



**ST. MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**FACTORS AFFECTING ADOPTION OF INTEREST FREE  
BANKING AT UNITED BANK S.C**

**BY**

**BISIRAT BEKELE**

**JUNE, 2018**

**ADDIS ABABA, ETHIOPIA**

**FACTORS AFFECTING ADOPTION OF INTEREST FREE  
BANKING AT UNITED BANK S.C**

**BY**

**BISIRAT BEKELE**

**A THESIS SUBMITTED TO ST. MARY UNIVERSITY, SCHOOL OF  
GRADUATE STUDIES IN PARTIAL FULFILMENT OF THE  
REQUIREMENTS FOR THE DEGREE OF MASTERS OF  
BUSINESS ADMINISTRATION**

**JUNE, 2018**

**ADDIS ABABA, ETHIOPIA**

**ST MARY'S UNIVERSITY**  
**SCHOOL OF GRADUATE STUDIES FACULTY OF BUSINESS**

**FACTORS AFFECTING ADOPTION OF INTEREST FREE**  
**BANKING AT UNITED BANK S.C**

**BY**

**BISIRAT BEKELE**

**APPROVED BY BOARD OF EXAMINERS**

\_\_\_\_\_  
**Dean, Graduate Studies**

\_\_\_\_\_  
**Signature**

\_\_\_\_\_  
**Advisor**

\_\_\_\_\_  
**Signature**

\_\_\_\_\_  
**External Examiner**

\_\_\_\_\_  
**Signature**

\_\_\_\_\_  
**Internal Examiner**

\_\_\_\_\_  
**Signature**

## **DEDICATION**

This thesis is dedicated to my family and friends for their encouragement and continuous support throughout MBA program and especially during this research study.

## DECLARATION

I declare that the submitted thesis on the title, “Factors Affecting Adoption of Interest Free Banking at United Bank S.C”, is my original work and that all sources that have been referred to and quoted have been dully indicated and acknowledged with complete references.

Bisrat Bekele

Name

**St. Mary’s University , Addis Ababa**

---

Signature

**June, 2018**

## ENDORSEMENT

This is to certify that Bisirat Bekele Dubale has carried out his research work on the topic entitled " Factors affecting adoption of interest free banking at united bank S.C" under my supervision. This work is original in nature and it is sufficient for submission for the partial fulfilment for the award of masters of business administration degree.

Mohammed Mohammednur (Asst.Professor)

Advisor

**St. Mary's University , Addis Ababa**

\_\_\_\_\_

Signature

**June, 2018**

# TABLE OF CONTENTS

Table of Contents .....	i
Acknowledgments.....	v
List of Acronyms/Abbreviations.....	vi
List of Tables .....	vii
List of Figures .....	viii
Abstract .....	ix
<b>CHAPTER ONE: INTRODUCTION.....</b>	<b>1</b>
1.1. Background of the Study.....	1
1.1.1. Establishment of United Bank S.C.....	4
1.2. Statement of the Problem .....	5
1.3. Research Questions .....	7
1.4. Objectives of the study.....	7
1.4.1. General Objective .....	7
1.4.2. Specific Objectives .....	7
1.5. Limitations of the study .....	8
1.6. Significance of the study.....	8
1.7. Scope of the study .....	8
1.8. Definition of Basic Terms.....	8
1.9. Organization of the study.....	9
<b>CHAPTER TWO: REVIEW OF RELATED LITERATURE .....</b>	<b>10</b>
2.1. Theoretical Background.....	10
2.1.1 Basic Concepts and definition of Interest free banking.....	10

