RECOGNIZING BANK CLIENTS FACTORS UNDERPINNING ISLAMIC HOME FINANCING ADOPTION

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Abstract
An Islamic banking system which known as new banking method is required to provide new banking services in order to achieve its goals. Islamic home financing which attempts to provide new perspectives regarding home financing for its customers is one of these new services. It seems that it is necessary to identify the main factors that can encourage bank consumers to accept and adopt this service in their life. Therefore, this study tries to discuss about the items that are important regarding adoption and usage of Islamic home financing by its end users. The outcome of the study shows that perceived relative advantage, perceive compatibility, perceived complexity, perceived triablability, perceived observability as well as positive attitude about Islamic home financing will influence its acceptance and usage by consumers.

Keywords: Islamic banking, Islamic home financing, Islamic finance, adoption, Perceived attributes of Innovation, attitude

Introduction
Islamic banking is known as a new financing method in today's banking industry. However, the idea of using Islamic banking and its principle has been followed by the conventional banking system as well (Khattak and Rehman, 2010). In fact, this banking method is part of the wider financial system known as Islamic finance. Islamic finance has been described as a financial product or service that has been implemented to comply with Shariah principles (Islamic law) (Gait and Worthington, 2008). A country's economy is influenced highly by its banking system (Jamshidi et al., 2012). Therefore, the emergence of this banking method is potentially able to influence the economic development of countries in which this new banking method is implied.

Accordingly, while Islamic banking system inspiration is still in its infancy stage, nevertheless this idea has been able to attract considerable attention of a large number of local and foreign
investors and this potential for attracting new customers would enhance future market share of these banks (Ahmad et al., 2011). Moreover, the proof indicates to increase in demand and assurance for Islamic banking products and “interest free” financial services (Taib et al., 2008).

In fact, today by intensifying competition in the banking industry, Islamic banking is no longer considered a banking system attempt to fulfill just a religious obligation of Muslim society, but more considerably as an innovation in content of the banking industry that act as competitive as conventional scheme and this requires Islamic banking and financial institution to comprehend real requirements and needs of their customers in regards to Islamic banking services (Thambiah et al., 2011).

In order to attract a higher number of consumers, banks make heavy investment and as well to compete with conventional banks, Islamic banks are trying to capture the maximum number of consumers by offering a large number of services as alternative of interest based services and products (Ahmad et al., 2010). One of these products is Islamic home financing that has been launched by Islamic banks in order to fulfill the needs of bank customers in regards to their home needs. However, it seems that more studies in academic areas are needed to identify the main factors that influence acceptance of this new home banking method by its users. In this regard, this study look into customer adoption and usage intention of Islamic home financing from the perspective of Muslim and non Muslim bank customers and provide useful inferences Islamic banking and financial institutions.

What is this research seeking for?

In accordance with Dusuki and Abdullah (2007), information in regard with motivations of consumers about the selection and use of Islamic banking products rather than conventional banking services is modest and related research and study in this area is imperfect and limited. Besides, lack of appropriate marketing strategy of Islamic banks seems to be critical factor regarding introduction of new banking services. More specifically, Naser and Moutinho (1997) mentioned that improvement of marketing effectiveness by addressing market ignorance regarding Islamic product and services by Islamic banks and institutions is necessary. Overall, there is a need to investigate the factors that influence adoption of Islamic home financing as a new banking service.

In fact, although marketing aspects of Islamic banking seem to be important, little attention has received by scholars (Ahmad and Haron, 2002; Dusuki and Abdullah, 2007; Naser et al., 1999). Innovative banking products such as Islamic home financing direct to a large number of customers. These new Islamic banking services need to be marketed in both empirical as well as academic manner. Even though, few numbers of researches has been done on Islamic home financing, it was cleared through literature that gaps of knowledge exist in some aspects as follows: The absence of comprehensive, interactive and multidimensional theoretical model to identify most important factors which influence Islamic home financing acceptance on banking activities. Such researches would help banks to organize suitable strategies in order to migrate customers to use Islamic home financing and consequently expanding Islamic banking products and services.

