



## Factors Influencing Customer Intention and Actual Behavior towards Islamic Banking Adoption. Empirical Evidence from Major Islamic Banks of Pakistan.

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### Abstract

This research examines the influence of perceived usefulness (PU), attitude (ATT) and perceived behavioral control (PBC) on intention (I) and actual behavior (AB). Intention is used as a mediator to find the linkage among PU, ATT, PBC and Actual Behavior (AB). The study findings show that all hypotheses are accepted. There is significant and positive relationship between PU, ATT, PBC, I and AB. Further (I) partially mediates the relationship between these variables. Findings show that PU, ATT and PBC positively and significantly influence the intention and subsequently actual behavior of customers of Islamic Banking. Quantitative research approach was applied to analyze the factors influencing customer intention and actual behavior towards Islamic Banking adoption from major Islamic banks of Pakistan. We analyzed the model with (Smart PLS 4– SEM) partial least square software. 430 responses were obtained from five major Islamic banks of Pakistan. This research can aid the Islamic Banks, higher authorities who make the policies and regulatory authorities to make the policies, introduce promotional deals and design services in such a manner that can positively influence the intention and actual behavior of Islamic Banking customers who tend to adopt the Islamic banking over conventional banking that is free of any interest (Riba).

## 1. Introduction

Previously we as Muslims were having only conventional banking system in order to receive financial services. However, emergence of Islamic banking in 1960s and 1970s allowed Muslims to carry out their banking activities according to the teachings of Islam. As per SBP (state bank of Pakistan) recent statistics, Islamic banking market share in overall banking assets increased to 27.2 % by end June, 2022. Islamic banking has reformed the scenario of banking sector with main aim of helping its customers to carry out the banking transactions in compliance with the Islamic teachings. It's essential to understand the notion of Islamic banking because it impacts selection, acceptance and prioritizing Islamic banking amongst its customers.

Thus, main aim of this study is to determine elements effecting customers' intention and actual behavior in accepting and acquiring Islamic banking with the help of Theory of Planned Behavior (TPB) proposed by Ajzen (1991) and used in later research (Anser et al., 2020) with addition of variables of perceived usefulness, and actual behavior. Intention is used as a mediator between perceived usefulness (PU), attitude (ATT), perceived behavioral control (PBC) and actual behavior (AB). Majority of research on this topic is carried out in developed countries context, (Rahman, Al Baity, et al, (2019) but there is paucity of research in developing countries context particularly Pakistan (Rasheed, Jamad, Pitafi, & Iqbal, 2020) with reference of these variables (Ganesan, Y,et al , (2020). These findings can help Islamic banks' managers to make their policies in a way that augments the knowledge of potential customers regarding Islamic banks' products and services. Results of this particular research can aid specialists to formulate policies in order to bridge the gap lying between academia and industry of Islamic banking.

## 2. Background Literature and Hypotheses Development

### 2.1. Theory of Planned Behavior:

In a study carried out by Al Balushi, Boulanouar, & Locke (2018) to determine the effect of attitude, subjective norm, perceived behavioral control and awareness as independent variables on behavioral intention as dependent variable to acquire IFI. Results showed that awareness, attitude, subjective norm, perceived behavioral control are significant forecasters of SMEs intention to acquire IFI. Research done by Amin, Rahman, & Razak (2014) determined the factors which influence Islamic banking customers to accept Islamic home financing products using TPB. Outcomes indicated that all the elements of TPB have vital influence on acceptance of home financing products by respective customers. Research was done by Alam, Janor, Zanariah, Wel, & Ahsan (2012) in order to find the effect of religiosity on intention in accepting Islamic home financing in Malaysia. Its model has four dependent variables, attitude, subjective norm, perceived behavioral control and religion. Findings of this research revealed that attitude,

religiosity and perceived behavioral control have a significant effect on behavioral intention in accepting Islamic home financing whereas subjective norm had less impact.

