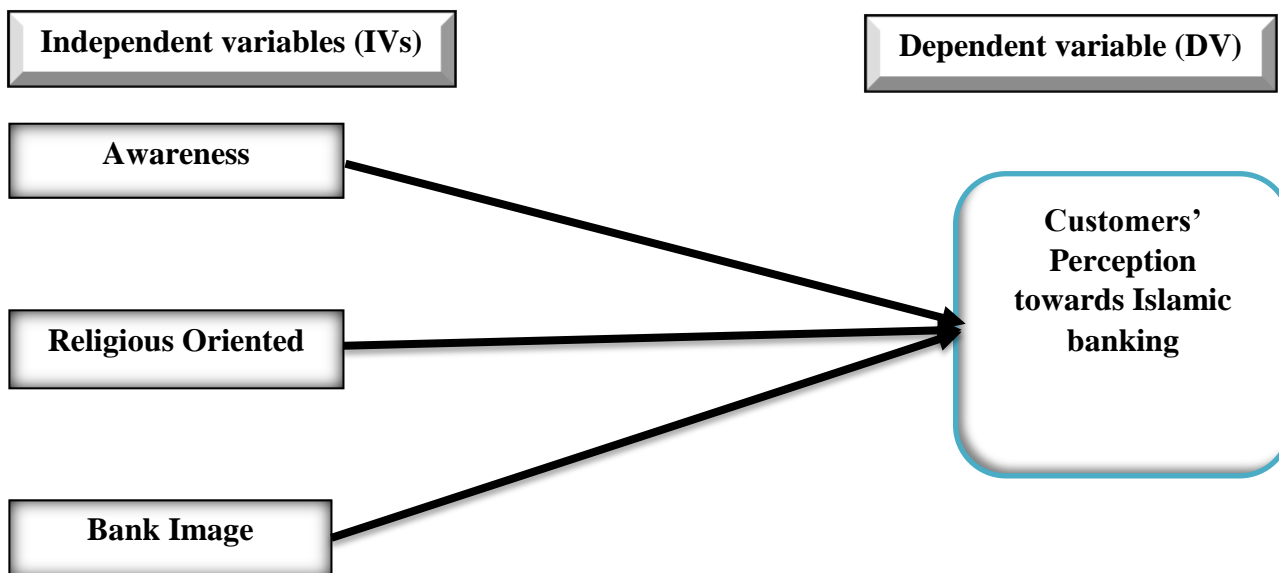
Bank Image can be define as the perceived reputation about a particular Organization, Bank, or banking system. The attraction of the customers depends on how that particular Bank or Organization satisfy their customers. The stronger the bank image in mind of customers, the more new customers it will attract. (Gait & Worthington 2008)

According to Gait & Worthington (2008) there is another factors which attract customers towards Islamic banking system but they mention in their study that the dominant attributed factors were bank image, service charges, friendly staff and service quality.

Clients also keep in mind while choosing banks for financial services other important factors, like name and quality (Awan & Shahzad Bukhari, 2011)

3. THEORETICAL FRAMEWORK

According to Sekeran (2003), a theoretical framework is a conceptual model of how one can make rational meaning of the relationships between the identified factors. Theoretical framework is the basis on which the whole research project is based. Sekeran, further stated that the theoretical framework discusses the correlations between the variables that are considered to be essential to the situation being examined. A variable is something which can take on differing or changeable standards (Sekeran, 2003).



Conceptual framework of this research is mainly aimed at investigating the perception of the Customers towards Islamic banking in Las-anod, and related variables.

In this research, a total of four variables have been used which are categorized as dependent and independent variables. These variables as shown in the model above are Customer's perception towards Islamic banking in las-anod, awareness, religious orientation and bank image.

The variable of Customer's perception towards Islamic banking in las-anod is categorized as dependent variable whereby the research will heavily concentrate on it. The rest of the variables have been used as the independent variables of the research.

3.1 Research Hypothesis

A hypothesis can be well-defined as a coherent relation is valued at within two or more variables conveyed in the method of statements that can be verified (Sekaran, 2003).

Based on the analytical interpretations in the previous section, the following hypotheses were proposed:

Ho1: There is a significant relationship between awareness and perception of the Customers towards Islamic banking in Las-anod.

Ho2: There is a significant relationship between religious orientation and perception of the Customers towards Islamic banking in Las-anod.

Ho3: There is a significant relationship between bank image and perception of the Customers towards Islamic banking in Las-anod.

3.2 Research Design

Research design is the structure or the plan which we use in order to conduct study. Hence, as our purpose of this study is to scrutinize and investigate the Perception of Customers towards Islamic banking in Las-anod quantitative research is found to be suitable and appropriate for this study. In this study, we used a quantitative research method which is to collect the numerical data while analyzing it through using (SPSS software).

Additionally, descriptive study of research is also utilized in this study; this is because the data is collected via detailed questionnaire. In this case, we emphasize and highlight on studying the accurate profiles of the respondents to explain and investigate the relationship between awareness, religious orientation, bank image and Customers' perception towards Islamic banking in Las-anod.

