

Socio-religious perspective, consumer's product awareness and consumer acceptance level of Islamic Financing

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ABSTRACT

The study indented to determine the influence of socio-religious intentions & product awareness on consumer acceptance level toward Islamic financing services with mediating role of consumer perception among the bank customers from academic sector of Lahore, Pakistan. The study utilized survey method for data collection and by using convenience sampling collected valid 300 responses from academic sector bank customers. Structural equation path modelling algorithm technique was used to determine association within the selected constructs through the use of Partial least Square (PLS)- Smart PLS 3 software as it effectively estimates measurement model and structural model simultaneously (Ringle et al., 2005). The results indicates all independent variables (socio- religious perspective, product awareness and perception have significant direct effect on consumer acceptance level whereas study also revealed that consumer perception play only one significant mediating role on the association between consumer's product awareness and consumer acceptance level of Islamic financial services. In conclusion Study highlight the importance of consumer's product awareness, banker's get favorable influence on consumer perception through increasing the consumer's product awareness which further provide aid to managers by referring them vital change in consumer behavior, attitude and willingness to purchase or utilize the Islamic banking services. Study will be helpful for both policy makers and practitioners as it spreads useful innovative understanding regarding consumer acceptance.

Keywords: Socio-religious Perspective, Awareness, Perception, Consumer acceptance, Partial Least Square (PLS).

INTRODUCTION

Marketing is the concept of sensibly identifying and exploring the needs of target market and meet those needs cost-effectively by offering product /services that satisfies the customers (Sanchez, 1999).Fam et al., (2004) explains that the major attribute toward consumer acceptance is his or her religious affiliation. Islam has a stronger stimulus and influence on the consumer behavior of its followers as compared to other religions (Salam, 2012) because of growing Muslim world's population totaling at 1.8 billion increases the demand of "Islamic marketing" concept in halal business industry, which fulfills the needs of target market through Halal products and services based on Shariah compliant practices with mutual agreement between buyers and sellers in order to achieving quantifiable and spiritual well-being in this world or second world" (Alom & Haque, 2011).

Islamic financial products and services are primarily based on Islamic law and implemented with Islamic marketing principles (Gait & Worthington, 2008) Islamic finance is not restricted to banking only instead it covers the full range of modern financial areas, from banking products to insurance based on Shariah compliant practices. As safety and security are the basic human need and it is natural that person loves his property and life more which is also confirmed from the Holy Quran, where Allah says: "You love money amply" (Al-Fajer 20) such safety and security requirements are higher particularly in developing countries where risks for damages are far greater than the recovery opportunities (Brown & McCord 2000).In current circumstance of high uncertainty in the world for Muslims without insurance support commerce and trade are quite not possible similarly without life insurance financial planning and risk management are not possible on individual level. But the large numbers of the Islamic Shariah researchers have confidence in; that insurance is prohibited due to its association with Riba (interest), Maisir (gambling) and Gharar (uncertainty) (Ayub, 2013). Therefore there is need for an alternative to conventional financial system for Muslim population based on Islamic Shariah in which participants are jointly agreed to guarantee and defend each participant against a particular losses or damages by providing combine financial backing to any members who suffering from a loss (Maysami & Williams, 2006)

There are no questions that demand for Islamic Shariah compliance products and services have been increasing rapidly in the global market (World Takaful report 2010). In the last decade banks most and financial companies in Pakistan also start offering products/services with the concept of halal or compliance with Islamic principles e.g. one of them is Takaful (Islamic insurance). Major challenge for marketers in case of Islamic Shariah compliance product is to understand what consumers think through as Halal or Haram. Beside that majority population of Pakistan are Muslim and in today's rapidly changing environment every human required safety and security in his/her life from misfortunes like loss in the business matters or property but due to different scholarly view on financial services from Islamic point of view; there is still an ambiguity exist among Muslim consumers regarding conventional financial products or services and Islamic financial products or services (Ayub, 2013). Therefore, it is vital to know whether consumers accepting the Shariah compliance Financial products or services or not and if they do, determined the factors influencing most in accepting the Shariah compliance products. The study purposely focuses on consumer behavior to see their acceptance level

toward the Islamic financial practices through mediation role of consumer perception in Lahore, Pakistan.