2.1.2 Principles of IFB.....	10
2.1.3 Major Interest Free Banking Products.....	11
2.1.4 Islamic Banking Deposit Products .....	12
2.2 Restricted Investment Deposit (Restricted Mudaraba).....	12
2.2.1 Wadiah (Safekeeping) Deposit.....	12
2.2.2 Demand Deposit (Amana Current Accounts).....	13
2.2.3 Islamic Banking Financing Products.....	13
2.2.4 Mudaraba (Silent Partnership).....	13
2.2.5 Murabaha (Cost-Plus Sales Contract).....	14
2.2.6 Ijara (Lease).....	14
2.2.7 Musharaka (Equity Partnership).....	14
2.2.8 Salam (Forward Trade Contract).....	15
2.2.9 Istisna (contract of manufacture).....	15
2.3. Religion and adoption of Islamic banking.....	15
2.3.1. Factors affecting Adoption of IFB.....	16
2.3.1.1 Shariah Compliance .....	16
2.3.1.2. Awareness of the service and Adoption of IFB .....	17
2.3.1.3. Perceived Relative Advantage .....	17
2.3.1.4 Accessibility of IFB services in all branches.....	18
2.4. The Need for Islamic Banking in Ethiopia .....	18
2.5. Empirical Review.....	20
2.6. Conceptual Frame work.....	22
<b>CHAPTER THREE: METHODOLOGY OF THE STUDY .....</b>	<b>25</b>
3.1 Research Design.....	25
3.2 Research Approach .....	25
3.3 Population of study .....	25



3.4 Sample Size Determination.....	26
3.5 Sampling Techniques.....	28
3.6 Sources of Data.....	28
3.7 Method of Data Collection.....	29
3.8 Procedure of Data Collection.....	29
3.9 Data Analysis Techniques.....	29
3.10 Reliability and Validity.....	30
3.10.1 Reliability.....	30
3.10.2 Validity.....	30
3.11 Ethical Considerations.....	30
<b>CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION.....</b>	<b>31</b>
4.1 Descriptive Response Rate.....	31
4.2 Demography of Respondents.....	33
4.2.1 Gender and Age of Respondents.....	33
4.2.2 Employment Type and Income Level of Respondents.....	33
4.3. Descriptive Statistics Analysis of Factors Affecting Adoption of Interest Free Banking.....	34
4.3.1. Sharia Compliance.....	34
4.3.2. Customers Awareness Regarding Products and Service.....	36
4.3.3. Advertisement about products and services.....	38
4.3.4. Perceived relative advantage of the service.....	39
4.3.5. Accessibility of the IFB services in all branches of the bank.....	41
4.4. Descriptive Summary of Each variable influences.....	42
4.5 Correlation Analysis.....	43
4.6 Regression Analysis.....	45
4.7 Common Assumption Test.....	45

4.7.1 Multicolinearity Test .....	45
4.7.2 Linearity Test.....	47
4.7.3 Normality Test .....	48
4.7.4 Autocorrelation/Durbin Watson Test .....	48
4.8. ANOVA Model Fit .....	49
4.9. Model Summary.....	50
4.10 Beta Coefficients.....	51
4.11 Hypothesis Test Result .....	53
<b>CHAPTER FIVE: FINDINGS, CONCLUSIONS AND RECOMMENDATIONS .....</b>	<b>55</b>
5.1 Summary of Major Findings.....	55
5.2 Conclusions.....	57
5.3 Recommendations.....	58
<b>REFERENCES</b>	
<b>APPENDICES</b>	

## **ACKNOWLEDGMENTS**

First of all I thank God for giving me the courage to start and finalize this thesis. Second I am so grateful for the understanding and all rounded support extended by my wife, Wro. Hirut Alemu, and my children. Third, I am also thankful for my colleagues at United Bank S.C for their support. Last but not the least; I acknowledge the assistance and valuable comments provided by my advisor, Asst. Prof. Mohammed Mohmmednur to make this project a reality.

## **List of Acronyms/Abbreviations**

<b>IFB</b>	Interest Free Banking
<b>IFBW</b>	Interest Free Banking Window
<b>IBS</b>	Islamic Banking Service
<b>NBE</b>	National Bank of Ethiopia
<b>SPSS</b>	Statistical Package For Social Science
<b>VIF</b>	Variance inflation factor

## List of Tables

Table 3 1 Table for determining sample size of a Known population.....	27
Table 3. 2 Composition of sample from each branch.....	28
Table 4 1 Demographic characteristics.....	32
Table 4.2 Description of response on Shariah compliance.....	35
Table 4.3 Customer awareness regarding interest free banking service.....	37
Table 4.4 Level of advertisement influence on customer's awareness.....	39
Table 4.5 Level of Perceived relative advantage of the service.....	40
Table 4.6 Level of Accessibility of the IFB services in all branches of the bank.....	41
Table 4.7 Descriptive Summary of Each variable influences.....	42
Table 4. 8 Correlations Result of Variables.....	44
Table 4.9 Multicollinearity test statistics.....	46
Table 4. 10 ANOVA.....	49
Table 4 .11 Model Summary.....	50
Table 4. 12 Beta Coefficients.....	51

