

## Impact of Culture and Social Influence on Adoption of Islamic Banking in Pakistan

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### *Abstract*

*This paper conceptualizes the factors that can impact the adoption of Islamic banking in Pakistan. Past literature has pointed out many factors however ignored few possible factors, like culture and social influence. This paper addresses this gap in Pakistani context by proposing a conceptual framework on the basis of literature gaps. The proposed methodology of this study is quantitative survey from banking customers in Pakistan. The findings will not only fill in the literature gaps but will also provide valuable insights to academic community and the industry.*

**Keywords:** Culture, Social Influence, Islamic Banking Adoption, SMART-PLS

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### **Introduction**

A country's economic success is largely dependent upon performance of its banking sector as they are the drivers of financial stability in the economy. In Pakistan the term 'Islamic banking' refers to the conduct of banking activities of financial firms which is in adherence to Islamic teachings (Tara et al, 2014). In Pakistan, state bank of Pakistan has been focusing much to incorporate the Islamic banking in the industry. For the promotion of Islamic Banking in Pakistan, SBP issued policies/guidelines as per BPD circular No.1 of January 2003. Wherein a three-pronged strategy was adopted as under:

- a) Establishment of full-fledged Islamic Bank(s) in the private sector.
- b) Setting up subsidiaries for Islamic banking by existing commercial banks.
- c) Allowing Stand-alone branches for Islamic banking in the existing commercial banks.

(State Bank of Pakistan, 2018).

However, despite the extensive efforts the expected growth of customers is still not at its optimum level. According to (Tahir, 2003), there are many factors which can cause low adoption of Islamic banking. Some of which are non-standardization of products, vocabulary of Islamic banking, the complex pricing formulae, lack of public awareness etc.

Apart from these factors, literature posits, some other factors that has affected the adoption of Islamic banking in different contexts. These literary studies discussed in the following section.

### **Literature Review**

The literature suggests that many factors affect the adoption of Islamic banking in a country. Different authors suggest different opinions about adoption of Islamic banking system in a country. Few of these studies are as follows:

For example a study by Mariadas and Murthy, (2017) who studied adoption of Islamic banking in Malaysia which has one of the most developed Islamic banking system in the world. They concluded that two factors affect the adoption of Islamic banking in Malaysia which are consumer knowledge and

consumer satisfaction. However risk management and compatibility did not show significant impact on adoption of Islamic banking adoption (Mariadas & Murthy, 2017).

Another study by Haque, (2010) state that different gender and race play an important role in determining level of adoption in a multicultural country. He concluded that males tend to use Islamic banking more than the females. And the muslim race obviously tend to use Islamic banking compared to non-muslim races (Indian and Chinese) in Malaysia (Haque, 2010). However according to Selvanathan, Nadarajan, Zamri, Suppramaniam, and Muhammad, (2018), factors that affect customers' choice of Islamic banking. Their study proved that religions haws negative relationship on choosing Islamic banking. This shows that religion is not the main factor but the risk of selecting a bank is important.

Another study by Bassir et al., (2011) states that the most important factors which affect adoption of Islamic financial services are religiosity of the consumers, reputation of the Islamic bank, and cost of financing (Bassir et al, 2011).

Su'un, Possumah, Appiah, and Hilmiyah, (2018) recently conducted an exploratory study to determine the adoption of Islamic banking in different religious groups in Ghana (a non-muslim country). Their study used technology acceptance model and reveals that muslims are the significant users of Islamic banking services with 77%, Christians with 42 percent and traditional religious African group as 59 percent. This shows that even non-mulims are using these services in a non-muslim country (Su'un et al., 2018). However another study done in Ghana by Mbawuni, (2016) revealed that Muslim respondents have significantly positive perception of islamic banking in all dimensions compared to non-Muslims, and they have stronger intentions to adopt Islamic banks in Ghana compared to Non-Muslims. Non-Muslim Ghanaians have positive and favourable perception of Islamic banks for its perceived economic and consumer welfare benefits. Non-Muslim respondents do not perceive potential threat of violence associated with the introduction of Islamic Banks in Ghana's economy.

Lajuni et al., (2017) conducted a quantitative study to determine the intention to use Islamic banking products and found out that attitude, government support, and social influence possess explanatory and predictive capacity to envisage customers' intention to use Islamic banking products.

Study by Hidayat and Al-Bawardi, (2012) in saudia reveals that cheaper transaction costs and better service delivery are the main reasons that attract them to use Islamic banking services. Though majority of the respondents are convinced of the social benefits that can accrue from the interest-free Islamic banking principles, they are however not the primary reasons for their utilization of Islamic banking services in Saudi Arabia.

In Uganda, a very recent study by Bananuka, Kaawaase, Kasera, & Nalukenge, (2019) revelas that religiosity and attitude are the main factors that determine the intention to use islamic banking in uganda. However In the absence of attitude, subjective norm is a significant determinant of intention to adopt Islamic banking. Overall, attitude, subjective norm and religiosity explain 44 per cent of the variance in the intention to adopt Islamic banking in Uganda (Bananuka et al., 2019).

In Pakistani context Aziz and Afaq, (2018) used decomposed theory of planned behaviour to investigate the factors affecting adoption of islamic banking in Pakistan. An analysis of survey sample of 186 bank customers revealed that influence of consumer attitude on the adoption intention is the strongest compared to Subjective norm and perceived behavioral control.