The research is significant from both practical and theoretical views. This paper adds to the existing body of knowledge since a lot of work has been done in the Islamic banking system however the combined effect of socio-religious factors along with awareness on the consumers of Islamic banking is yet to be studied. Moreover, this research paper will help the customers, investors and other stakeholders of Islamic banking since this study highlights the factors that are considered in making decisions regarding Islamic banking system. This study would also assist the Islamic banking investors to tap social and religious factors which develop and accelerate the awareness level of the customers.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

With the passage of time Islamic financial system has earned acceptance from both Muslims and non-Muslims (Iqbal & Molyneux, 2005). However, there are various social and religious perspectives which influence the acceptance levels of the customers of Shariah compliance Islamic finance in Pakistan (Dusuki & Abdullah, 2007). From the social and religious perspective of Pakistan Islamic financial system is well accepted and widely consumers also feel comfortable. This results in higher acceptance level of consumers of Islamic financial services (Haque, Osman & Ismail, 2009). Another interesting study presented by Hamid and Othman (2009) revealed that despite of unawareness of Islamic financial products and services, majority of respondents expressed their preference to purchase Islamic financial products as compared to the conventional. This provides base for first hypothesis of the study;

H₁: There is a strong positive relationship between social and religious perspectives and acceptance for Shariah compliance Islamic financial Services.

Another important factor that has influenced the Islamic financial system is awareness. It is very important from business perspective to generate awareness of the product in the minds of targeted customers in order to influence the buying decisions. Asif and Anjum (2012) found that awareness plays key role in accepting the services of Islamic financial system. A well aware customer understands the value of the Islamic financing and utilizes its products and services and reaps more satisfaction out of it. Kalmadi (2012) studied the relationship between awareness and perception and found that well aware customers are attracted towards Islamic finance and vice versa. Following hypothesis is generated on the basis of literature;

H₂: There is a strong positive relationship between awareness and acceptance for Shariah compliance Islamic financial Services.

Social and religious factors play vital role in the perceptions of Islamic banking in any society. The decisions of the customers to opt Islamic banking or conventional banking are widely influenced by these factors. It is found that the religiosity shapes the consumers' buying behavior and strengthens the relationship between customer value and satisfaction (Eid & Gohray, 2015). It is empirically proved in various international settings that the religion plays prominent role in acceptance of Islamic banking in any society. On the basis of literature, following hypothesis is developed;

H₃: There is a strong positive relationship between socio-religious perspectives and perception of Shariah compliance Islamic financial Services.

Awareness plays very crucial role in influencing the perception of the consumers. Muslim consumers of financial products were found highly unaware of Islamic banking and services (Omar, 1992). Complimenting these findings are the studies by Akbar, Shah and Kalmadi (2012) who found very low level of awareness of Islamic financial products in the consumers. It is also found that the lack of awareness leads to low level of perceptions. In another study conducted by Maysami and William (2006), it was found that the awareness and perception have non uniform relationship. Encompassing the religious and social goals, lower level of awareness leads to inefficiencies. Only higher awareness level perpetuate a positive perception in mind of consumers and leads to profit making. In 2013, Maturi conducted a research and found that the majority of the respondents from sample were not sure either the Takaful (Islamic insurance) is Shariah Compliant or not. On the basis of literature, following hypothesis is developed;