From among all different approaches and models Davis (1989) Technology Acceptance Model (TAM) and (Rogers, 1995; Rogers, 2003) Innovation Diffusion Theory (IDT) are particularly prominent in the marketing field (Hernandez et al., 2009). Theoretically, drawing upon diffusion
of innovation theory, the study efforts present a model that is capable of examining the determinants of bank customers’ adoption or continue to use of Islamic home financing. Actually, by illustrating the potential of perceived attributes innovation of Rogers (2003) DoI framework explain Islamic home financing adoption, this study extends the generalize ability and applicability of this framework. This study would apply perceived attributes of innovation in the context of Islamic banking and more specifically usage and adoption intention of Islamic home financing, additionally other constructs would be added to the study. The main advantage of this framework would be applying a larger number of predictor variables in the context of study which would be able to provide more comprehensive explanation in regards with adoption intention of Islamic home financing among different clusters of bank patrons.

DoI theory is applied to determine which perceived attributes of innovation characteristics are salient for explaining Islamic home financing adoption. Since the previous studies in adopting and using intention depend on more variables than just perceived attributes of innovation, this study would also incorporate attitude toward the use of Islamic home financing factors as measures of study in order to provide more comprehensive results regarding adoption and usage of Islamic home financing.

The main objectives of current study could be; first of all, to examine the validity and applicability of a model taking into consideration the combination of perceived attributes of innovation of IDT and attitude toward the use of Islamic credit card, in the context of Islamic banking services and specifically Islamic home financing. Therefore, the research question of the study is as below: What are the factors that influence the customers’ usage and adoption of Islamic home financing among bank patrons?

In this regard, the study focuses on answering the following question: Does the DoI model adequately explain the relationship between these attributes and Islamic home financing adoption? The important question therefore would be raised concerning what factors are key motivators of Islamic home financing and its adoption. Understanding these factors would expand Islamic service usage which in turn would be able to enlarge market share of Islamic banking services (Jamshidi and Hussin, 2013).

Islamic home financing adoption theoretical basis

One of the most extensively models in the adoption innovation area is Rogers’ “Innovation Diffusion Theory”. According to Askarany and Yazdifar (2012) diffusion of innovation is a way the new ideas are accepted or not by those whom they are related. Besides, Innovation is defined as “an idea, practice or object that is perceived as new by an individual or other unit of adoption” (Rogers, 1995). Actually, perception of novelty matter rather than objectively newness of practice, idea or object (Straub, 2009). Therefore, Islamic home financing as a new banking service is a new innovation in regards to banking industry services that needs to diffuse in the society. Accordingly, according to Rogers (2003), the diffusion of an innovation among a particular population would be typically measured by its implementation rate.

Research studies in the area of diffusion and adoption widely has been encouraged by scholarly work of Rogers (Rogers, 1995; Rogers, 2003). Rogers’ Innovation Diffusion Theory is known as one of the most widely applied models concerning the area of adoption behavior prediction in context of social science. Actually, the scholarly work of Rogers extensively has supported research studies in the diffusion and adoption area. In more detail, while working on the 5th edition of his text, around 5200 adoption and diffusion studies had been recognized by Rogers.
(Thambiah et al., 2011). Meanwhile, according to Hussein et al. (2011), probably Roger’s perceived attributes of innovation model are the dominant theoretical model in regards to customer-based studies.

It seems that the main concentration of innovation diffusion studies centers on how production and innovation is adopted as well as potential reasons for the different rates of innovation adoption. Rogers has defined innovation diffusion theory “as the process by which innovation is communicated through certain channels over time among the members of social system”. He indicates that diffusion process would pass through knowledge, persuasion, decision, implementation and confirmation regarding the innovation in sequence. DoI was chosen due to its prominence in the literature as well as its functionality for this particular research. Perceived attributes of Innovation explicitly relative advantage, complexity, compatibility, observability and trialability as part of this theory explain the adoption of different innovations and services. These constructs have been used in different context from technology adoption studies to non technology adoption studies as well. Some scholars believe that concept of relative advantage and complexity is similar to perceived usefulness and perceived ease of use which are important content of Davis’ TAM model (Hernandez et al., 2009; Moore and Benbasat, 1991).

