

Determinants of Engagement in Islamic Bank System: Basis for Future Marketing Approximations

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Abstract

This study intends to investigate the determinants of engagement in Islamic Banking system on the basis for future marketing approximations. This research collects data for quantitative study by providing the closed ended questionnaires to 200 individual customers of banking from Muscat, Oman. The collected data is to be evaluated by using SPSS. This study concludes that among client characteristics age has strongest relation with engagement with 0.990, other than that marketing strategies, economic benefits and safe investment also have strong relationship. Gender, education, religion, income, occupation and nationality have weak relation. Education has weakest relation. Number of branches, availability of CDM, ATM, word 'Islam' and skilled and trained staff has moderate relation. Organisational and client characteristics have 50.9% influences on the adoption of Islamic banking. There is a correlation between engagement and future marketing. The degree of influence of adoption over patronization is 19.7%

Keywords: Islamic retail banking determinants, organisational characteristics, client characteristics, quality service, Riba, economic benefits.

1. Introduction

The future of the Islamic banking in sultanate of Oman is studied by Mubeen, et al (2014). Islamic banks adhere to the Islamic law. The basic source of the Shariah is "Holy Quran" that followed by the Jurists consensus and Islamic law interpreters. Shariah prohibition of Riba in any form is main form of Islamic banking. The phenomenon related to Oman Islamic banking, customer attitudes about Islamic banking and Islamic banking effect it's in economy of Oman is studied. All Omanis Islamic banks listed have announced their involvement and interest in setting up of Islamic window in Oman. Further Islamic bank licenses also granted for new Oman entities that motivates to operate solely in banking space of Islamic finance like Alizz Islamic Bank and Bank Nizwa. His majesty "Sultan Qaboos" said he has approved the Islamic banking establishment in Oman. The Oman cabinet has also announced the decision of permitting the Islamic bank opening and local window in Islamic Oman banks allowed by majesty. The central bank of Oman also organised regulatory framework in Islamic banking of open to clarify the financial institution in market. A study conducted by Memom,(2007) stated the role of the Islamic banks as the financial intermediaries and their importance in the society. Islamic banking can be alternated for the interest related banking that provides the participation concept in enterprise, utilisation of funds on the basis of profit and loss sharing.

The Islamic financial sector in Oman now potentially increased the share of market by not only offering the products and services that a conventional bank cannot offer but also offers a higher level of services that conventional bank does not provide. Hence historically Omani banking sector have suffered from poor response time for inquires of customers as well as long waiting queue that eats the time of customers at brand level. This level of dissatisfaction is identified by the Oman Islamic banking and provided various solutions in their Islamic

bank windows Islamic Financial Advisory and Assurance Services (2011).

Oman is one of the last GCC countries to welcome Islamic Finance. Oman as a country is quite optimistic about both the successes and growth of Islamic finance taking into consideration the strong economic projection in the region. Some of the projections that promises a bright future of Islamic finance in Oman include huge government expenditure on infrastructure projects, a conducive and well regulated environment, and a Shariah-sensitive population that is relatively young (Hassan and Lewis, 2007). The country of Oman has necessary ingredients need to ensure successful Islamic finance sector (Sadiq and Shanmugham, 2002).

2. Statement of the Problem

2.1 To determine the level of perceived organizational characteristics of Islamic Bank in terms of:

- Interest rate (comparative)
- Service (quality)
- Profit (lucrative)
- Investment (Safe)
- Transaction (easy)
- Name (Islam)
- Marketing (Strategy)
- Accessibility (branch)
- Staffing (skilled)

2.2 To determine the perceived clients characteristics in terms of

- Religion
- Sex
- Age
- Income
- Occupation
- Education
- Nationality
- Bank system preference

2.3 To determine the level of engagement in Islamic Bank in terms of:

- Use
- Having account

2.4 To determine the level of patronage with Islamic Bank in terms of future engagement.

2.5 To determine the relationship between the organisational and client characteristics, and the engagement with Islamic Bank variables in terms of:

- strength of the correlation
- degree of influence

2.6 To determine the relationship between engagement with Islamic Bank and patronage variables in terms of:

- strength of the correlation
- degree of influence

3. Limitations

The limitations of the study are as follows

- The findings of the study focuses on Islamic retail banking system
- The findings of the study are restricted to Oman alone
- This study completely focuses on Islamic retail banking that has been adopted in Oman

4. Significance of the Study

The study concentrates on the Islamic retail banking system with respect to various factors. The study explains about the challenges of the Islamic finance sector in the Oman. At last the study explains the sultanate business environment and the opportunities gained through Islamic finance. Thus this research as a whole, explains the factors motivate the adoption of Islamic retail banking in Oman. Thus this research will act as an eye opener for various researchers, investigators and academicians to gain more knowledge about this particular research topic.