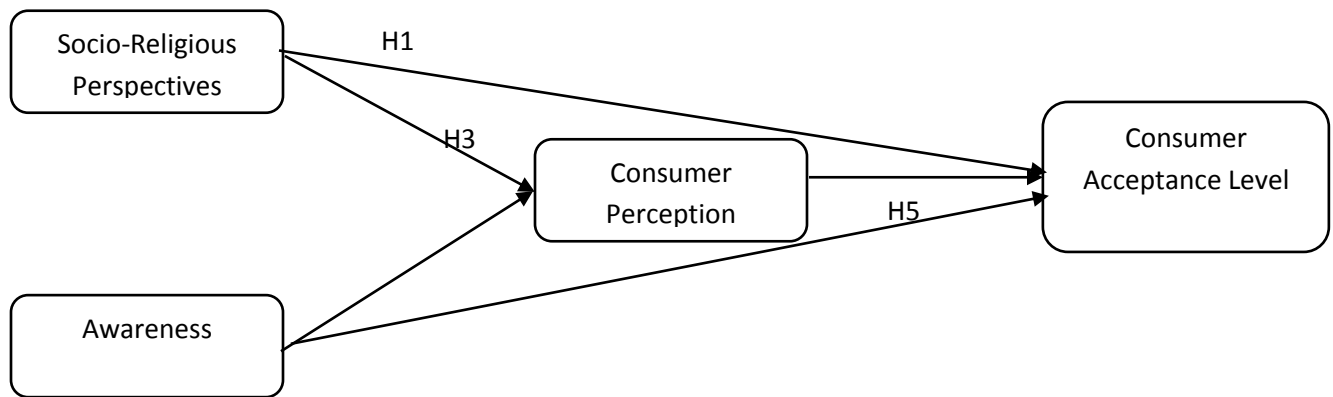
H₄: There exist strong positive relationship between awareness and perception about Shariah compliance Islamic financial Services.

Perception is important factor which influence the acceptance level and is influenced by the social and religious perspective of a locality. While adopting a new product or service, customers make comparison among the features and experiences offered product with the existing products (Rogers, 1983). Researchers have also found awareness or knowledge of a product as moderating variable (Lai, 1991). Applying these findings in Islamic Banking it is evident that perception, experience, knowledge and need influence the acceptance for Islamic Banking. Perception of consumers is very crucial factor in making buying decisions. Since Islamic banking system works according to the Shariah principles thus people create a perception that it is according to the principles of Islam. However according to Damirchi & Shafai (2011) there exists a delicate difference among the conventional and Islamic financial products. Furthermore, when it is marketed that the Shariah laws are approved by the Shariah Board which gives rules for asset backing, profit and risk sharing, social responsibilities and Islamic economic systems, the perception in the minds of the consumers is enlightened which leads to improved acceptance level. Interest based lending is prohibited in Islam in order to avoid illegal outcomes (Hussein, 2010; Damirchi & Shafai, 2011). Islamic banking in Pakistan, banks offer a wide variety of services like Mudharabah, Musharakah, Murabahah, Bai Bithaman Ajil, Ijarah and many others. On the basis of the literature, following hypothesis is developed;

H₅: There exists a strong positive relationship between perception and acceptance level of Shariah compliance Islamic financial Services.

Following is the conceptual framework developed to conduct the study;

Figure 1: **Conceptual Framework**



RESEARCH METHODOLOGY

Research Design and Data Collection

Positivism research paradigm included Quantitative approach were used in the present study (Mouton 2001). Data was collected through Survey method by using well-established/ adapted from different banking customers located in Lahore region of Pakistan.

Survey Questionnaires compose of two parts. The first section related to demographic data of the respondents and second section of questionnaire contains research question related to each construct, to test the hypothesis proposed in study. Five- point liker scale (Strongly disagree (1) to strongly agree (5) were used to obtained responses.

Unit of Analysis

Many banks (Private and Commercial) are operational in Pakistan having lots of customers from different sectors and backgrounds. From those customers of banks only those was included in this study that belongs to academic sector and located in Lahore region only. Further from those academic sector customer’s only academic teachers/ faculty members are part of this study as academic sector is largely contributed toward country’s economics.