Among different variables of Rogers’ Diffusion of Innovation theory, the perceived attributes of new products or service are by far the most important in regards to explaining the diffusion speed (Woodside and Biemans, 2005). Besides, Jamshidi and Rezaei (2012) argued that these attributes are able to influence usage of Islamic credit card as a new banking service. In fact, this concept attempts to describe the benefits of the new service. Relative advantage refers to customer perception which the new innovation provides superior technical or physical attributes that are able to increase improvement as well as value to the potential adopter compared to alternative choices. Actually, this construct incorporates economic advantage that can emerge through initial cost, increased efficiency and cost saving (Flight et al., 2011).

The current study aims to investigate the relative advantage by considering the dimension of economic benefits (reduce the burden of interest, profit earnings, profit and loss sharing benefits, reduce risk) and fairness (in the conduct of ethical banking system, profit sharing and equal distribution of wealth). Therefore, it could be recommended that the different advantages that Islamic home financing offers over other banking methods would be able to influence its adoption rate. Superior compatibility between personal needs and innovation is preferable for customers, for the reason that it allows the innovation to be intercepted in additional familiar context (Ilie et al., 2005). In addition, Arts et al. (2011) proved that intention adoption of customers is strongly affected by compatibility of a product. In addition, in this meta-analysis study, it was clear that compatibility can have a positive impact on the actual adoption behavior of customers as well but its influence is less than its impact on intention to adopt an innovation or product. Those customers who believe that banking via Islamic home financing is compatible with their lifestyle would be more willing to adopt it. Actually, when users have prior related experience they are more comfortable to accept new innovations. In other words, it would be more possible that a service be adopted if it could be tried out before its full implementation (Reimer et al., 2012). Therefore, Islamic banks and other issuers of this financial service are required to provide a situation in which bank customers are able to use Islamic home financing at least on a trial basis to know its merits and consequently decided to adopt it in the long term.
The perceived complexity of a service as well could decrease its acceptance and usage. However, due to the fact that Islamic banking is a form of financial innovation in banking principle terms, it does not need major adjustment regarding usage of banking services and customers should perceive it as easy and simple to use (Thambilah et al., 2011). This is consistent for Islamic home financing as one of Islamic banking services.

Perceived observability as another construct in perceived attributes of innovation can affect acceptance and usage of Islamic home financing. In this research, observability would be investigated in the context of noticing the result of using Islamic home financing, considering the family, friend and peers' opinion about Islamic home financing and willingness to share the experience of using this Islamic banking service. Individual people who adopt an Islamic home financing may think they participate in new methods of doing their banking activities and consequently consider themselves in a better technologically and social position.

**Adoption perception in Islamic banking**

Rogers applied the adoption in the context of the decision to accept and use innovation (Hameed et al., 2012). Most of the times, the focus in traditional adoption studies has been on innovations of new product and few but growing number of researches have been carried out regarding financial services adoption (Gerrard and Cunningham, 2003; Sathye, 1999).

Studies on the intention-behavior association suggest that when the objective is to maximize prediction, behavioral intention measures are most appropriate (Verhoef and Langerak, 2001). The behavioral intention would capture the perceived likelihood which customers adopt an innovation, product, service, or idea (Verhoef and Langerak, 2001). In this research, the customers’ behavioral intention to adopt an Islamic home financing is influenced by their perception of the characteristics of Islamic banking product. However, discrepancies are likely to occur between customers’ intention and actual behavior (Verhoef and Langerak, 2001).

Adoption and usage of new products and services by customers in influenced by their perception of their aspects and some external factors as well (Shabbir, 2010). While the decision to adopt or not to adopt an innovation could be a one-time event, there is a belief that the adoption process is not a single event and the route that lead to the decision of an individual does not place in a vacuum (Straub et al., 1999).

Most of the decisions in practice of adopting an innovation or product are affected by two main things; first of all, perceived attributes of innovation and then characteristics of customers. Moreover, according to Eastin (2002) researches that have examined the adoption of new products and technologies, have focused on demographic factors as well as perceived characteristics of innovations such complexity, compatibility, relative advantage, observability and trialability.

