



The Acceptance of Islamic Banking Products in Libya: A Theory of Planned Behavior Approach

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ABSTRACT

The purpose of this paper is to identify key factors affecting acceptance level of Islamic banking customers in Libya. Despite of growth of Islamic banking all over the world, it is still underdeveloped financial sector in Libya. Libyan customers are unaware of Islamic banking and are unable to make decision on the acceptance of Islamic banking. We suggest a modified theory of planned behaviour model including perceived risk as an important ingredient to customer decision making process. The model is tested against a sample of 293 banking customers using self-administered survey questionnaire. The quantitative results revealed that subjective norm and perceived behavioural control are more significant to increase intention to use Islamic banking. Customer attitude and perceived risk was found to have no significant influence on intention to accept Islamic banking at 0.05 level. This research suggests that Islamic banks need to develop effective marketing strategy emphasizing on sharia instrument like Islamic assurance and beliefs along with perceived risk to satisfy the value of potential customers. As an implication, focusing on risk management while providing quality information to the customers towards Islamic banking products will lead to increase customer's intention.

Keywords: Islamic Banking, Theory of Planned Behavior, Behavioral Intention, Perceived Risk, Customer Involvement

JEL Classifications: C3, G41, O33

1. INTRODUCTION

Islamic banking is growing rapidly all over the globe. As reported by (Linda, 2014), for years Islamic banks have been growing at a double digit pace at an average rate of 17% per year, two to three times faster than the conventional banks. However, in an interview to Reuters by Libyan governor Saddek Omar Elkaber attending the opening of the Arab Economic forum 2013 mentioned that the growth of Islamic banking has not encouraged and have been dominated by the undeveloped financial sector in Libya (Laessing, 2013). Standardization is the biggest problem in the Islamic banking industry to interpret of what is and what not Islamic banking is. The various interpretations may confuse customers and may affect their selection of the Islamic banking services. The common problems that customers feel uncomfortable with are a lack of transparency in products and services (Panigrahi et al., 2018). Such issues lead to a decrease in intention to go for Islamic banking products.

Over recent decades the Islamic banking industry has emerged as one of the fastest growing industries and has spread to all corners of the globe, receiving wide acceptance from Muslims and non-muslims (Iqbal and Molyneux, 2016). Islamic banking is now a well-known term and has emerged as one of the most important industries worldwide. Islamic banking is known for its interest free concept and operates in many countries including Bahrain, Pakistan, Jordan, Iran, Sudan, United Kingdom, Singapore and Malaysia. Islamic banking and finance has undergone rapid transformation and growth from an industry striving to satisfy the Muslim community needs, to a multibillion dollar industry upholding Islamic principles.

This study employs Ijzen's theory of planned behavior (TPB) to investigate the level of Islamic banking usage amongst customers in Libya. The study on Islamic banking will shed some light on the intention of the Libyan banking customers. The study is unique because there have been lack of studies focusing on adoption

of Islamic banking in Libya. Libyans have already implemented the Islamic banking system as an alternative to the conventional system, but still the adoption of the Islamic products are not widely accepted by the customers. This may be due to lack of information availability, lack of perception on quality of the Islamic products, low innovation of Islamic banking compared to conventional banking system. Furthermore, it is very crucial for the customers to patronize Islamic banking system (Dusuki and Abdullah, 2007). Perception of Libyan customers towards Islamic banking products (Ahmad and Ahmad, 2004) and key factors influencing such perception is the main theme of this study.

2. THEORETICAL REVIEWS

As technical barriers disappear, a pivotal factor in harnessing this expanding power becomes the ability to create applications that people are willing to use. Therefore, practitioners and researchers require a better understanding of why people resist using information technologies in order to devise practical methods for evaluating technologies, predicting how users will respond to them, and improving user acceptance by altering the nature of technologies and the processes by which they are implemented.

The TPB was first proposed by Ajzen (1991) from the background of social psychology. In psychology, the TPB is a theory about the link between beliefs and behavior (Ajzen, 1991). According to TPB there are three main constructs that identify intention to use the technology. These are attitude, Subjective norm (SN), and perceived behavioral control. This study included perceived risk as an additional component in TPB to propose a modified TPB model that can improve the acceptance level of the customers.