Sampling Scheme and Sample Size

In this study convenience sampling is used (Farrokhi et al., 2012). 400 questionnaire were distributed amongst the study nominated academic sector teachers belongs to public and private sector in order to collect data. Therefore 81.25% of response rate were collected as from these 400 questionnaires 325 were received back and only 300 questionnaires were found completely correct and ok to use in data analysis.

Measurement of Variables

An established questionnaire developed derived from earlier studies conducted in other countries based on multiple item scales were used. Questionnaire was divided into two sections such as demographic section include the questions regarding personal information of respondent like age, gender, education, profession and monthly income. The half of the questionnaire contains research based questions regarding exogenous and endogenous variables to check the scheduled hypothesis referred in Figure 1.

Social & religious Perspectives was measured through seven items using five Likert scale adopted from the studies of Alam S S et al., (2012). Eight item using five Likert scale that were adopted from the study of (Ling L K et al., 2012) were used to measure Consumer awareness toward Islamic financial product & services. Six items using five Likert scale were adopted from previous study of (Ling L K et al., 2012) that were used to measure consumer perception toward Islamic financing, lastly Five items with five Likert scale were taken from previous research study of (Liang F C et al., 2013) to measure the consumer acceptance level in study.

Quantitative Data Analysis:

Partial Least square (PLS) Path- modeling algorithm is used to calculate path models association within the selected constructs used in the study. Partial least square (PLS) is least restrictive against data distributional condition because it doesn't required normally distributed data (Jogiyanto et al., 2009; Surlenty et al., 2013). Smart PLS 2 software is used as it effectively estimates measurement model and structural model simultaneously (Ringle et al., 2005).

Measurement model, Partial Least square (PLS) Path- modeling algorithm is used to evaluate the relationship among observed and unobserved variables. It is also used to find the values of reliability and validity of the construct of the model. It ensures that only reliable and valid construct measures are used in the model to determine the association between the selected variables in overall conceptual model (Hulland, 1999). Further Structural model identifies the association between variables used in the study through estimating their respective path coefficients and Co-efficient of determination (R-square).

RESULTS AND FINDINGS

From the 300 respondents used in the study, 79.7% (239) were male and 20.3% (61) were female that means majority of males teachers are working in academic sectors. Moreover, majority age of participants lies in 40-60 years range. Approximately, 126% of respondent were having only graduation degrees. Their monthly income level is generally round about Rs. 90,000 and more. Table 1 is showing all demographic analysis of the gathered data in detailed.

Table 1: Demographic Analysis:

Variables	Categories	Frequencies	Percentage (%)
Age	20-40 Years	21	7.0
	40-60 Years	201	67.0
	More than 60 Years	78	26.0
Gender	Male	239	79.7
	Female	61	20.3
Education	Graduation	126	42
	Masters	30	10
	M.Phil/MS	45	15.0
	Doctorate	64	21.3
	Post Doctorate	35	11.7
Profession	Private sector employees	202	67.3
	Public sectors employee	65	21.7
	Self-employed	33	11.0
Monthly Income	90 K+	210	70
	70-90 K	53	17.7
	50-70 K	17	5.7
	35-50 K	20	6.7

Source: Researcher's calculations.

Measurement Model

Convergent validity refers to the degree of measuring a concept by multiple items are in agreement (Surienty et al., 2013). Table 2 in this study highlights the factor loading values of items of constructs, Cronbach's alpha values, Composite reliability and Average Variance Extracted (AVE) to determine the convergent validity and reliability of items along with their constructs. Whereas both composite reliability and Average Variance Extracted are sum of square of factor loading dividing by sum of square of loading values plus sum of square of error term variance.