The emergence of Islamic banking products and services has brought with it a surge of diffusion studies. In other words, studies that are concerned with how Islamic banks and financial institutions communicate their new innovation and services to their target audience and how these different individuals perceive and choose to adopt or reject Islamic innovations. It is due to the fact that after three decades from establishment of Islamic banking system in Pakistan, some of its products and services have been not fully adopted by customers (Khattak, 2011). Besides, Metawa and Almossawi (1998) have also indicated to usage rate of Islamic products and services is lower than the level of peoples’ awareness in Bahrain.
According to Hameed et al. (2012) an innovation can be described a product, program, ideas or technology which is new to adopting unity. Since Islamic home financing contains these features identifying the factors that affect its acceptance and usage is necessary. In other words, the result of current study might help Islamic banks and financial institution service providers to identify potential requirements and needs of Islamic home financing users which consequently lead to expanding the market share and usage of this Islamic banking product.

**Attitude toward Islamic home financing**

The attitude has been described as “a psychological tendency that is expressed by evaluating a particular entity with some degree of favor or disfavor” (Eagly and Chaiken 1993). Consistent with Zolait and Sulaiman (2008), the attitude has been assumed as behavior predictive in lots of psychological studies. In other words, a person's attitude in regards to system use is expected to have an impact on using intention and the existence of this association has been widely supported in diverse situations (Lin, 2011). Besides, along with Taylor and Todd (1995), better comprehending of the linkage between the belief structure and intention antecedents needs the decomposition of attitudinal beliefs.

According to Cai and Shannon (2012), numerous meta-analysis of the empirical literature provide evidence which on its basis intention could be predicted with substantial accuracy level from measures of attitude toward behavior. Moreover, in the TRA model, intention has been considered as a direct behavior determining that is influenced by altitude (Al-Somali et al., 2008).

Taylor and Todd (1995b) indicated that, on the basis of innovation diffusion theory, attitudinal belief has three salient characteristics related to an innovation that affect adoption are compatibility, relative advantage and complexity. Moreover, Chen et al. (2009) attempted to predict smart phone adoption determinants in Taiwan. Different framework was tested by adding new variables in each stage, and in most of those analyzing, it was proved that while attitude toward the smart phone had a mediating role for some variables of study, it also was positive and significantly associated with behavioral intention to use of smart phone in Taiwan.

Likewise, in Islamic banking studies, different researches have indicated that attitude of customers can influence them to use a specific service. In this regard, Jamshidi and Hussin (2012) explained that Islamic credit card usage could be influenced by attitude of customers about it. Therefore, we believe that representing Islamic home financing should be with such a high quality that influence attitude of clients to accept and use it.

**Conclusion, practical and theoretical implications**

Generally, the study could benefit overall understanding of community about Islamic home financing concept and its permissibility. The present research would extend the generalizability of perceived attributes of innovation (relative advantage, compatibility, complexity, triallability and observability) to a new area of research namely Islamic banking services and more specifically Islamic home financing. The way that Islamic banking scheme and dual banks seek to enlarge their customer base would be one of the implication of study result. It is expected that the outcome of this study could be used by different bankers as guidance about the factors that influence bank customers’ behavior and particularly the factors that contribute to usage and adoption of Islamic credit card among these bank customers.
The findings of this study also add a further dimension which is that of a non-Western study where the current literature has been primarily based. Insight information of current study would be particularly important for bank managers as well decision makers noting to the fact that it provides an improved understanding in regards with Malaysian bank customers’ adoption and usage of Islamic home financing. The study would help these decision makers to provide a more appropriate plan for Islamic credit services and facilities in order to cover the financial needs of bank consumers.

The contribution of current study lies in achieving a deeper understanding of bank customers pertaining adoption and usage of Islamic home financing. Actually, the current research attempts to find out the factors that particularly determine the adoption and usage of Islamic home financing. Finding of study could be of value to branch managers of Islamic banking institutions as well as other Islamic credit card issuers in the case of expanding Islamic credit card usage among their customers which would lead to an expanded customer base.

This research attempts to provide contributions for practitioners as well. The research would seek to offer different banks a clearer and deeper insight into the customers’ adoption decision, which in turn would allow them fine-tune their marketing attempts in order to raise the transactions over Islamic home financing. Information gathered in the current research could be used as a basis for most future studies in the context of Islamic home financing and particularly the adoption and usage intention of this Islamic facility.

The theory developed as current research model could be generalized in other Islamic banking services and products context. Practically, bank managers and institutions that issue Islamic home financing could of prime importance to expand study findings for improved future planning of their offering. It is recommended that in future studies other specific banking services be explained and the factors that can influence the usage expansion as well be described.

REFERENCES:


