



FACTORS AFFECTING ISLAMIC BANKING ADOPTION IN BOSNIA AND HERZEGOVINA

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Abstract

The goal of this research is to look into the elements that influence the adoption of Islamic banking services in Bosnia and Herzegovina. The study was conducted inside Bosnia and Herzegovina with a sample of 201 respondents which are older than 18 and can hold personal accounts in banks. Upon structuring the survey using valid and reliable scales, the participants were asked to fill out the online questionnaire via Google docs. Once enough responses were collected, the data was statistically analysed using Microsoft Excel and SmartPLS. While Microsoft Excel was used to deliver descriptive statistics, SmartPLS was used employing the partial least squares (PLS) route modeling approach for variance-based structural equation modeling (SEM). The results revealed a positive correlation between an individual's religiosity, perceived compatibility, and social influence and acceptance of Islamic banking. As currently there is no study of this kind conducted in this region, theoretical contribution is granted.

Keywords: Islamic banking (IB), Knowledge, Theory of Reasoned Action (TRA), Social influence (SI), Religiosity, Relative advantage (RA)



INTRODUCTION

Islamic banking also known as interest-free banking has become well-known since its introduction to the financial industry in the 1970s. The global economic crisis highlighted the weaknesses of the current "mainstream" financial system. Many states have faced bankruptcy, and the banking system along with the financial market, was the most affected by this crisis. This resulted in a large number of banks bankruptcies and financial companies failures.

Dubai Islamic Bank was the first private Islamic bank to open in 1975 and grew to become the largest Islamic bank in 1987. Islamic banking has become an essential component of the banking systems of Middle Eastern countries, and it has spread to South East Asia as well. In a region with a predominantly Muslim population, an Islamic bank would emerge. This was the case with Bosnia and Herzegovina as well where 52% of the population are Muslims. The only bank that operates in Bosnia and Herzegovina according to the principles of Islamic banking is Bosna Bank International. BBI bank was founded in 2000 with its headquarters in Sarajevo and is distinguished by the fact that the products it offers are not based on the interest principle.

The main objective of this research was to study the consumer acceptance of Islamic banking services in Bosnia and Herzegovina. The conceptual model of this research includes the variables gathered from previous Islamic banking adoption investigations. The Theory of Reasoned Actions was used as a baseline theory, which was further upgraded by adding other factors influencing intention to adopt IB. The model that we constructed proposed that Islamic banking acceptance can be influenced by five variables including knowledge, relative advantage, social influence, religiosity and compatibility.

THEORY AND HYPOTHESES

Transactional behaviour analysis (TRA) describes the connection between attitudes and behaviours and is used to predict how an individual will act based on their current attitude and behavioural intentions. An individual's choice of behaviour is determined by what they expect to happen when they engage in that behaviour. Fishbein and Ajzen initially proposed TRA in 1975 to develop and create a link between belief, attitude, intention, and behavior. (Taib et al., 2008). While the primary purpose of the model is to create connections between attitudes, beliefs, intentions and behaviors (Taib et al., 2008), it has also been commonly employed to forecast and clarify consumer behavior reasons (Vallerand et al., 1992; Venkatesh and Davis, 2000; Paul et al., 2016; Hussain et al., 2016). TRA has been used extensively by researchers in previous studies in a variety of contexts (Taib et al., 2008; Amin et al., 2011) and has been

widely used in a number of studies relating to the intention to use different types of Islamic banking products.

In the context of Islamic banking, knowledge refers to the level of understanding, awareness and competence consumers have regarding Islamic banking principles, products and practices. This knowledge is essential because Islamic banking operates on unique principles and complies with Shariah (Islamic law), which differs significantly from conventional banking practices. The purchasing decision is influenced by customer knowledge since, when certain extrinsic elements such as satisfaction and loyalty are considered, consumer knowledge influences how consumers perceive their effect (Espjel, 2008). Knowledge shows a strong association with decision to use and impacts the consumer's intention to actively use Islamic banking items, or the other way around (Wahyuni and Arifin, 2013). Knowledge on the intention of Indonesians means that the knowledge has a significant impact on the people's mindset to get inclined towards the under consideration topic which is Islamic banking (Reni and Ahmad, 2016). In addition, in a situation where social influence is absent, a strong influence of knowledge is observed towards the intention to use Islamic banks, whereas its influence is absent in a situation where knowledge acted as a bridge between the attitude and social influence (Wahyuni, 2012).

Relative advantage is defined as the degree to which an innovation is perceived as being better than the 'idea' it supersedes (Rogers, 1999). If you are a potential adopter, you want to know how much of an advantage a new idea has over an existing one. 'Economic and social advantages' are characteristics of innovation that lead to relative advantage (Rogers, 2003). Researchers have found that relative advantage is one of the most important predictors of the adoption rate of an innovation, according to Yusof (1999).

Social influence is the extent to which a person believes that other people, who are important to them, think that he or she should use a new system (Venkatesh, 2000). Previous research has demonstrated a strong correlation in between social influence and attitude in various settings. For example, Jimenez & San-Martin (2017) shown that social influence had a positive impact on attitudes regarding mobile advertising. In addition, Huang (2016) found a positive link between social influence and student's perspectives on utilizing cloud services. Also it was noted that people tend to be more drawn to products or institutions such as IB due to their surrounding references (Reni, 2016).

Religiosity is defined as individual's attachment to a certain religious tradition or teaching of a divine other or supernatural power (Reich et al., 1999; Wong et al., 2006). In this research, we define religious belief as the practice, belief, attitude or sentiment associated with the formation of an organized religious community. According to Sulaiman (2003), all Islamic banks

should be in accordance with the principles of Sharia while offering their customers Islamic banking products. If Islamic banks strictly adhere to Sharia norms, there is a better chance that Muslims will use their services. According to Jaffar & Musa (2016), the most important factor influencing customer's decisions about whether or not to accept Islamic financing is their religious obligation.

Compatibility is defined as the degree to which an innovation is perceived as being consistent with existing values, past experiences and the needs of potential adopters (Rogers, 2003). In most cases, an innovation can be compatible with either socio-cultural beliefs and values, formerly introduced ideas or client's need for innovations. Previous investigations in a number of circumstances have found that people are more likely to embrace a new concept or product if it is regarded to be compatible with their social structure, norms, beliefs, current standards, lifestyle, and values (Tornatzky & Klein, 1982; Gerard & Cunningham, 2003). . In Islamic banking context, the scope of product and service suitability is examined in order to determine the consumer's banking requirements, principles, values, experience, and habits. Echchabi and Aziz (2012) examined Moroccan customer's adoption of Islamic banking services and revealed a substantial effect of compatibility to adopt Islamic banking services. Based on the previously mentioned research and our adaptation of model (Figure 1.) we formulated below Hypotheses for testing:

H1: Knowledge on IB has a positive influence on IB adoption.

H2: Relative advantage has a positive influence on IB adoption.

H3: Social influence has a positive influence on IB adoption.

H4: Religiosity has a positive influence on IB adoption..

H5: Compatibility has a positive influence on IB adoption.