Table 2: Measurement Model Results

Model Construct	Measurement Items	Loading Value	Cronbach's Alpha	Composite Reliability	Average Variance Extracted
Social & Religious Perspective	SRP2	0.517	0.7746	0.7821	0.5551
	SRP5	0.857			
	SRP6	0.815			
Consumer Awareness	CA1	0.712	0.7877	0.8480	0.5845
	CA2	0.711			
	CA4	0.753			
	CA5	0.767			
	CA6	0.656			
	CA7	0.556			
Consumer Perception	CP2	0.678	0.7727	0.7921	0.5361
	CP3	0.756			
	CP4	0.686			
	CP5	0.511			
	CP6	0.646			
	Consumer Acceptance	CAL1			
CAL2		0.717			
CAL3		0.714			
CAL4		0.746			
CAL5		0.717			

Source: Researcher's calculations.

Note: Some observable items of constructs including SRP1,SRP3, SRP4,SRP7, CA3, CA8 and CP1 were deleted from the initial model analysis because of its factor loading value lower than 0.5. (P< 0.05)

As per the requirement of PLS-SEM, the Cronbach's alpha value should be greater than 0.700 (Surienty et al., 2013). Therefore table 2 of the study clearly shows that reliability of all items used to measure the constructs ranges from 0.7727-0.7974 which were higher than required limit (Surienty et al., 2013). Further, in this study the value of average variance extracted which refers to the actuality of convergent validity is also higher than the required limit 0.5 (Yap et al., 2012), as it ranges from 0.5323 to 0.5845. Composite reliability of all constructs are higher than 0.7 shown as (SRP= 0.7821, CA= 0.8480, CP=0.7921and CAL= 0.8505).

Table 3. Discriminant validity:

	Consumer Acceptance	Consumer Awareness	Consumer Perception	Social & Religious
Consumer Acceptance	0.7296			
Consumer Awareness	0.6703	0.6961		
Consumer Perception	0.5786	0.6038	0.6604	
Social & Religious	0.5460	0.7228	0.4649	0.7451

Source: Researcher’s calculations.

Discriminant variability refers to the intensity that how much one construct item is different to other item and their constructs (Surienty et al., 2013). According to Hair F et al., (2010) in discriminant variability correlation among constructs used in study should be less than the square root value of AVE (Average Variability Extracted) of that constructs. Therefore table 3 of the present study clearly demonstrated that all square root values of AVE were greater than their correlation values which resulting sufficient discriminant loading values. The results of table 2 and 3 concluded that loading values of all measurements of the study were valid and reliable.

PLS-SEM Path Analysis

Causal association between the selected variables are more concisely shown by structural model in figure 2.