3.3 Sample and Procedure

This study used both primary and secondary data. A self-administered questionnaire was employed and distributed among 40 staffs and lecturers in Universities and Islamic Banks in Las-anod Somalia. Respondents were randomly chosen. The questionnaires were collected right after the completion. The method of close-ended questions were used to develop the questionnaire items, since it is the easiest way for the respondents to answer, and the best method for the study to obtain the respondents opinion in a structured manner.

4. DATA ANALYSIS

This chapter presents the final outcomes based on the data analysis conducted. The important of this chapter is to elaborate and explain the results and the outcomes of the paper. The data were analyzed by a number of techniques such as descriptive statistics, mean and standard deviation, frequency analysis and correlation between the research variables.

4.1 Respondents Profile

Based on the sample size of the research, a total 40 self-administered sets of questionnaire were distributed to the respondents, there were 18 (45%) male and 22 (55%) female. As for nationality of the respondents, there were 95% from Somalia, 5% from other countries. Majority of the respondents were staffs presented by 64% and 46% were lecturers.

4.2 Descriptive Analysis

Table 1. Minimum, Maxi, mean and Std. deviation of Customers' Perception, Awareness, Religious Oriented and Bank

Variables	Minimum	Maxi mum	Mean	Std. Deviation
Customers' Perception	1.00	5.00	3.7984	.69886
Awareness	2.00	5.00	3.9380	.68049
Religious Oriented	2.00	5.00	3.8837	.82403
Bank Image	2.00	5.00	3.5853	.71293

The Table above shown that the mean for Customer's perception is 3.7984 and the standard deviation is 0.69886. Awareness has mean 3.9380 and standard deviation 0.68049. Respectively while Religious Oriented has mean 3.8837 and standard deviation 0.82403. While Bank image has mean 3.5853 and standard deviation 0.71293.

4.3 Reliability Analysis

Table 2. Reliability of Customers' Perception, Awareness, Religious Oriented and Bank

Variables	No of Items	Cronbach Alpha
Customers' Perception	6	0.844
Awareness	7	0.714
Religious Oriented	6	0.914
Bank Image	5	0.703

The coefficients alpha for all dimensions was reported in Table 2. Customers' Perception 0.844; which is considered as good. While Awareness demonstrated 0.714; measured as acceptable. Religious Oriented Indicated 0.914 which is considered as excellent and Bank Image showed 0.703 measured as acceptable. Therefore, these three independent variables are acceptable and give a great Alpha value.

4.4 Multiple Regressions Analysis

Table 4. Model Summary for Customers' Perception, Awareness, Religious Oriented and Bank

Model	R	R Square	Adjusted Square	R	Std. Error Of The Estimate	Durbin Watson
1	.587a	.344	.309		.42058	2.028

According to table 4, the R square is 34.4%; means that the independent variables can be explained by 34.4%. Durbin Watson point out that the value is in the range of 2.028 and it is therefore has no any problem in autocorrelation. Therefore, it implies that 34.4% of the variance of Customers' Perception can be explained by regression tested of the independent variables which are Awareness, Religious Oriented and Bank Image. In other words, 65.6% cannot be explained in these dimensions due to other factors that can be utilized to examine Perception of the customers towards Islamic banking.

4.5 Hypothesis Testing

Table 5. Summary of hypothesis tested multiple regression Analysis

No.	Hypothesis	P-value	Testing	Decision
H01	There is a significant relationship between awareness and perception of the Customers towards Islamic banking	.000	P<0.05	Accepted
H02	There is a significant relationship between religious orientation and perception of the Customers towards Islamic banking	.001	P<0.05	Accepted
H03	There is a significant relationship between bank image and perception of the Customers towards Islamic banking	.000	P<0.05	supported

5. DISCUSSION AND CONCLUSION

The core objective of this study was to find out that whether there is any significant impact of the Awareness, Religious Orientation and Bank Image on the perception of customers towards Islamic banks.

Through the in-depth research on "An Empirical Survey of Potential Customers' Perception Towards Islamic Bank" the researchers had concluded that the impact of these variables (Awareness, Religious Oriented and Bank Image) were effective.

However, all the variables made a good impact on the perception of customers towards Islamic Banks in las-anod and the reason behind it could be that Somalia is an Islamic region and the entire of the population is Muslim, so nation are leaner towards Islamic Banks than conventional rules.

Earlier, several researches have been conducted to know the perception of the customers of Islamic banks in other counties, but no researches carried out to know the perception of the customers of Islamic banks in Somalia, so this will be the first research conducted to identify the perception of the customers of Islamic banking in this region.

Lastly, Future researchers may increase the sample size by including all regions of Somalia to generalize the findings of the study. On the other hand, the present research has determined the elements that influence the perception of the customers towards Islamic banking such as Awareness, Religious oriented and Bank Image. In the future research should examine other variables that affect perception of the customers towards Islamic banking such as age, gender, and service and product quality and so on.

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