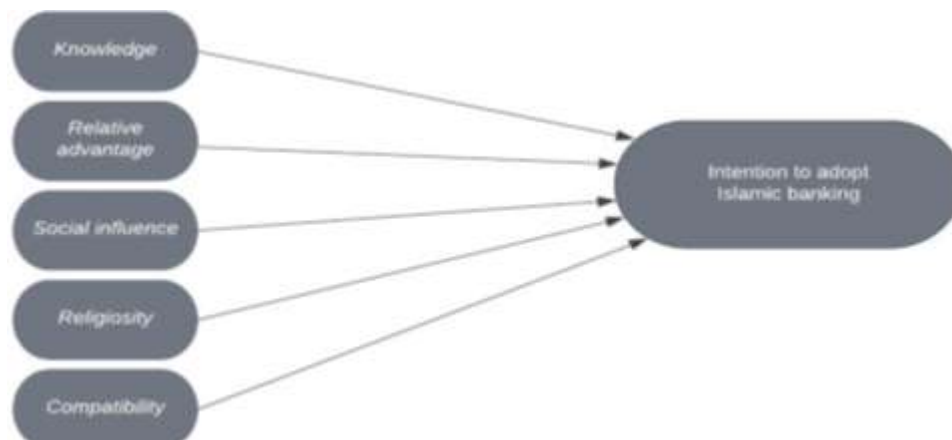


Figure 1: Proposed research model

METHODOLOGY

This research employed a quantitative research strategy alongside an empirical approach to evaluate the hypotheses. The hypotheses contribute to determine the influence on the dependent variables. The quantitative research design made it possible to eliminate bias in this study, so the results are reliable. Research tool that was used in this case was an online questionnaire comprised of three sections. The first section was designed to exhibit demographic information of the respondents such as their gender, age, level of education, monthly income and place of residence. The second section examined whether the respondents are users of: Islamic banking, Conventional banking, both or neither. Final section exhibited 28 items representing 6 variables such as knowledge, relative advantage, social influence, religiosity, compatibility and intention to use. The online questionnaire was clear and precise, in order to achieve the rationality of the data. The respondents were presented with 5-Likert scale (Strongly disagree=1 to strongly agree=5) to respond these questions. The population for this research were people older than 18, who can hold personal account(s) in banks. Participants were informed that there were no correct or incorrect responses and that they should be as honest as possible. Approximately 3 weeks were needed to collect a total of 201 responses. The responses were then examined and analyzed using Smart-PLS 4.0 statistical software.

Table 1: Demographics of sample

VARIABLE	% OF SAMPLE
GENDER	
Male	52.24%
Female	47.76%
AGE	
<20	6.97%
21-35	78.11%
36-50	11.44%
50+	3.48%
MONTHLY INCOME (BAM)	
<500	28.86%
500-1000	21.39%
1000-2000	33.33%
2000+	16.42%
EDUCATIONAL LEVEL	
High school	43.28%
Bachelor's degree	43.78%
Master's degree	12.94%
Doctorate	0.00%

PLACE OF RESIDENCE	
Sarajevo	77.61%
Other	22.39%
CURRENT USAGE OF IB/CB	
Islamic banking	3.98%
Conventional banking	65.17%
Both	3.48%
Neither	27.36%

Table 1...

Answers from a total of 201 respondents were analyzed descriptively. Of these, 105 were female, while the remaining 96 were male. In percentage terms, it is 52.24% of female and 47.75% of male. 58 respondents have under 500KM (i.e. convertible marks - Bosnian money currency) monthly income (28,86%), 43 respondents have between 500KM and 1000KM monthly income (21,39%), 67 respondents have between 1000KM and 2000KM monthly income (33,33%), and the rest of them which is 33 have above 2000KM monthly income (16,42%). 87 respondents have High school degree (43,28%), 88 respondents have Bachelor's degree (43,78%), 26 respondents have Master's degree (12,94%) and none of them have Doctorate (PhD). A total of 156 respondents named Kanton Sarajevo as their place of residence (77,61%), 11 respondents named Zeničko-dobojski kanton as their place of residence (5,47%), 12 respondents named Tuzlanski kanton as their place of residence (5,97%), 3 respondents named Hercegovinačko-neretvanski kanton as their place of residence (1,49%), 10 respondents named Unsko-sanski kanton as their place of residence (4,98%), 2 respondents named Bosansko-podrinjski kanton Goražde as their place of residence (1%), 1 respondent named Zapadnohercegovački kanton as their residence and the rest of them which is 5 chose option Other (2,49%). There were no respondents that have chose Posavski kanton and Kanton 10 as their place of residence. 8 respondents answered that they are currently users of Islamic banking (4%), 130 respondents answered that they are currently users of conventional banking (65,17%), 7 respondents answered that they are currently users of both (3,48%) and rest of them which is 55 answered that they currently use neither (27,36%).

RESULTS

Internal consistency is shown by Cronbach's alpha value and Composite reliability value (CR). If the value of both of these indicators is greater than 0.70, it means that internal consistency is satisfied.

Table 2: Cronbach's alpha vs. composite reliability

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
COMPATIBILITY	0.954	0.955	0.967	0.879
INTENTION TO USE	0.956	0.957	0.966	0.852
KNOWLEDGE	0.839	0.839	0.886	0.610
RELATIVE ADVANTAGE	0.911	0.922	0.933	0.736
RELIGIOSITY	0.838	0.876	0.891	0.674
SOCIAL INFLUENCE	0.829	0.836	0.878	0.591

Regarding the Cronbach's alpha value, in the table below we can notice that all values are greater than 0.70. The conclusion is that all variables have a fairly high internal consistency, and that the items on the scale or test measure the same basic construct with a reasonable degree of reliability. It is crucial to emphasize, however, that the interpretation of Cronbach's alpha should take into account the research context and the specific purpose of the scale or test. In some cases, a lower alpha value may still be acceptable or even desirable, depending on the research question, sample size, and nature of the construct being measured.

On the other hand, Composite reliability for all variables is also higher than 0.70, which we can see in the table, so that in this case we can conclude that the variables have excellent internal consistency. Composite reliability usually estimates a higher value of internal consistency, and it is necessary to consider the value of Cronbach's alpha, in order to confirm internal consistency. A value of this indicator of 0.70 or higher is generally considered acceptable, indicating that the indicators or items measure the same construct with a reasonable degree of consistency and reliability.

Table 3: Average Variance Extracted (AVE)

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
COMPATIBILITY	0.954	0.955	0.967	0.879
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Average Variance Extracted (AVE) is a measure of the amount of variance in a set of observed variables that is explained by a construct or latent variable in a structural equation

model. It represents the amount of shared variance among items in a measure accounted for by the underlying construct. An AVE value of 0.50 or higher is generally considered acceptable, indicating that at least 50% of the variance in the observed variables can be explained by the construct they are intended to measure. In the following table, we can see that the AVE value of all variables is over 0.50, which means that the convergent validity is confirmed.

Table 4: Testing hypotheses

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
COMPATIBILITY -> INTENTION TO USE	0.508	0.501	0.088	5.792	0.000
KNOWLEDGE -> INTENTION TO USE	0.005	0.002	0.064	0.082	0.935
RELATIVE ADVANTAGE -> INTENTION TO USE	0.117	0.120	0.061	1.930	0.054
RELIGIOSITY -> INTENTION TO USE	0.152	0.153	0.057	2.676	0.007
SOCIAL INFLUENCE -> INTENTION TO USE	0.191	0.193	0.060	3.186	0.001

For the analysis of hypotheses, the so-called bias-corrected and accelerated (BCa) bootstrap method was used. This is a resampling method, used to estimate the standard error, confidence interval, and other statistical properties of a parameter estimate in a statistical model. It is particularly useful when the standard assumptions of a normal distribution do not hold or the sample size is small. In the BCa bootstrap, a large number of initial samples are drawn from the original sample, and parameter estimates are calculated for each sample. Bias and skewness in the bootstrap distribution are then corrected and confidence intervals are scaled using the percentage method to provide a more accurate estimate of the parameter estimate distribution.

First hypothesis (H1: Knowledge has direct impact on Islamic banking adoption.) of this research was not confirmed. Results show that P value is 0,935 and is greater than referent value which is 0,05. Therefore, we conclude that this hypothesis is not true and that it is rejected.

Second hypothesis (H2: Relative advantage has direct impact on Islamic banking adoption.) of this research was not confirmed. Results show that P value is 0,054 and is greater than referent value which is 0,05. Therefore, we conclude that this hypothesis is not true and that it is rejected.

Third hypothesis (H3: Social influence has direct impact on Islamic banking adoption.) of this research was confirmed. Results show that P value is 0,001 and is lower than referent value which is 0,05. Therefore, we conclude that this hypothesis istrue and that it is confirmed.

Fourth hypothesis (H4: Religiosity has direct impact on Islamic banking adoption.) of this research was confirmed. Results show that P value is 0,007 and is lower than referent value which is 0,05. Therefore, we conclude that this hypothesis istrue and that it is confirmed.

Fifth hypothesis (H5: Compatibility has direct impact on Islamic banking adoption.) of this research was confirmed. Results show that P value is 0,000 and is lower than referent value which is 0,05. Therefore, we conclude that this hypothesis istrue and that it is confirmed.