Figure 2: Results PLS-SEM Path Analysis

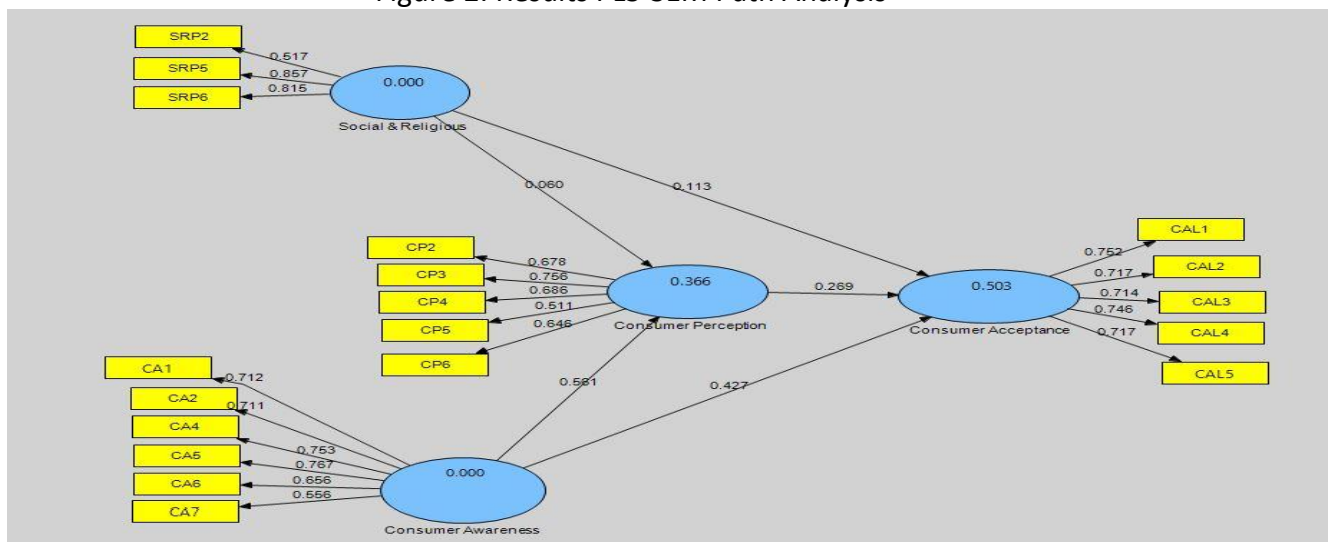


Figure 2: inner model association and connections among the selected variables.

Results in the figure 2 revealed that if other variables remain constant then one unit change in Social and Religious perspective brings 0.060 unit variation in Consumer perception. Similarly, by changing one unit in Consumer awareness, keeping other variable constant it brings 0.581 unit variation in consumer perception. One unit change in consumer perception brings 0.269 unit variation in consumer acceptance while holding other factors constant. On the other hand, one component change in Social & religious perspective transform consumer acceptance by 0.113 units. Similarly, if consumer awareness is changed by one component unit, Consumer acceptance definitely have variation of 0.427 units

Hypothesis Testing:

Table 4: Results Hypothesis Testing

Relationships Hypothesis	Sample Mean	Path Coefficients	Standard Error	T- Statistics	P- Value	Supported
Social & Religious to Consumer Acceptance	0.1195	0.113	0.1082	2.0421	P<0.05	Supported
Consumer Awareness to Consumer Acceptance	0.4295	0.427	0.1425	2.9949	P<0.05	Supported
Social & Religious to Consumer Perception	0.0500	0.060	0.1216	0.4904	P>0.05	Not-Supported
Consumer Awareness to Consumer Perception	0.5768	0.581	0.1266	4.4298	P<0.05	Supported
Consumer Perception to Consumer Acceptance	0.2700	0.269	0.1107	2.4246	P<0.05	Supported

Source: Researcher's calculations.

Table 4 also provide support to the path analysis results of figure 2 by presenting the path coefficients along with T- statistic and P- value. From the relationship establish between Social & Religious perspective (SRP) and consumer Acceptance level (CAL) it was evident that the results are significant because t-value (2.0421) was greater than the tabulated T-value (1.96) at 0.05 level of confidence with degree of freedom more than 120 showing the direct significant positive effect of Social & Religious perspective on consumer acceptance level. β -Coefficient value of such relationship was 0.113 (positive) which clearly shows by changing 1.00 unit in Social & Religious perspective, the consumer acceptance level will change by 0.113 units.

The relationship found between consumer awareness (CA) and consumer Acceptance level (CAL) was significant because t-value (2.9949) was greater than the tabulated T-value (1.96) at 0.05 level of confidence with degree of freedom more than 120 showing the direct significant positive effect of consumer awareness on consumer perception. β - Coefficient value of such relationship was 0.427 (positive) which clearly shows that by changing 1.00 unit in consumer awareness, the consumer acceptance level will change by 0.427 units.

The relationship found between Social & Religious perspective (SRP) and consumer perception (CP) was insignificant because t-value (0.4904) was less than the tabulated T-value (1.96) at 0.05 level of confidence with degree of freedom more than 120 showing the direct insignificant positive influence of Social & Religious perspective on consumer perception. β - Coefficient value of such relationship was 0.060 (positive) which clearly shows that 1 unit change in Social & Religious perspective will change the consumer perception by 0.060 units

The relationship found between Consumer awareness (CA) and consumer Perception (CP) was significant because t-value 4.4298 was greater than the tabulated T-value (1.96) at 0.05 level of confidence with degree of freedom more than 120 which shows that there is direct significant positive effect of Consumer awareness on consumer Perception. β - Coefficient value of such relationship was 0.581 (positive) which clearly shows by changing 1 unit of consumer awareness, the consumer perception will change by 0.581 units.