5. Literature Review

5.1 Adoption of Islamic Retail Banking

Islamic financial system emergence has contributed tremendously in creating new dimension to economic models especially with respect to Islamic banking, which has captured a significant share in the global financial industry (Malhotra, 2007). In the past four decades, Islamic finance has recorded commendable growth since it is considered as the fastest growing industry with a growth rate of between 15-20% per annum (Coakes, Steed and Ong, 2009). Islamic finance has spread all over the world and has realised wide acceptance both in the Muslim and non-Muslim world.

Banking sector has been one of the industries, which face high level of competition. The competition in the banking sector has intensified over the past years and such fierce competition has contributed significantly in shaping the industry (Manzoor, 2013). The concept of globalisation and liberalisation integrated with digitalisation has contributed remarkably to the business competition in the contemporary world. For instance, Malaysia is one of the countries across the globe where Islamic finance faces stiff competition in the service industry (Asyraf and Nurdianawati, 2007). Islamic financial institutions do not only face competition from conventional banks but is also faces competition among themselves as well as from other international players. Increase in competition in the service or banking industry has made it necessary for Islamic finance to reconsider their strategies in order to gain market share and enhance productivity (Tukamuhabwa, Benjamin, Eyaa and Friday, 2011). Due to such competition, Islamic banking is no longer perceived as a business entity with the primary aim of fulfilling religious obligation of the Muslim community but it is viewed as a business that need to be as competitive as conventional banking. Consequently, there is need to understand preferences and needs of consumers on Islamic banking services and products

Akhtar et al (2016) analysed some factors which are influencing the perception of customers in Islamic banking in Pakistan. Religion, awareness, regarding financial teaching of Islam, awareness regarding Islamic banking products and services, advertisement and networking are some of the factors which are influenced the perception of customers in Islamic banking. There is a positive relationship between religion, awareness regarding financial teaching of Islam, advertising, networking and reputation and the perception of the customers. The religion and the profit in Islamic bank have inspired the people to invest in Islamic bank. In fact, the cost and risk are considered as the effective factor on the service of Islamic banking. Polat, Yesilyaprak and Kaya (2014) stated that the promotional efforts, complexity, awareness of consumers, relative advantage and compatibility are some of the main determinants of Islamic retail bank adoption. In this effect, the consumer awareness seems to have the significant positive relationship in adoption of Islamic banking services. Moreover, the quality of service, new methods of banking, innovation and responsiveness of bank, attitude of staff, price and cost and bank location are pointed as the main factors significantly associated with the adoption of Islamic retail banking services. Abdullah and Yazdifar (2016) pointed out that the innovations, research and development and deregulations of finance are some of the factors which have promoted the adoption of Islamic banking system. The Islamic banking system is present to cater the Muslims needs, but in a reality, it has increased in the non-Muslim world due to its certain advanced system. Friendly employees, facility accessibility, facility of parking, bank location and bank reputation

are some of the important factors which are influencing the customers towards the Islamic banking adoption. In addition to these, the religious motivation and the economic conditions have created the major impact on customer to easily adopt the Islamic banking system.