## **2.2. Perceived Usefulness and Intention:**

Previous studies (Koufaris, 2002) also signifies construct of PU which has an effect on intentions of impending customers, Agarwal and Prasad (1999); Chau and Hu (2002); Davis, et al. (1989); Hu et al. (1999); Igbaria et al. (1995); Igbaria (1993); Moon and Kim (2001); Venkatesh and Davis (2000) also identified PU to have considerable effect on intention. According to theory of planned behavior (Ajzen, 1991) and theory of reasoned action (Fishbein and Ajzen, 1975), TAM proposes that users attitude is depicted in inclination towards PU of any information system or technology, that additionally augments their behavioral intention (Davis et al., 1989).

H1: There is a positive association between perceived usefulness and intention.

## **2.3. Attitude and Intention :**

Attitude is defined as the main element to impact the behavioral intention of an individual. We can define this in present scenario in a way that the attitude of an individual effects the intention of customer to use Islamic banking. Lajuni, Wong, Yacob, Ting, and Jausin (2017) and related researches proved that attitude is a significant element which impacts behavioral intention of customers of Islamic banks.

According to TRA, TAM and TPB, attitude significantly impacts the customers' intention (Fishbein and Ajzen, 1975; Ajzen, 1991; Davis et al., 1989; Zhang, Wu, & Rasheed, 2020). Previous researchers such as Lin (2011), Chang et al., (2022), and Deb and David (2014), confirmed significant impact of attitude over intention.

H2: There is positive association among attitude and intention.

## **2.4. Perceived Behavioral Control and Intention:**

As per TPB, individuals have a significant impact on their intentions when their perceived behavioral control (PBC) is high.

H3: There is positive association among perceived behavioral control and intention.

## **2.5. Intention and Actual Behavior:**

As per TPB, individuals' intentions have a significant impact on their actual behavior

H4: There is positive association among intention and actual behavior.

H5: Intention acts as a mediator between PU, ATT, PBC and AB.

## 3. Research Methodology

### 3.1. Methods

This research is quantitative in nature and research design is cross sectional. The participants of the research are the Islamic Banks' account holders of five major banks of Pakistan namely Meezan Bank, Bank Islami , Dubai Islamic, Al Baraka Bank, Bank Alfalah. Data was collected from the participants from 6<sup>th</sup> June 2022 to 8<sup>th</sup> August 2022. Questionnaires in printed form and google survey forms were distributed amongst these banks' account holders to get their feedback regarding the topic.

#### 3.1.1 Target Population

Our target population is Islamic banks customers who are having their accounts in top five Islamic banks of Pakistan i.e. (Meezan Bank, Bank Islami, Dubai Islamic, Al Baraka Bank, and Bank Alfalah) and are utilizing their services effectively. In Pakistan there are total 31 banks out of which twenty one are having Islamic Banking operations. Purposive sampling method was used to collect the data from Islamic Banks customers. In order to determine the sample size software of G\* 3.1.9.2 was used to determine least sample size of 215 members so that we can validate the findings of present study. Total 339 responses were obtained from customers of Islamic Banks through hard copy questionnaires as well as google forms survey.

Demographic details of respondents are shown in table 1:

<b>Gender</b>		
	Frequency	Percent
Male	214	63.12%
Female	125	36.87%
Total	339	100.0

## Education Level

	Frequency	Percent
Intermediate	4	1.17%
Bachelor degree	121	35.69%
Technical Degree	86	25.36%
Masters or above	128	37.7%
Total	339	100.0

Islamic Bank in which your account is:

	Frequency	Percent
Dubai Islamic Bank	77	22.7%
Al Baraka Bank	11	3.24%
Meezan Bank	92	27.1%
Bank Islami	87	25.6%
MCB	72	21.2%
Total	339	100.0

### 3.2.Measures:

Survey research is comprised of five sections. First section consists of Perceived Usefulness (PU), second section consists of Attitude (ATT), third section comprises Perceived Behavioral Control (PBC), fourth section contains Intention (I) and fifth section comprise of Actual Behavior (AB).

### 3.3.Data Analysis:

The percentage and frequency of demographic details were analyzed in SPSS 23 to examine the relationships between PU, ATT, PBC, I, AB. Reliability ,Validity, Significance and Relevance of Path Coefficients were analyzed in SMART PLS version 4.0 (Ringle et al., 2015). Data collected from one to one questionnaire and google survey forms lessened the possibility of missing data (Hair et al., 2017).