The relationship found between consumer perception (CP) and Consumer Acceptance level (CAL) was significant because t-value (2.4246) was greater than the tabulated T-value (1.96) at 0.05 level of confidence with degree of freedom more than 120 showing the direct significant positive effect of consumer perception on consumer acceptance level. β - Coefficient value of such relationship was 0.269 (positive) which clearly shows by changing 1 unit of consumer perception, it will change the consumer acceptance level by 0.269 units.

In Structural model, it was evident that out of five path used for constructs measures only four paths that is social-religious perspective to consumer acceptance (H_1), Consumer awareness to consumer acceptance (H_2), consumer awareness to consumer perception (H_4) and consumer perception to consumer acceptance (H_5) were significantly supporting the hypothesis that consumer awareness about the product will change its perception and acceptance level toward Islamic financial products or services which means consumer awareness had strong influencing factor in study but Social religious perspective. Contrary to this, the socio-religious perspectives positively influence the consumer acceptance level directly however, the indirect relationship is not significant.

Model Evaluation

Overall fitness of the SEM, PLS path modelling was evaluates through the Goodness of Fit model (GoF) (Tenenhaus et al., 2005) model by utilizing Geiser Q-square test (Geiser, 1975). Where, Goodness of fit is the geometric mean of the average R-square and average communalities will judge the overall fitness of the model. In this study the value of GoF shown in table 4 is 0.484605.

Table 5: Model Evaluation results:

	R-Square	Communality	Redundancy	Cross-Validated Communality (H²)	Cross-Validated redundancy (F²)
Awareness	0.0000	0.6371	0.0000	0.274	0.274
Social Religious	0.0000	0.6766	0.0000	0.093	0.093
Acceptance level	0.5061	0.5280	0.2007	0.287	0.207
Perception	0.2540	0.6300	0.1388	0.267	0.156

$$\text{GoF} = \text{average } R^2 \times \text{average communality} = \sqrt{0.38005 \times 0.617925} = 0.484605 \text{ (Tenenhaus et al. 2005)}$$

Source: Researcher's calculations.

Furthermore the predict quality of path modeling also been evaluated through proper measuring Q-sqaure statistics. According to Fornell and Cha, (1994) Path model have stronger predictive quality relevance when Geiser Q-sqaure test is greater than zero vice versa. Whereas Geiser Q-sqaure is applied through the procedure of blindfolding in PLS path modelling which includes cross-validated communality (H²) and cross-validated redundancy (F²). In this study, Table 5 shows that cross-validated communality (H²) ranges from 0.093 to 0.287 and cross-validated redundancy (F²) ranges from 0.093 to 0.274. All values of H² and F² were above from threshold values and positive which mean predictive relevance of selected model was acceptable.

CONCLUSION

This research study has been accompanied to an investigation of consumer acceptance level towards Islamic financing in Pakistan. The acceptance level towards Islamic financing has been investigated by considering the independent variables which includes Consumer awareness and social-religious perspectives along with consumer perception taken as mediating factor in the study. Based on the findings of this study, it is concluded that the customer awareness is the key determinant that stimuli the acceptance level of consumers towards Islamic financing products or services whereby it also has been recognized that social and religious perspectives and consumer perception in Islamic financing have significant effect on the acceptance level towards Islamic financing. Therefore, study highlight the importance of consumer's product awareness, banker's get favorable influence on consumer perception through increasing the consumer's product awareness which further provide aid to managers by referring them vital change in consumer behavior, attitude and willingness to purchase or utilize the Islamic banking services. Lastly, this research has significantly met its primary objectives and the results of this paper could be helpful for making a guideline for future studies to further investigate the acceptance level of banking and non-banking consumers towards Islamic banking in Pakistan.

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