This study is concerned to explain customer's intention to use Islamic banking products. However, in this area and concept of behavioral intention prior studies have deliberately focused in developed countries (Chibelushi and Costello, 2009; Dwivedi et al., 2009; Karakaya and Shea, 2008; Mohamad and Ismail, 2009) as well as in developing countries (Duncombe, 2011; Olatokun and Kebonye, 2010; Sin et al., 2009; Sutanonpaiboon and Pearson, 2006) have concluded that the chapter on adoption is old whereas; others have urged for the new dimensions of understanding Islamic banking adoption and usage issues by customers.

3. REVIEW OF LITERATURE

While numerous studies have been undertaken to examine issues in the wider context of Islamic banking system, comprehensive and continuous research in the area of marketing particularly, consumer adoption of Islamic banking services in the specific context of Libya has been rather limited. It is crucial to gain a thorough understanding of the differentiated needs and preferences of customers between these two regions, so that appropriate marketing strategies can be formulated to capture the market, instead of having a uniform marketing strategy for all the segments across (Lim et al., 2006; Zeithaml, 2000).

A detailed theoretical map has been developed using a quantitative paradigm. We suggest a model with the factors like customer

attitude, SN, perceived behavioral control, perceived risk, customer involvement and perceived usefulness affecting intention of customers accepting Islamic banking.

3.1. Customer Attitude (CA)

Customer attitude is defined as an individual's attitude towards an object need not be related to any single behavior performed with respect to the object (Cushman and McPhee, 2013). An individual's attitude towards an object influence the overall pattern of response to the object. In order to understand the reason for Islamic banking adoption it is important to understand individual's behavioral attitude that influence their purchase intention (George, 2004). Some studies have focused on customer's attitude towards ICT adoption Jun and Jaafar (2011) who found that online security, privacy protection, and after sale service are believed to be complicate for online purchase and could directly influence customer's attitude. Furthermore, Thaw et al. (2012) investigated on consumer's perspective towards Islamic banking adoption and concluded that secured online transaction privacy of personal data and trustworthiness of Islamic Banking are crucial elements that affects individual's attitude.

The attitude towards the behaviour is determined by the sum of accessible behavioural beliefs, which refers to the subjective probability that the behaviour will achieve expected outcomes positively or negatively.

3.2. Subjective Norms (SN)

SN is defined as a person's "perception that most people who are important to him/her think he/she should or should not perform the behavior in question" (Ajzen and Fishbein, 1980). Attitude toward behavior is a function of the product of one's salient beliefs that performing the behavior will lead to certain outcomes, and an evaluation of the outcomes, i.e., rating of the desirability of the outcome. SN is the second main determinant of TPB that is assumed to be a part of belief that specific individuals approves of disapproves the performing of behavior (Ajzen, 2005). Individuals who believe that they are motivated to comply with others to perform their behavior are actually surrounded with social pressure and the individuals who are motivated to comply and disapprove by avoiding performing the behavior will have SN. On the other ground, two empirical works have examined the acceptability of bank clients on the musharakah mutanaqisah home financing namely (Fauziah et al., 2008). Moreover, studying SN, and its effects on the consumer's intention towards the actual behavioural (e.g., (Ajzen and Fishbein, 2004; Al-Maghrabi and Dennis, 2012; Sadeghi and Farokhian, 2011). These studies however have examined different research objective. Thus it can be said that SN is expressed symbolically that is the combination of normative beliefs and motivation. Items to measure this construct are adapted from (Yap et al., 2012).

3.3. Perceived Behavioral Control (PBC)

PBC is defined as "an individual's perception of how easy or difficult it would be carry out a behaviour. PBC denotes a subjective degree of control over the performance of a behaviour for the given outcome." PBC is included as an exogenous variable that has both a direct effect on actual behavior and an indirect

effect on actual behavior through intentions. The indirect effect is based on the assumption that PBC has motivational implications for behavioral intentions. When people believe that they have little control over performing the behavior because of a lack of requisite resources and opportunities, then their intentions to perform the behavior may be low even if they have favorable attitudes and/or SN concerning performance of the behavior. In the literature of social psychology, PBC has been debated topic on the nature and role of PBC by clarifying the role of TPB and describing its underlying dimensions. Control beliefs and perceived power control play an important role for the acceptance of Islamic banking. Ajzen (2002) proposes TPB with the same TRA tools but with perceived behavioral control (PBC) as an additional instrument that captures volitional factors for predicting human behavior (Ajzen, 1991; Conner and Armitage, 1998). Meanwhile, Yu (2012) uses knowledge as a moderator of the relationship between attitudes, SN and perceived behavioral control on intention to buy.

3.4. Perceived Risk (PR)

The special characteristics of financial services and the higher levels of perceived risk that confront consumers to influence and support consumers' online banking services adoption decision (Aldás-Manzano et al., 2009). Although studies showed perceived risk as an important factor that influences online banking adoption (Gerrard and Cunningham, 2003; Hewer and Howcroft, 1999), only limited work has been carried out to identify risk dimensions in this context (Littler and Melanthiou, 2006). Moreover, it is also crucial for managers to understand the barriers to Islamic banking adoption in order to assign resources effectively to obtain competitive advantages and increase efficiency in the banking system. For a client to claim a benefit in the form of return as propagates by the Islamic principle, he should equally assume some risk (Ghayad, 2008; Kamarulzaman and Madun, 2013). Perceived risk therefore plays an important role in trade and investment decision of Islamic banking consumers. Researches in different contexts reveals the effect of perceived risk on the consumer decision (Gerrard and Cunningham, 2003). Unlike in conventional banking where the depositors assume less risk due to the prior knowledge of the return, Islamic banking depositor faces a relatively high risk as the amount to be earned is not known rather depends on the outcome of the business (Amin et al., 2011) noted that in conventional system the capital of the financial institution is at risk before that of the depositors. But in Islamic financial institutions the reverse seems to be the case. This, according to Thambiah et al. (2013) affects the level of confidences of the users of Islamic banking products and services.

The aforementioned review of literature provides basis of developing research framework of the current study and its hypothesis. TPB model is adopted as an underpinning foundation to investigate the relationship between the variables in the study. Customer attitude, SN perceived behavioral control and perceived risks are hypothesized to have positive influence on customer involvement, perceived usefulness and behavioral intention to use Islamic banking products. The research framework is provided in Figure 1.

4. METHODOLOGY

Quantitative method using positivist paradigm was adopted in the study. The targeted population were the existing Islamic banking customers in Libya. They were targeted because they possess knowledge and experience and ability to make decision on Islamic banking products and Shariah complaints. To ensure the respondents sampled matched the purpose of the study, non-probability purposive sampling technique was used to ensure the collected data were from valid sources. The purpose of the survey instrument used in this study was to investigate the extent to which the TPB factors improve customer involvement and their intention to accept Islamic banking system in Libya. Regression analysis and confirmatory factor analysis were utilized to test the hypotheses postulated in the study.

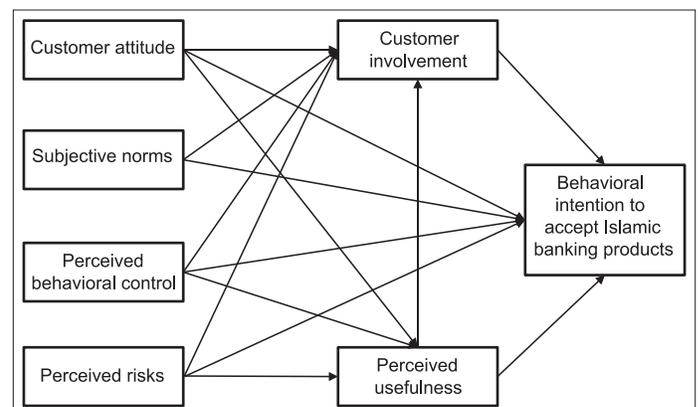
Purposive sampling technique was used to select the sample and in order to achieve positive response rate, 500 questionnaires were distributed to the selected customers that reach out to the Islamic banking counter in the Libyan banks. Out of the 500 distributed, the researcher was able to collect 305 questionnaires during the period of four months with an equivalent percentage of 61%. Furthermore, 12 questionnaires out of 305 were removed due to unanswered response or biased responses. Thus with an effective sample of 293 and the overall response rate of 58.6%, the data for the hypotheses testing and data analysis were made accessible. Response rate is provided in Table 1.

The rate of response depends on the geographical areas of the country. In order to increase the response rate the rule of thumb provided by Zikmund and Babin (2006), the questionnaire should not exceed six pages and if the missing data is more than 10%, then such responses cannot be used for the analysis anymore

Table 1: Response rate for the survey

Survey responses	Number of questionnaire	Percentage
Total questionnaire distributed	500	100
Completed questionnaire received	305	61
Unusable questionnaire	12	<20 unanswered items
Usable questionnaire	293	58.6

Figure 1: Research framework



(Cavana et al., 2001; Hair et al., 2013a). The response rate in this research is considered as appropriate as it comes under the range of 21–50% response rate provided by (Carle et al., 2009; Randall and Gibson, 1990). In line with the other studies in the Arabic countries (Moideenkutty et al., 2011) performed research based in Oman with the response rate of 49.5%, (Agnai, 1996) with an response rate of 27% in the case of Libyan companies, (Yildiz and Gomes, 2011) with the response rate of 47% in the case of Libyan companies. Thus based on the previous study's response rate in the developing Arab countries, the response rate of 66.2% is acceptable.

In total, 2.4% of the respondents failed to participate in the study due to incomplete questionnaire. These were valid as the percentage was too low and as the interpretation and discussions of the results were not affected.

5. RESULTS

Quality of the data collected through survey questionnaire was performed to make sure the data can be analyzed. According to Sekaran (2006) the survey responses collected must be at least 75% in order to fulfill the purpose and objective of the study. Furthermore, Zikmund et al. (2012) mentioned that it is crucial to check the data quality via omissions, legality and consistency. Information collected through survey may lack with uniformity as an example, the survey responses for the specific questions may not be ticked at proper place or few questions may be remained unanswered. Thus editing of such data makes them relevant and appropriate without any errors. Due to closed ended questions used for this study, the coding and editing was not a big issue as the responses were in numerical form. Once the editing and coding of the data is performed, data screening process was performed to identify the missing data and ensure that the data entered is without any outliers and the data are normally distributed. According to Plonsky (2015) data screening is performed to analyze whether the assumptions for advanced statistical process have been met by the study. However, Martin and Bridgmon (2012) mentioned that data screening process is crucial before going for the data analysis and hypothetical testing.

5.1. Demographic Background of the Respondents

A sample of customers having Islamic banking account in Libya were asked to complete a 43 items survey consisting of five point Likert scale index including demographic questions and descriptive question on their views towards acceptance of Islamic banking. Full result of the demographic profile of the respondents are provided in Table 2.

Out of 293 respondents, 250 were male and 43 were female. The age of the respondents stated that majority of the customers were of 51 and above. The demographic information on income showed that the normal range of salary for the customers were between 3001 and 5000 LYD. From the qualification of the respondents, it was found that majority of them (100 respondents) were having master degree followed with 73 respondents having a doctorate degree. From the qualification level of the respondents, it is confirmed that they had sound knowledge to give their view on the

questions asked. Knowledge of the respondents is also important to decrease the response bias (Hair et al., 2006; Kline, 2011). Regarding the occupation, it was found that 136 customers are self-employed whereas 83 were students and 62 were employed. Regarding the descriptive question, it was found that all the respondents were having Islamic banking account. But, it was surprise to know that majority of the customers were unaware on Islamic banking products.

5.2. Reliability and Validity

Table 3 show that the composite reliability for all the constructs meeting the benchmark of 0.70 (Hair et al., 2013a; Nunnally, 1978). According to Grandzol and Gershon (1997) reliability

Table 2: Demographic information of the respondents

Demographic profile	Frequency (%)
Gender	
Male	250 (85.3)
Female	43 (14.7)
Age (years)	
20–30	32 (10.9)
31–40	40 (13.7)
41–50	72 (24.6)
51 and above	149 (50.9)
Income	
Below 1000 LYD	1 (0.3)
1001–2000 LYD	32 (10.9)
2001–3000 LYD	80 (27.3)
3001–5000 LYD	123 (42.0)
Above 5000 LYD	57 (19.5)
Education	
Intermediate	24 (8.2)
Bachelor	56 (19.1)
Masters	100 (34.1)
Doctorate	73 (24.9)
Others	40 (13.7)
Occupation	
Housewife	12 (4.1)
Employed	62 (21.2)
Self employed	136 (46.4)
Student	83 (28.3)
Having Islamic account	
Yes	293 (100)
No	0 (0)
Aware of Islamic products	
Yes	119 (40.61)
No	28 (9.55)
Not sure	146 (29.2)
Is Islamic banking better than conventional?	
Yes	189 (64.5)
No	34 (11.6)
Not sure	70 (23.9)

Table 3: Reliability and validity test

Variables	CR	Cronbach's alpha	AVE
Perceived Risk	0.838	0.809	0.565
Perceived behavioral control	0.888	0.819	0.615
SN	0.888	0.839	0.666
Customer attitude	0.890	0.854	0.671
Customer involvement	0.843	0.827	0.571
Perceived usefulness	0.874	0.870	0.582
Behavioral intention	0.982	0.866	0.723

AVE: Average variance extracted; AVE>0.5 is acceptable; CR>0.7 is acceptable.
SN: Subjective norm, CR: Composite reliability

is the set of latent construct indicators that are consistent with their measurements. Reliability represents the degree at which two or more indicators share in their measurement of constructs. Reliability represents the degree at which two or more indicators share in their measurement of constructs. According to Cronbach (1951), Cronbach alpha is used because it did not require multiple administrations of the survey instruments. Using confirmatory factor analysis, construct reliability and average variance extracted (AVE) are calculated based on formulas by Fornell and Larcker (1981) to further confirm on the reliability of the constructs. Composite reliability was used as an indicator to determine the reliability of the measurement scale of the constructs.

In the measurement model, it was noticed that the AVE for all the variables were above the required level of 0.50. Thus it is confirmed that the criteria of AVE was satisfied. The result on AVE also provided an additional support for convergent validity. It was also possible to provide the discriminant validity between the factors due to positive definite issue of the matrix.

5.3. Regression Analysis

In the structural model, direct influence of customer attitude, perceived behavioral control, SN, perceived risk, customer involvement and perceived usefulness on intention to use Islamic banking were examined. Structural equation modeling (SEM) was used to confirm the hypothesized model in the form of structural model. According to (Byrne, 2013; Panigrahi et al., 2018), “SEM is particularly valuable in data analysis where the patterns of inter-relationships among the constructs are specified according to a prior established theory. The final re-specified model presented in Figure 2 succeeded in configuring the important factors in the current research.

After removing the non-significant items from perceived risk and perceived behavioral control, an examination of the goodness-of-fit indices showed that the model fitted the data effectively ($\chi^2 = 647.103$, $df = 543$, $P = 0.000$). The CFI = 0.977, TLI = 0.975, RMSEA = 0.026 and $\chi^2/df = 1.192$. Based on an examination of goodness-of-fit indices including the normed Chi-square value, final model appears to have a better fit compared to previous models.

Table 4 shows the standardized regression weights of the final re-specified model. In this model no path was found to be non-significant indicating that the model is acceptable. Furthermore,

the goodness fit indices was also in the range of the absolute fit threshold value provided by (Hair et al., 2013b). PR3 was having factor loading of 0.288 and PBC4 was having 0.335 of factor loading which was < 0.5. Thus these two items were removed from the final re-specified model.

From the square multiple correlation result, it is noted that the model fit criteria are solved and there is a positive influence of perceived behavioral control ($\beta = 0.284$, $P = 0.001$) and SN ($\beta = 0.293$, $P = 0.001$) on customer involvement. Furthermore, it was also found that perceived behavioral control ($\beta = 0.132$, $P = 0.042$) and SN ($\beta = 0.186$, $P = 0.011$) was also having significant influence on behavioral intention to accept Islamic banking. With the significant standardized regression weights of all the constructs and items, the overall square multiple correlation was found to be 0.68 (68%) which is considered as very strong and significant finding of the study. Finally, from the results of the re-specified model shown in figure.2, it can be seen that the CFI (0.9) (acceptable fit criteria) and RMSEA < 0.08 is fit (Hooper et al., 2008). This shows that the measurement model has a good fit with the data (Anderson and Fornell, 1994). Thus overall the model is fit.

Figure 2: Final re-specified model

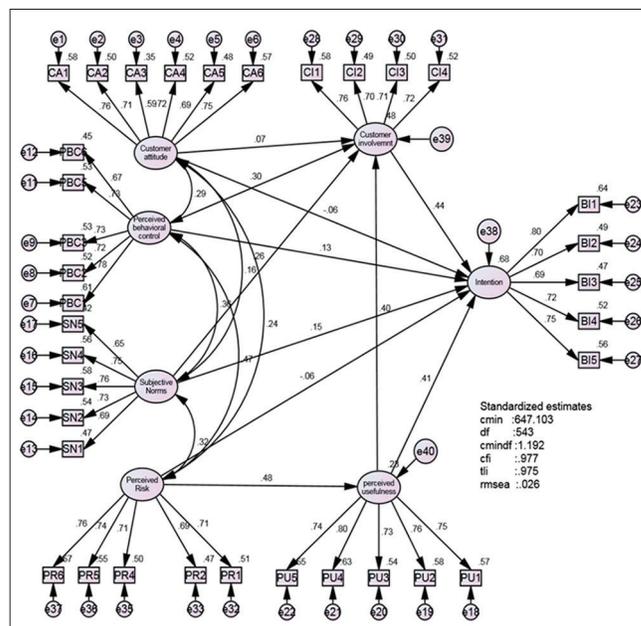


Table 4: Standardized weight for final re-specified model

Regression paths	Estimate	CR	P
Perceived_usefulness←perceived risk	0.593	6.661	***
Customer_involvemnt←customer_attitude	0.074	1.158	0.247
Customer_involvemnt←PB control	0.284	4.384	***
Customer_involvemnt←subjective_norms	0.293	3.909	***
Customer_involvemnt←perceived_usefulness	0.328	6.164	***
Intention←customer_involvemnt	0.485	5.373	***
Intention←perceived_usefulness	0.377	5.833	***
Intention←customer_attitude	-0.073	-1.21	0.226
Intention←PB control	0.132	1.942	0.042
Intention←subjective_norms	0.186	2.531	0.011
Intention←perceived_risk	-0.068	-0.923	0.356

5.4. Managerial Implications

The major implications of the current research for practice are discussed in emphasizing the importance of perceived risk in using Islamic banking and presenting a TPB framework that is effective in developing the intention to purchase to enhance purchase intention of customers.

With respect to the perceived risk dimension, this research provides valuable insights for the Islamic banks by identifying the significant impact of perceived risk provided to the customers through Islamic banking to buy their products. Even for the Islamic banking products providing a good risk management perspective plays a crucial role in customer's positive attitude and intention to use Islamic banking. The finding of the research suggests that creating a positive intention by focusing on risk management when providing quality information to the customers towards Islamic banking products may be considerations for the banks to increase customer's intention.

6. CONCLUSIONS

In the current study, the ability of the TPB in predicting intentions was investigated and the results at best were moderate to strong due to the inclusion of sharia instruments with Islamic banking products. While all the hypotheses for the research are supported including the contribution of including perceived risk as an additional factor of the TPB, the result of the research are important regardless of consistent findings in statistical significance.

From the square multiple correlation result obtained in Figure 2 it can be concluded that the effect of perceived behavioral control towards intention was 13.2% followed by influence of perceived behavioral control on customer involvement by 28.4%. Thus from the four attributes of TPB, perceived behavioral control and SN are very important for the increase customer involvement and intention. As a result, this research suggests that Islamic banks develop effective marketing strategy emphasizing on sharia instrument like Islamic assurance and beliefs along with perceived risk to satisfy the value of potential customers. Future studies should consider the impact of various external variables like demographic factors, security, organisational factors like management support, customer value and many others in the Islamic banking context.

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