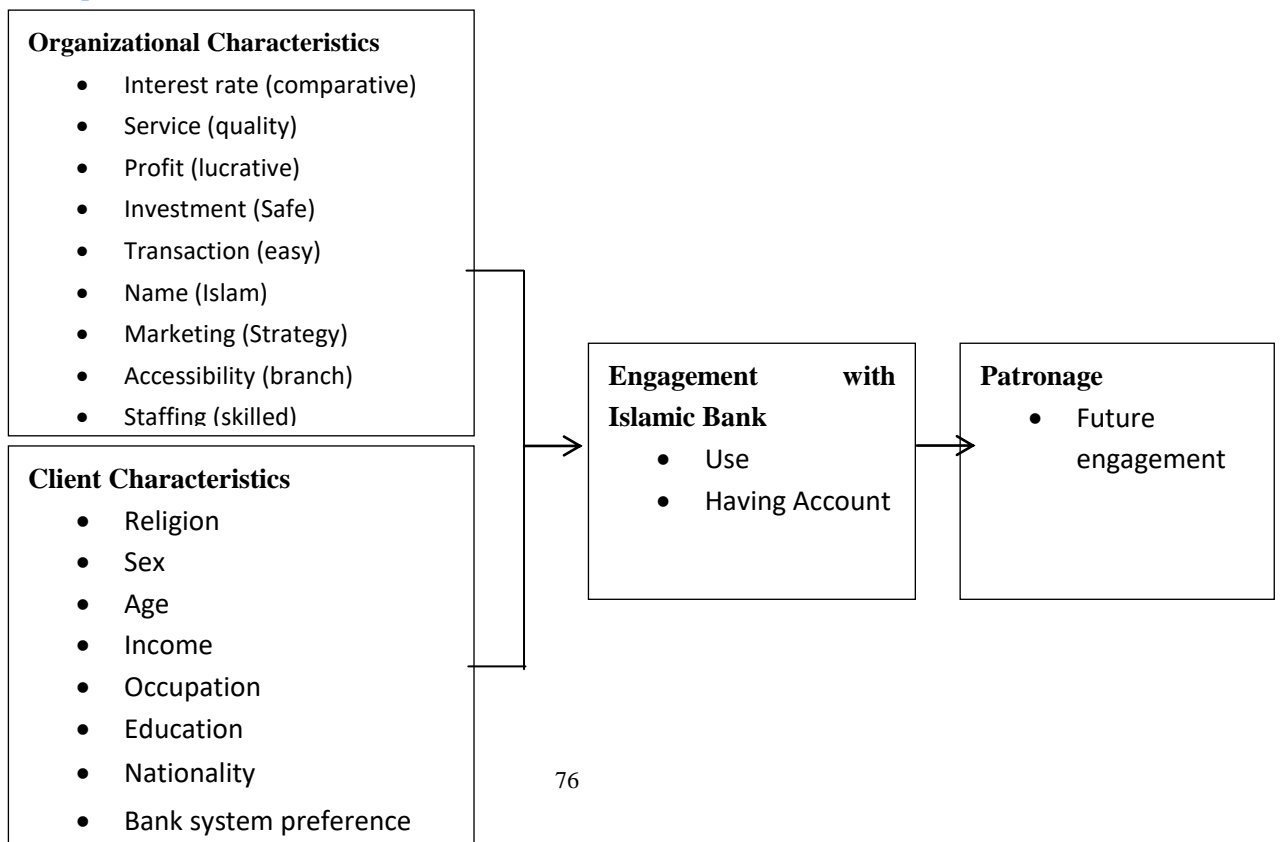
The Oman Islamic finance report (2015) identifies the challenges of Islamic banking is the small size as many banks much smaller than the conventional banking system with poor infrastructure. The competitions also continue as the conventional banks started to launch Islamic window, so this become complex as the main aspect of Islamic bank being Shariah complaint doesn't act as major regulation, standardisation and differentiation. Other key challenge in sultanate is the poor work ethnic in the labour force of nation, inadequate educated workforce and restrictive regulations of labour. The Islamic finance investment banks are mostly project driven and it do not have constant source of finance revenue to tie them over the economic activity slumps, Sharia compliance and satisfactory framework for investors need to be regulated and Shariah multiplicity board and judgements and other accounting standards.

6. Research Methodology

Research methodology is responsible for the attempts made by the academicians to explore the solutions to the research questions till the point of conclusion. The academicians have to combat troubles that they encounter during the search for the solutions for the raised research questions. These problems can easily be solved by the successful adoption of the appropriate research methodology.

The present study employs positivism for justifying the objectives of the study. The study adopted a quantitative approach to objectively collect primary quantitative data through close ended questionnaires. Descriptive research designed is used to achieve the objectives of the study. Primary data is collected through survey using close ended questionnaire based on Likert's scale as the survey instrument while the secondary data was collected for the literature section of the research. Simple Random sampling is used because the elements or units of the concerned population have equal and random chance of being selected and to have are minimum chances of sampling bias (Mugo, 2002). The target population includes individual bank customers with sample size of 200 from Muscat, capital city of Sultanate of Oman.

7. Conceptual Framework



Scale	Descriptive Level	Descriptive Interpretation
4.20 – 5.00	Very high	The perceived organizational characteristics of Islamic Bank is excellent
3.40 – 4.19	High	The perceived organizational characteristics of Islamic Bank is very good
2.60 – 3.39	Moderate	The perceived organizational characteristics of Islamic Bank is good
1.80 – 2.59	Low	The perceived organizational characteristics of Islamic Bank is poor
1.00 – 1.79	very low	The perceived organizational characteristics of Islamic Bank is very poor