According to Salman, Nawaz, Bukhari, and Baker, (2018), the critical environmental and cultural demographic characteristics impacts are largely neglected in the past studies. Their qualitative study confirms that in adopting an islamic bank as customer, the level of understanding about Islamic financial system stands out as being the significant one with many other motives based on personal beliefs (Salman et al., 2018).

Haider, Changchun, Akram, and Hussain, (2016) studied the impact of gender differences on adoption of islamic mobile banking in Pakistan. And found that males tend to use islamic banking more compared to females.

The literature demonstrates many factors that decide adoption of Islamic banking in different context. However in the literature no consensus on few major factors have been made. Also literature have ignored some important factors like culture and social influence. Many studies have confirmed that when it comes to adoption of a particular system, culture is one of the main motivators and/or barrier in adoption of it (Schwartz, 1999). There are very limited studies in the literature studying the impact of culture on adoption of Islamic mobile banking in Pakistan.

However a study by Lajuni et al., (2017) postulated the impact of social influence on adoption of Islamic banking. However not much studies have confirmed this relationship. Social influence is the degree to which someone feels that important others (peers, friends, family) can influence someone's decision to adopt a certain system.

Another important factor that affects adoption of Islamic banking as mentioned by Tahir, (2003) is the knowledge of Islamic banking products because of its complex vocabulary.

### **Conceptual Framework**

On the basis of literature above and the gaps in the literature, we propose the following model.

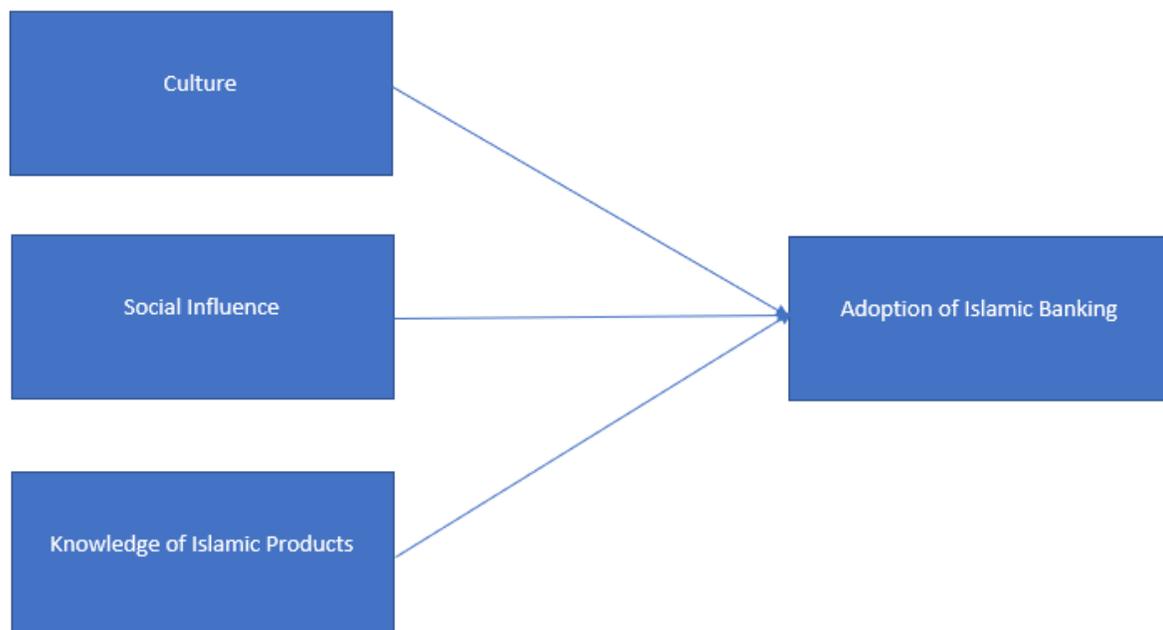


Figure 1: Conceptual Framework

### **Hypothesis**

Following hypotheses are proposed for this study.

- Does culture impact the adoption of Islamic banking?
- Does social influence impact the adoption of Islamic banking?
- Does knowledge of Islamic banking products impact the adoption of Islamic banking?

### **Methodology**

The proposed methodology for this study is survey questionnaires from banking customers. According to Babbie (2007), for conducting a descriptive study with a large population, the survey method is the best

method for direct observation. Newsted et al. (1998) state that surveys are very helpful when the researcher has to decide the actual values of variables under study and the relationship among them. This study intends to develop relationships among the variables. The relationship should be statistically measurable so the impact of factors, which affect Islamic banking adoption, will be understood.

### Statistical Analysis

The statistical tools often found suitable for multivariate data analysis of this nature are usually through Covariance-based structural equation modeling (CB-SEM) otherwise known as Analysis of Moment Structure (AMOS) and Partial Least Square (PLS-SEM) also known as PLS Path Modeling Partial Least Square (PLS-SEM) is effective in developing theories in an exploratory study, by focusing on the changes in the dependent variable when examining a model. According to Hair, Hult, Ringle, and Sarstedt, (2017) an exploratory instrument is used where a researcher considers which independent variables have a high potential of predicting the better result in a dependent variable or where research emphasis is on determining a statistically significant predictor than confirmatory. So, for the purpose of this study the data will be analysed using structural equation modeling (SMART PLS).

### Conclusion

The paper addresses the factors that can affect the adoption of Islamic banking in Pakistani context on the basis of literature. Literature ignores some of the possible factors like culture and social influence. This paper conceptualizes a framework based on the argument developed. The study will fill the existing literature gap and provide a framework which can be used in different contexts.

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