## 4. Results

### 4.1.1. Measurement model analysis:

Table 2 shows values greater than 0.50 for outer loadings. Therefore, this shows indicator reliability (Hair et al., 2017). Values are higher than 0.7 for composite reliability. This shows

formation of internal consistency is reliable (Hair et al., 2006). Average variance extracted (AVE) has values which are more than 0.5. Thus showing convergent validity (Hair et al., 2006). Table 3 shows Discriminant Validity (Henseler et al., 2015). Suggestions by (Henseler et al., 2015) are followed in this research and Discriminant Validity is measured by Heterotrait-Monotrait ratio of correlations. In table 4 it's shown that all values of HTMT are less than 0.85.

## a. Structural Model Analysis

Bootstrapping technique was used to further determine the significance of all hypotheses taking 5000 sub-samples. To consider the significance level of b coefficients, t value should be more than 1.96, and p-value should be lesser than 0.05. The result shows the connection between PU and I is important and positive with b-value 0.304 and t value 6.885. Therefore, first hypothesis (H1) is accepted. The association between ATT and I is significant and positive with b-value 0.360 and t value 8.485. Therefore, second hypothesis (H2) is accepted. In same way, the relationship between PBC and I also shows significant and positive results with b-value 0.386 and t-value 8.012. Therefore, third hypothesis (H3) is accepted. Results show the association between I and AB is significant and positive with b-value 0.606 and t value 19.466. Therefore fourth hypothesis (H4) is accepted. All results are shown in Table 5.

## 4.2. Mediation test

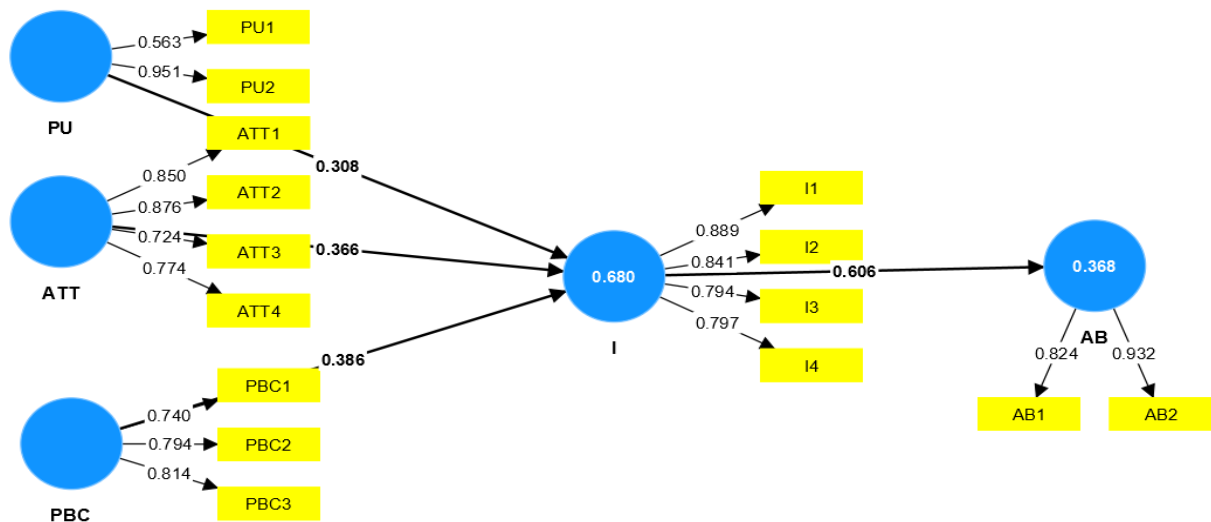
This research measured indirect influence of PU to AB having I as a mediator and ATT to AB through I as a mediator and PBC to AB through I as a mediator. These results show the significant values of PU indirect effect b value 0.187 for AB, significant value of ATT indirect effect b value 0.222 for AB, significant value of PBC indirect effect b value 0.234 for AB. (Details are in Table 6). All of these results show Partial mediation. Furthermore, researcher witnessed positive impact of these direct and indirect effects. It determined that I (intention) has partial mediation. Therefore, hypothesis H5 shows partial mediation and is accepted.

## 4.3. Predictive Relevance and Effect size:

I (0.581) shows greater relevance effect. ATT (0.313), PBC (0.276) and PU (0.182) have moderate predictive relevance effect. Therefore, this study explains exogenous constructs. Some of the researchers propose computing effect size ( $f^2$ ) of every path co-efficient in the inner or structural model (Henseler et al., 2009). Value of  $f^2 > 0.02, 0.15, \text{ and } 0.35$  is measured as small, medium, and large effect size, as proposed by Cohen (1998). Value of  $f^2$  determines that exogenous construct has substantial impact on endogenous constructs (Gotz et al., 2010). Table 7 shows that I is having large impact on AB and ATT, PBC and PU have medium effect on AB.

## 5. Discussion

We have incorporated (TPB) in our research to analyze relationships amongst PU, ATT, PBC, I and AB which are less researched previously in particular context. To examine the hypotheses we collected data from Islamic banks' customers. Out of all the variables, intention has most pronounced impact on actual behavior of customers towards Islamic banking adoption. However, attitude, perceived behavioral control and perceived usefulness have medium effect on actual behavior towards Islamic banking adoption. The results showed that PU positively influences I (b 0.304) accepting first hypothesis as forecasted by theory of planned behavior. Findings showed positive effect of I on AB (b 0.606), accepting second hypothesis. The results showed positive and significant effect of ATT on I (b 0.360), hence accepting third hypothesis. These results are quite analogous to findings of Yuvaraj Ganeson et al, (2020). Findings showed that PBC has substantial positive impact on I (b 0.386), thus accepting fourth hypothesis. Further studies show that Intention (I) is key factor to impact the actual behavior of customers to adopt Islamic Banking. While investigating the indirect impact of PU, ATT, PBC on AB through I, results showed that I partially mediates the relationship of PU to AB, ATT to AB, PBC to AB thus fulfilling the fifth hypothesis.



**Table : 2**

<b>Constructs</b>	<b>Items</b>	<b>Outer Loadings</b>	<b>Composite Reliability (CR)</b>	<b>Average Variance Extracted (AVE)</b>
<b>Perceived Usefulness</b>	PU1	0.563	0.716	0.610
	PU2	0.951		
<b>Attitude</b>	ATT1	0.850	0.851	0.653
	ATT2	0.876		
	ATT3	0.724		
	ATT4	0.774		
<b>Perceived behavioral Control</b>	PBC1	0.740	0.701	0.614
	PBC2	0.794		
	PBC3	0.814		
<b>Intention</b>	I1	0.889	0.822	0.691
	I2	0.841		
	I3	0.794		
	I4	0.797		
<b>Actual Behavior</b>	AB1	0.824	0.822	0.774
	AB2	0.932		

**Table 3. Discriminant validity - Fornell & Larcker**

	<b>AB</b>	<b>ATT</b>	<b>I</b>	<b>PBC</b>	<b>U</b>
<b>AB</b>	0.880				
<b>ATT</b>	0.615	0.808			
<b>I</b>	0.606	0.600	0.831		
<b>PBC</b>	0.596	0.435	0.715	0.783	
<b>PU</b>	0.322	0.214	0.599	0.549	0.781



<b>Table 4. HTMT RATIO</b>					
	<b>AB</b>	<b>ATT</b>	<b>I</b>	<b>PBC</b>	<b>PU</b>
AB					
ATT	0.822				
I	0.745	0.665			
PBC	0.840	0.553	0.831		
PU	0.516	0.299	0.823	0.812	

<b>Table: 5: Significance and Relevance of Path coefficients</b>						
	<b>Hypothesized Relationship</b>	<b>Beta</b>	<b>Std Error</b>	<b>T Value</b>	<b>P Value</b>	<b>Accepted/ Rejected</b>
H1	PU → I	0.304	0.044	6.885	<b>0.000</b>	<b>Accepted</b>
H2	I → AB	0.606	0.031	19.466	<b>0.000</b>	<b>Accepted</b>
H3	ATT → I	0.360	0.042	8.485	<b>0.000</b>	<b>Accepted</b>
H4	PBC → I	0.386	0.048	8.012	<b>0.000</b>	<b>Accepted</b>

H1: There is positive association amongst PU and I to adopt Islamic banking.

H2: There is positive association amongst ATT and I to adopt Islamic banking

H3: There is positive association amongst PBC and I to adopt Islamic banking.

H4: There is positive association amongst intention and actual behavior.

All hypotheses are accepted.

There is significant and positive association amongst PU, ATT, PBC and I.

H5: Intention acts as a mediator between PU, ATT, PBC and AB.

**TABLE 6. MEDIATING EFFECT**

	<b>Hypothesized Relationship</b>	<b>Beta</b>	<b>Std Error</b>	<b>T Value</b>	<b>P Value</b>	<b>Full/Partial Mediation</b>
H5	<b>PU -&gt; I -&gt; AB</b>	0.184	0.026	7.000	<b>0.000</b>	<b>Partial Mediation</b>
	<b>ATT -&gt; I -&gt; AB</b>	0.218	0.032	6.748	<b>0.000</b>	<b>Partial Mediation</b>
	<b>PBC -&gt; I -&gt; AB</b>	0.234	0.032	7.435	<b>0.000</b>	<b>Partial Mediation</b>

**TABLE 7.**

<b>Effect size of a model.</b>	<b>f<sup>2</sup></b>	<b>Effect Size</b>
<b>ATT</b>	0.340	<b>Medium</b>
<b>I</b>	0.581	<b>Large</b>
<b>PBC</b>	0.276	<b>Medium</b>
<b>PU</b>	0.207	<b>Medium</b>

The  $f^2$  value greater than 0.02, 0.15, and 0.35 is measured as small, medium, and large, as per Cohen (1998)

**TABLE 8.**

<b>Endogenous Latent Variable</b>	<b>R Square</b>	<b>Variance Explained/Effect Size</b>
<b>AB</b>	<b>0.368</b>	<b>Moderate</b>
<b>I</b>	<b>0.6780</b>	<b>Substantial</b>

$R^2$  shows degree variance and significance of endogenous latent variables (Akter & Ray, 2011)

$R^2$  values of 0.67, 0.33, and 0.19 considered as substantial, moderate, and weak respectively. (Chin, 1998).

## **6. Conclusion**

This research revealed that PU, ATT, PBC have direct, positive effect on I. I has direct and significant effect on AB. Further, I significantly partially mediates between PU, ATT, PBC and AB. I has the most considerable effect on actual behavior (AB) of the customers of Islamic

banking. This can be interpreted in a way that if a customer has high and positive intention towards Islamic banking then there is greater possibility of high rate of adoption and acceptance of Islamic banking.

This study helps the Islamic Banks, policy makers and regulatory authorities to make the policies and design services in such a manner that can impact Islamic Banking customers' intention to acquire Islamic banks' services which are free of any interest (Riba). Islamic banking institutions must present potential benefits which can make them stand out of conventional banking.

## **6.1.Theoretical Implications:**

This research is an extended form of (TPB). Replication is important as we have to provide the support of already existing theory to make our research authentic and acceptable. The research has proved that the variables employed have significant and positive impact on actual behavior of customers to adopt Islamic banking. TPB comprises attitude, subjective norms and perceived behavioral control variables. This research has additionally incorporated perceived usefulness and actual behavior in existing TPB. Therefore, this study will path ways for other researchers to carry out the research in area of financial literacy and Islamic banking.

Findings of this research can help future researchers in a number of ways. Research shows that attitude, perceived behavioral control, perceived usefulness and intention have significant impact on actual behavior of customers towards Islamic banking adoption. Amongst all variables, intention has the most substantial impact on actual behavior. Attitude, Perceived behavioral control and perceived usefulness have medium effect on actual behavior. These findings can help Islamic banks' managers to make their policies in a way that augments the knowledge of potential customers about Islamic banks products and services.

Results of this particular research can assist specialists to formulate strategies in order to bridge the gap lying between academia and industry of Islamic banking.

## **6.2.Limitations**

Results of this research can be generalized to only Islamic banking context in Pakistan.

As the data was collected from only Islamic bank customers so this cannot be generalized to conventional bank customers. Data was collected from Pakistan which is a Muslim country so these results cannot be generalized for non-Muslim country.

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