Table 1: Level of organizational characteristics

Descriptive Statistics					
	N	Std. Deviation	Mean	Level	Description
INTER	146	1.03084	2.2329	Low	Poor organizational characteristics
SERV	146	.84601	2.8767	Moderate	Good organizational characteristics
PROF	146	.76706	3.0685	Moderate	Good organizational characteristics
SAFINVE	146	.74481	2.5205	Low	Poor organizational characteristics
EASY	146	.77050	2.7671	Moderate	Good organizational characteristics
ISLAM	146	.90930	1.9726	Low	Poor organizational characteristics
MARSTRA	146	.67983	2.9178	Moderate	Good organizational characteristics
T					
BRANCH	146	.65520	3.1096	Moderate	Good organizational characteristics
TRAINSTF	146	.71926	2.9178	moderate	Good organizational characteristics

Table 2: Percentage distribution of client characteristics

Variables		Frequency	Percent	Valid Percent	Cumulative Percent
Religion	1.00	142	97.3	97.3	97.3
	2.00	2	1.4	1.4	98.6
	3.00	2	1.4	1.4	100.0
	Total	146	100.0	100.0	
Sex	1.00	112	76.7	76.7	76.7
	2.00	34	23.3	23.3	100.0
	Total	146	100.0	100.0	
Age	1.00	13	8.9	8.9	8.9
	2.00	74	50.7	50.7	59.6
	3.00	52	35.6	35.6	95.2
	4.00	5	3.4	3.4	98.6
	5.00	2	1.4	1.4	100.0
	Total	146	100.0	100.0	
Income	1.00	14	9.6	9.6	9.6
	2.00	26	17.8	17.8	27.4
	3.00	28	19.2	19.2	46.6

	4.00	44	30.1	30.1	76.7
	5.00	34	23.3	23.3	100.0
	Total	146	100.0	100.0	
Occupation	1.00	60	41.1	41.1	41.1
	2.00	64	43.8	43.8	84.9
	3.00	18	12.3	12.3	97.3
	4.00	4	2.7	2.7	100.0
	Total	146	100.0	100.0	
Education	1.00	28	19.2	19.2	19.2
	2.00	94	64.4	64.4	83.6
	3.00	6	4.1	4.1	87.7
	4.00	16	11.0	11.0	98.6
	5.00	2	1.4	1.4	100.0
	Total	146	100.0	100.0	
Nationality	1.00	134	91.8	91.8	91.8
	2.00	12	8.2	8.2	100.0
	Total	146	100.0	100.0	
Preference	1.00	33	22.6	22.6	22.6
	2.00	35	24.0	24.0	46.6
	3.00	36	24.7	24.7	71.2
	4.00	42	28.8	28.8	100.0
	Total	146	100.0	100.0	

Table 3: Level of Engagement in Islamic Banking Variable

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
USER	146	1.00	1.00	1.0000	.00000
ACCNT	146	1.00	3.00	1.5822	.84492
Valid N (listwise)	146				

Table 4: Level of Future Patronage in Islam Banking

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
PATRON	146	1.00	3.00	1.9178	.90597
Valid N (listwise)	146				

Table 5: Correlation and Degree of Influence of the Determinant Variables

Source	Dependent Variable	Sum of Squares	Df	Mean Square	F	Sig.	Partial Eta Squared	Noncent. Parameter	Observed Power^c
RELIGION	USER	.000	1	.000	.	.	.	.	.

	ACCNT	.859	1	.859	1.846	.177	.017	1.846	.270
SEX	USER	.000	1	.000	.	.	.	.	.
	ACCNT	.098	1	.098	.211	.647	.002	.211	.074
AGE	USER	.000	1	.000	.	.	.	.	.
	ACCNT	8.702	1	8.702	18.70	.000	.146	18.708	.990
					8				
INCOME	USER	.000	1	.000	.	.	.	.	.
	ACCNT	.520	1	.520	1.117	.293	.010	1.117	.182
OCCUP	USER	.000	1	.000	.	.	.	.	.
	ACCNT	.266	1	.266	.573	.451	.005	.573	.117
EDUC	USER	.000	1	.000	.	.	.	.	.
	ACCNT	.043	1	.043	.093	.761	.001	.093	.061
NAT	USER	.000	1	.000	.	.	.	.	.
	ACCNT	.537	1	.537	1.155	.285	.010	1.155	.187
PREFER	USER	.000	1	.000	.	.	.	.	.
	ACCNT	.218	1	.218	.468	.495	.004	.468	.104
INTER	USER	.000	3	.000	.	.	.	.	.
	ACCNT	7.184	3	2.395	5.149	.002	.124	15.446	.915
SERV	USER	.000	3	.000	.	.	.	.	.
	ACCNT	1.031	3	.344	.739	.531	.020	2.218	.204
PROF	USER	.000	3	.000	.	.	.	.	.
	ACCNT	.986	3	.329	.707	.550	.019	2.121	.196
SAFINVE	USER	.000	3	.000	.	.	.	.	.
	ACCNT	5.096	3	1.699	3.652	.015	.091	10.956	.786
EASY	USER	.000	3	.000	.	.	.	.	.
	ACCNT	1.701	3	.567	1.219	.306	.032	3.658	.319
ISLAM	USER	.000	3	.000	.	.	.	.	.
	ACCNT	3.238	3	1.079	2.320	.079	.060	6.961	.570
MARSTRA	USER	.000	3	.000	.	.	.	.	.
T	ACCNT	5.137	3	1.712	3.681	.014	.092	11.044	.790
BRANCH	USER	.000	3	.000	.	.	.	.	.
	ACCNT	2.924	3	.975	2.095	.105	.055	6.286	.523
TRAINSTF	USER	.000	3	.000	.	.	.	.	.
	ACCNT	3.035	3	1.012	2.175	.095	.056	6.526	.540

a. R Squared = . (Adjusted R Squared = .)

b. R Squared = .509 (Adjusted R Squared = .352)

c. Computed using alpha = .05

Table 6: Strength of the correlation

		USER	ACCNT	PATRO N
USER	Pearson Correlation	. ^a	. ^a	. ^a
	Sig. (2-tailed)	.	.	.
	Sum of Squares and Cross-products	.000	.000	.000
	Covariance	.000	.000	.000
	N	146	146	146
ACCNT	Pearson Correlation	. ^a	1	-.406**
	Sig. (2-tailed)	.	.	.000
	Sum of Squares and Cross-products	.000	103.514	-45.014
	Covariance	.000	.714	-.310
	N	146	146	146
PATRON	Pearson Correlation	. ^a	-.406**	1
	Sig. (2-tailed)	.	.000	.
	Sum of Squares and Cross-products	.000	-45.014	119.014
	Covariance	.000	-.310	.821
	N	146	146	146

** . Correlation is significant at the 0.01 level (2-tailed).

a. Cannot be computed because at least one of the variables is constant.

Table 7: Degree of influence

Tests of Between-Subjects Effects									
Dependent Variable: PATRON									
Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared	Noncent. Parameter	Observed Power	
Corrected Model	23.460 ^a	2	11.730	17.554	.000	.197	35.108	1.000	
Intercept	244.742	1	244.742	366.264	.000	.719	366.264	1.000	
USER	.000	0	.	.	.	.000	.000	.	
ACCNT	23.460	2	11.730	17.554	.000	.197	35.108	1.000	
USER * ACCNT	.000	0	.	.	.	.000	.000	.	
Error	95.554	143	.668						
Total	656.000	146							

Corrected 119.014 145

Total

a. R Squared = .197 (Adjusted R Squared = .186)

b. Computed using alpha = .05

8. Findings

- Age has strongest relation with adoption which 0.990, other than that marketing strategies, economic benefits and safe investment also have strong relationship.
- Gender, education, religion, income, occupation and nationality has weak relation. Education has weakest relation.
- Number of branches, availability of CDM, ATM, word 'Islam' and skilled and trained staff has moderate relation
- Organisational and client characteristics has 50.9% influence on the adoption of Islamic banking
- There is a correlation between adoption and patronizing Islamic banking
- The degree of influence of adoption over patronization is 19.7%

9. Recommendations

- Islamic Banks operating in Oman need to work on their marketing strategies to bring awareness among the people.
- IB must make action plan to identifying the reasons of why people in Oman think that this is not the real Islamic Banking.
- Staff working in Islamic banks of Oman needs more training and qualification particularly related to Islamic banking or Islamic Finance.
- Islamic banking and finance should be part of the syllabus in High schools to understand the concept of Islamic banking.
- Funds of Islamic banking needs to invest in certain projects where rate of return is high, it can be possible with the help of expertise in particular field.

10. Conclusion

In conclusion, it is found that religion plays an important role in the adoption of Islamic banking in Oman because people join Islamic banking for the word 'Islam'. Customers prefer high economic benefits, higher the profit/interest rate will lead to adoption of Islamic banking. Quality of service is another important factor, trained and skilled staff, quick transactions, prompt reply of query are the factors that affect the adoption. Marketing strategies and adoption has positive relationship, better marketing strategies will lead to adoption of Islamic Banking. Islamic banking has better scope in Oman, but at this point of time they believe that real Islamic banking is not prevailing in Oman.

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