DISCUSSION

According to the research, the factor of religion and its obligations should play a vital role in persuading individuals to use Islamic banking because it does not deal in transactions containing Riba (interest). Different individuals have different interpretations of why they choose IB. However, it is clear that Muslims prefer Islamic banks due to the fact that Riba is excluded from all transactions. The findings also demonstrate that consumer compatibility is a reliable indicator of the development of a positive outlook. Thus, Islamic banks should prioritize their compliance with Sharia regulations and their communication strategy to draw in potential customers who are focused on niche marketing and the products and services they offer. This will lead to an increase in customer loyalty in the long term. Furthermore, the items offered by Islamic banking will attract a larger customer base if they are tailored to their requirements and preferences, and will provide greater financial benefits to their lives. Findings of this study also imply that society and our surroundings can influence us to adopt Islamic banking as a way of governing finance. Advertising and sales promotions that appeal to potential customers could be included in campaigns. Additionally, television talk shows could be used to promote the economic and social prosperity of the consumers by featuring religious scholars and experts in the field of Islamic banking. Furthermore, social media platforms such as Facebook, Twitter, and Instagram could be utilized to disseminate information to the general public about the benefits of Islamic banking.

The degree to which customers are aware of Islamic banking services and other features influences their willingness to use them. This is in line with the findings of previous studies in this area. However, our outcome is in contrast to the findings of these studies, which demonstrate that awareness of the services offered by Islamic banks has no impact on the customer's intention to engage in them. The reason behind this could be that the Islamic banking institutions may not have sufficiently educated the public about their offerings. This lack

of educational outreach could lead to a lower level of knowledge and understanding among potential adopters. In addition, the research findings showed that, contrary to expectations, the relative advantage attributed to the adoption of Islamic banking practices was not as prominent as expected within the scope of this study. The reason behind this statements could be limited awareness and understanding of benefits associated with Islamic banking. The lack of knowledge could have influenced their perception of the relative advantage. Economic factors, such as interest rates or economic stability, could have influenced individual's perceptions of the relative advantage of Islamic banking as well.

LIMITATIONS OF THE STUDY

The current study, like any other, has its limitations. Firstly, the study used evidence from B&H, therefore it is quite likely that these findings are only applicable to this nation and other countries with similar conditions. Also due to the cross-sectional research design of the study, it may not be feasible to track behavioral changes over time, thus future follow ups of this study are needed. In addition, the methodology used in this study was based on quantitative data, which can sometimes contain inaccuracies and limit the respondent's views on the study variables. A further limitation is related to the variables used. The variables employed in the present study were not comprehensive, and following researches could expand the model tested to include a more comprehensive set of variables, including attitude, corporate image, customer perception, role of government, promotional activities, and quality of service, in order to obtain better understanding of the acceptance of Islamic banking.

CONCLUSION

In conclusion, the theoretical foundations of Islamic economics are derived from the basic tenets of Islam. Understanding and researching Islamic economics is not possible without understanding Sharia as the legal basis of its origin and development. From conventional one, it differs by having a different view of the world and is based on a complete different sources of knowledge. Based on the fundamental values of Islam with a strong emphasis on moral, spiritual and ethical values, represents it's basic difference in relation to what we recognize today as "Western economic concept". The Islamic economy, at the same time, strives to accept all that is good, and reject all that considers harmful from conventional banking. Basic "filter" acceptability is represented by Sharia.

In previous years, Islamic banking has experienced a strong expansion. Today at over 200 Islamic banks and other financial institutions operate around the world, with financial market

worth almost four trillion US\$. At the same time, we should not forget that the first Islamic financial institution, in its modern form, was founded only 60 years ago.

The results of this study may be of benefit to those involved in the field of Islamic finance, as well as to regulators, policy makers, and stakeholders. Regulators and policy makers may use the results of this study to further the development of B&H as a global hub for Islamic finance. In addition, marketing managers can focus on the consumer attitude and create positive intention towards Islamic banking adoption.

Despite the above limitations, the results of this study are beneficial as they provide an insight of the factors that have contributed to the adoption of Islamic banking in Bosnia and Herzegovina. It is hoped that the findings of this study will stimulate further research into Islamic financing products in B&H and region as well.

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