## List of Figures

Figure 1 Conceptual Framework of the Study , Akhtar, Mehmood Akhtar (2016).....	23
Figure 2. Normal P-P plot of Regression of Adoption of IFB (Linearity Test).....	47
Figure 3. Normal P-P Plot of Adoption of IFB (Normality test) .....	48

## **Abstract**

*The objective of this study was to investigate the major factors that affect adoption of interest free banking at united bank S.C. Addis Ababa. This study has analyzed the effect of Shariah compliance, awareness, advertisement, perceived relative advantage and accessibility of the service on adoption of interest free banking intensity. Descriptive and Explanatory (cause effect relationship) research design was used. Both qualitative and quantitative research approach were applied in this particular study. The target populations of the study were 8000 IFB customers of eight branches in Addis Ababa and the total sample size of this study were 367 customers of United bank Share company. Convenience sampling techniques was applied. Primary and secondary data were used for this study. Adopted Questionnaires using five point likert scales were used to collect data from respondents. Both descriptive and inferential statistics (correlation and regression) analysis were used to analyze the data. The analysis confirms there were significant positive relationships of sharia compliance, perceived relative advantages, accessibility of the services, advertisement and awareness of the services with adoption of interest free banking. These factors are expected to have great role for influencing customers mind. The findings of the study showed that customers can derive a better understanding of the activities that are undertaken by bank and how the way these activities are being dealt with and the mentioned variables have significant positive impact on the attitude towards interest free banking at United Bank S.C . In conclusions, there are need to work on about over all mentioned variables, on awareness of interest free banking service. The limitation of this study was that it has conducted in specific geographical area and could not be generalized.*

**Key Words:** *Sheriah compliance, Adoption of Interest Free Banking, Advertisement, Relative advantages and Accessibility of IFB services.*

# CHAPTER ONE

## INTRODUCTION

### 1.1. Background of the Study

Banking is the most important and backbone for every economy and community growth. Countries with better economic systems tend to grow more rapidly because banks play a basic economic role as financial intermediaries and as facilitators of payments (Levine, 2000). The Islamic Bank can be defined as a bank which is applying the banking system that is based on the principle of Islamic law also known as Shariah and will not involve itself in the transaction which prohibited by Shariah (Abdullah, Sidek, & Adnan, 2012). The conventional banking system excludes the Muslim society, not by design, but due to its principle of using interest while playing its financial intermediary role and its involvement in business that the religion does not allow to be engaged in due to this reason significant portion of the world population remained unbanked for centuries. Thus, this has created strong reservations against conventional banking system from the Muslims side and they demanded banking system that does not contradict with their religion. Kerima Ali Mohammed,(2016).

In accordance with Article 22(2) of Banking Business Proclamation (BBP) No. 592/2008, the NBE through the BSD No. SBB/51/2011, authorized the business of IFB under the umbrella of the CB with limited scope. Interest-free banking business refers to banking business in which mobilizing or advancing funds undertaken in a manner consistent with Islamic finance principles and mode of operation that avoids receiving or paying interest, and interest-free banking window, refers to a unit within a conventional bank exclusively offering interest-free banking services. The authorization for the licensing of the IFB Business under the umbrella of the CB with limited scope is thus aimed at addressing two contesting national objectives of two extremes; optimize economic values of IFB to address the interest of its stakeholder and fill the gap left by the CB in one hand and constrict its operation under the umbrella of the CB with limited scope for the time being (Teferi 2015). As per this provision, all commercial banks that are licensed to engage in the CB are privileged to engage in interest free banking (IFB) business through Conventional Banking branch offices. The IFB business as per the provision refers to banking business in which mobilizing or advancing funds is undertaken in a manner consistent



with Islamic finance principles and mode of operation that avoids receiving or paying interest and the IFB refers to a unit or window within a conventional bank exclusively offering interest free banking (Oroitbank, 2018).

One of the most emerging trends in the global economies is the idea of Interest free banking and Finance Ahmad, (2000), that emerged in the global landscape as an alternative banking system which is in line with values and ethos of Islam, and governed by the principles of Shariah Law that requires not charge interest and avoid any unethical practices in achieving its goals and objectives, Gait and Worthington, (2008). This form of interest-free banking has developed over a long period of time in Egypt in 1963 with the introduction of new products in the industry. According to Fakhru-Ahsan (1998) and Usman (2003), the role and functions of Islamic banking within the banking system in a modern economy are very important, and in fact, it is at the heart of every robust economy.

The Islamic Bank can be defined as a bank which is applying the banking system that is based on the principle of Islamic law also known as Shariah and will not involve itself in the transaction which prohibited by Shariah Abdullah, Sidek, & Adnan, (2012). Islamic banking can be defined as Shariah-compliant banking” that “provides and use financial services and products that conform to Islamic religious practices and laws Kettell (2010). The Islamic financial law has long history but Islamic banking and finance industry has very recent origin and came into existence in 1963 when Mit-Ghamr saving bank in Egypt experimented the first effort of establishing Islamic banking system that was unsuccessful attempt due to the inappropriate marketing and management strategy cited by guluma (Platt, 2008). Modern expansion of Islamic banking has involves through the process of converting the entire financial intermediation of a country from a conventional system to a full-fledged Islamic system (Iran and Sudan) and by establishing Islamic banks to compete with conventional banks (Gusau, 2000).

What differs Interest Free Banking from the conventional banking system is based on a broad system of ethics and moral values based on Islamic religion principle which avoids receiving or paying of Interest (Riba), profit/ loss sharing, prohibit financing harmful industry to mankind, avoid uncertainty, supervised by Shariah Supervisor Board and highly depend on Contractual Relationship (Masood, 2013), while conventional banks depend on interest, borrowers bear the

total risk, invest in any visible industry, deals with derivatives, have no such a Shariah board and depend only creditor-debtor contract relationship. Conventional banks use money as a commodity which leads to inflation. In Islamic banking the money is linked with the real assets that directly contribute in the economic development (Institute Bank-Bank Malaysia, 2010). Interest free banking is a narrow concept denoting a number of banking instruments or operations, which avoid interest. Islamic banking, the more general term is expected not only to avoid interest-based transactions, prohibited in the Islamic Shariah, but also to avoid unethical practices and participate actively in achieving the goals and objectives of an Islamic economy services (Akmel Hailu, 2015).

After the issuance of the working directive, the NBE granted the IFB service license to the Oromia International Bank S.C (OIB) on September 16, 2013 enabling the bank to pioneer the Interest Free Banking in Ethiopia (Meraf, 2013). Interest-free banking in Ethiopia started in September 2013, when the Oromia International Bank S.C launched the service. The Commercial Bank of Ethiopia joined the market at the end of October, followed by United bank S.C, which began providing the service on May 1, 2014 and by now many private banks are starting IFB services . The introduction of interest-free banking in Ethiopian banking industry is important for the development of banking services, and in addition to provide options for the customers. As the documents of oromia international bank (June, 2014) indicates that the interest-free financial products and services offered under separate windows are Wadiya Amanah account, Qard account, Mudaraba account, Ba`i –Salam mode of financing, Istisna mode of financing, Ijarah mode of financing, Musharakah, Mudarabah, Qard al Hassen and Kafala Interest free (Islamic) banking and finance witnessed a rapid expansion over the last few decades and it is still currently expanding (El-Hawari *et al.*, 2004). For Interest free (Islamic) banking to continue this expansion and succeed in any other setting, it has to be accepted and positively perceived by the potential customers. The advent of the 1984 banking business proclamation has made the economy to open up its door for emerging of private banks in Ethiopia, which has gradually evolved in to an industry characterized by stiffer competitive market. (Elias Endale, 2015).

Factors affecting IFB adoption have been at the forefront of several research works in the developed and some developing world. Nevertheless, there is very much limited published works

that investigate the factors influencing the use of interest-free banking from the viewpoint of customers in the context of developing countries like Ethiopia. The banking sector in Ethiopia in general is underdeveloped in terms of its outreach and the range of banking products, the sector is offering to its customer as compared to the level of development that the global banking is currently stands (Kerima, 2016).

### **1.1.1. Establishment of United Bank S.C.**

United Bank was incorporated as a Share Company on 10 September 1998 in accordance with the Commercial Code of Ethiopia of 1960 and the Licensing and Supervision of Banking Business Proclamation No. 84/1994. The Bank obtained a banking services license from the National Bank of Ethiopia and is registered with the Trade, Industry and Tourism Bureau of the Addis Ababa City Administration .Over the years united Bank built itself into a progressive and modern banking institution, endowed with a strong financial structure and strong management, as well as a large and ever-increasing customers and correspondent base. Today, United Bank is a full service Bank that offers its customers a wide range of commercial banking services with a network of 203 Branches and 19 sub-Branches, and a number of additional outlets on the pipeline (United bank, 2018).

United Bank's priority in the coming years is to strengthen its capital base, maximizing its return on equity and benefiting from the latest technology in order to keep abreast with the latest developments in the local and international financial services industry. Going in line with its tradition of meeting the needs and expectations of its customers through a service package that enhance customers' convenience, United Bank is pleased to announce the commencement of Interest Free Banking services in its branches starting May 1, 2014. United received the green light from the National Bank of Ethiopia to launch the service, after going through the necessary prerequisites including the preparation of a detailed proposal document incorporating policy matters, procedures, implementation strategy, risk management and other vital issues that are believed to be critical to the smooth rendering of the service. The application presented to the NBE received acceptance corresponding with the details of the directive that allowed banks to render the service alongside other conventional banking services.

This new service which will involve mobilizing or advancing funds without receiving or paying interest will be offered on a separate window of the bank's branches targeting individuals, business companies, unions, co-operatives and non-governmental organizations (NGOs). The services offered under the interest free banking will include deposits in the form of Wadiah and Mudharabah, loans and advances using musyarakah, murabahah, Istisnah, Salam and Ijarah principles, and international trade finance on the base of Wakalah and Kafalah, and many more. According to the procedures used to govern the services under the scheme, loans that require interest payment are excluded from the service package replaced by a different financing path, whereby the finance recipients will enter a profit as well as a risk sharing agreement. In the same manner, the deposits mobilized in the scheme are independent of the financial deposits of the parallel conventional banking system (United bank, 2018). Therefore the main focus of this study is to investigate the gaps that affect the adoption of IFB services at united bank S.C, based on the impact of independent variables indicated on the above

## **1.2. Statement of the Problem**

Business organizations and especially the banking sector are operating in an environment characterized by a complex and competitive climate (Agbolade, 2011). In today's competitive world, banks are striving to endure survival, in spite of their vital role playing in the economy. In addition, to achieve their mission and objectives, they have to understand their customers' perceptions demand and the challenges of the time (Dusuki & Abdullah, 2007). The practical evidence shows that Interest free banking have spreading and rising across the world. Some factors emerge to be interrelated with the dispersion of IFB, specifically the principles of risk-sharing that underlie financing, the growth of oil-rich economies, the presence of Muslims in the population, an enabling legal framework, and economic integration with Middle Eastern countries or proximity to Islamic financial center (Alam, 2011). Everywhere there is a considerable number of Muslim society and is not limited to Muslim countries, the prospect for Islamic banking to extend in a given country rises with the share of the Muslim population. Trade with the Middle East and economic stability are also conducive to the diffusion of Islamic banking (Ibrahim, 2012). Almost half of Ethiopian banking commercial industry out of seventeen banks has commenced Interest free banking service within less than three years while some others banks are also showed initiation to commence it (Guluma, 2017).

One way of the success of the banking services is measured in terms of providing full-fledged services like IFB in addition to conventional banking for satisfaction of customers and, to win the competition and to expand market bases, by identifying and challenging the effects of the factors that affect the adoption of Interest Free Banking services. Even if there are a lot of opportunities and, united bank S.C. shows high progress in IFBs in recent years, the experiences shows that still needs improvement in increasing number of customers, accessibility and awareness creation on IFB. Some related studies are conducted by different researchers in different part of the world; there are limited numbers of studies conducted in Ethiopia on the factors that influence the adoption of IFB in Ethiopia. Among these studies the research undertaken by Mohamed (2012) under the title of “The Prospects, opportunities and Challenges of Islamic banking in Ethiopia, shows that lack of awareness, regulatory and supervisory challenges, institutional challenges, lack of support and link institutions, gap with in research and development in Islamic studies, lack of qualified human resources as well as wrong full association with specific religion and the global terrorism. The study conducted by Debebe (2015) by the title of factors affecting customers to use interest free banking is concerned with examining the willingness of the customers to use IFB. The outcome of this study shows, the impact assessment on the attitude towards of IFB usage which doesn't address the current problems that very few customers are using interest free banking services relative to the expected total population.

The study undertaken by Teferi (2015), the contribution of IFB to economic development of Ethiopia shows the general Macro level effect of IFB, so it doesn't show the specific problem of the bank. The research conducted by Kerima (2016), on Challenges of interest free banking service in Ethiopia has done based on the government bank (CBE) ,that differ from private bank ,so it has the gap to show the factor affecting adoption of IFB. Guluma (2017) studied on factors influencing customers behavioural intention to adopt IFB in Ethiopia, is implies general concept of behavioural study, so it has the gap to show the specific practical factors that affect IFB adoption.

Therefore due to no further study specifically conducted on IFBW of United bank S.C ,the researcher is motivated to conduct a study on the title of factors affecting adoption of IFB services at United bank S.C as a case study, in doing so ,the variables of Sharia compliance

,awareness regarding product and services, effect of advertisement, perceived relative advantage of the IFB service, and the effect of accessibility of the IFB services in all branches of the united bank S.C were considered as leading variables. Therefore this study tries to assess the Factors affecting the adoption of interest free banking services at united bank S.C based on the appropriate measurements using empirical evidences.

### **1.3. Research Questions**

Based on the above problem statement this study is conducted to answer the following questions:

- What is the effect of Shariah compliance on the adoption of IFB?
- Does awareness of the service affect the adoption of IFB?
- To what extent advertisement affect adoption of IFB?
- Is there any perceived relative advantage of the adoption of IFB?
- To what extent IFB is accessible in all branches of the bank?
- Does accessibility has effect on the adoption of IFB?

### **1.4. Objectives of the study**

#### **1.4.1. General Objective**

The general objective of the study is to identify empirically the factors affecting adoption of IFB at united bank S.C.

#### **1.4.2. Specific Objectives**

- To investigate the effect of Shariah compliance on the adoption of IFB
- To examine the relationship between awareness of the service and adoption of IFB
- To identify if there is any relationship between advertisement of the service and adoption of IFB
- To point out the impact of perceived usefulness of the service on the adoption IFB
- To determine the impact of accessibility of IFB services on the adoption of IFB

### **1.5. Limitations of the study**

- Generalization has become the limitation to this study because it did not include all branches and other competing banks as well as under different environment setting.

### **1.6. Significance of the study**

The outputs of the study have theoretical and practical contributions to different stakeholders. The findings of this study helps to understand the factors that influence the adoption and operation of IFB use for United Bank S.C, IFB customers of the bank. Additionally this study help to acquire knowledge and practical experience for the researcher, bank managers, and policy and decision makers of the bank engaged on IFB services. It also helps for those banks yet not starting and those under adoption of IFB services by sharing some ideas, and for further study undertaken hereafter as a starting point.

### **1.7. Scope of the study**

IFB service is presently introduced and offered by different commercial banks and if all branches adopting IFB services are included the research result would have been comprehensive and generalized. However, due to time and finance constraints this study delimited to united bank S.C. factors that influence the adoption of IFB services. Geographically United Bank S.C is not organized(divided) by districts, due to that purposely selected eight branches located in different parts of Addis Ababa are covered in this study, because the biggest branches have a lot of customers and can represent those excluded branches.

### **1.8. Definition of Basic Terms**

**Adoption** is to accept formally and put into effects. The term “Islamic Banking” is defined as the conduct of banking operations in consonance with Islamic teachings Mirakhor, (2000) Ijarah Financing: Lease financing.

The following definations of basic terms are cited by Teferi ,(2015)

**Istisna Financing:** Building and plant construction financing.

**Mudharabah:** (trust financing) is a partnership between a bank and a customer in which the bank provides the capital for a project and the customer or entrepreneur uses his or her expertise to manage the investment.

**Mudarib:** Entrepreneurial manager in Mudharabah (trust financing) partnership.

**Murabaha Financing:** Working capital financing on a cost plus a profit margin basis.

**Musharakah/Musyarakah:** (partnership financing) refers to an investment partnership in which all partners share in a project's profits on the basis of a specified ratio but losses are shared in proportion to the amount of capital invested.

**Sharia Committee:** a team of an independent Sharia Scholars in charge of monitoring compliance aspect of the IFB . (Bank of Malaysia, 2010)

Sharia Principle: Islamic law.

**Wadiah Deposit:** Return-free safekeeping deposit.

**Wakalah:** Agency service. (Bank of Malaysia, 2010)

## **1.9. Organization of the study**

The research paper has five chapters. The first chapter contains the introduction parts that deal with background, statement of the problem, research questions, objectives, limitations, scope, and significance, definition of basic terms and organization of the study. The second chapter deals with review of theoretical and empirical literature. The third chapter describes the methodology of the study which contains data types and sources, sampling technique, method of data collection, sample size, data analysis technique, and procedure of the study. The fourth chapter focus on data analysis and interpretations. The last chapter of the paper presents major findings, Conclusions and recommendations of the study.



## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **2.1. Theoretical Background**

##### **2.1.1 Basic Concepts and definition of Interest free banking**

Interest-free banking business refers to banking business in which mobilizing or advancing funds is undertaken in a manner consistent with Islamic finance principles and mode of operation that avoids receiving or paying interest;” and “interest-free banking window” refers to a unit within a conventional bank exclusively offering interest-free banking services (Teferi, 2015). According to the study made by Ibrahim (2012), the concept of Islamic Banking and Interest- Free Banking is synonymously used in Islamic Economics literature as an alternative banking framework to the interest-based conventional banking practice. However, there is a difference between an interest-free bank and an Islamic bank but they are sometimes used interchangeably. Islamic banking not only avoids interest in all its ramifications but also it avoids all other Islamically prohibited activities. Interest-free banking system on the other hand, does not engage in interest but there is no reason to suppose that all its other activities will be done strictly according to Islamic law “Shariah”. Islamic banking, the more general term is expected not only to avoid interest-based transactions, prohibited in the Islamic Shariah, but also to avoid unethical practices and participate actively in achieving the goals and objectives of an Islamic economy.

##### **2.1.2 Principles of IFB**

The main principles of Islamic banks activities comprise of prohibition of interest (riba) in all forms of transaction undertaking business and trade activities, based on, fair and legitimate profit (Mirakhor, 2000). Moreover operations of Islamic banking primarily are based on a profit and loss sharing (PLS) principle. An Islamic bank does not charge interest but rather participates in the yield resulting from the use of funds. The depositors also share in the profits of the bank according to a predetermined ratio. There is, thus a partnership between the Islamic bank and its depositors, on one side, and between the bank and its investment clients, on the other side, hereby acting as a manager of depositors” resources in productive uses, that is an interest free/ Islamic bank in relation to its clients plays the role of partner, investor and trader. The

complexity of Islamic banking comes from the variety (and nomenclature) of the instruments employed, and in understanding the underpinnings of Islamic law (Kettell, 2011). Islamic banking is a unique type of banking system that devoid all forms of transactions that are prohibited in Islam. So for any bank to be classified as Islamic bank, the following basic principles must be adopted for its operations (Samad, 2004; Bello & Abubakar, 2014). Predetermined loan repayments as interest (*riba*) is prohibited, Speculative behaviour is prohibited, only *Shariah*-approved contracts are acceptable, profit and loss sharing is at the heart of the Islamic system, contracts are sacred, the implementation of *Zakat* the compulsory Islamic tax and transparency in all transactions. These basic principles are then applied to the various specific transactions of, for example pledge, deposit, and guarantee, agency, assignment, land tenancy, *waqf* foundations (religious or charitable bodies) and partnerships. Interest free banking is a narrow concept denoting a number of banking instruments or operations, which avoid interest.

### **2.1.3 Major Interest Free Banking Products**

Islamic financial products offer new opportunities for institutions to address previously unexplored consumer and business segments. The introduction of Islamic financial products across the world has been in response to the growing need of a significant segment of the marketplace that refused to deal with interest-based instruments. Islamic banks aim at addressing the needs of new segments by creating a range of Islamically acceptable products, the development of which pose significant challenges arising from the need for *Shariah* compliance in addition to regulatory complexities. Marketing such products is another challenge in light of competition from conventional banks and the need for innovative products (Hassan & Lewis 2007). Interest free/Islamic banking operates according to Islamic law which requires all the transaction to be *Shariah* compliant including the non-receipt and payment of interest. It involves profit-sharing as per agreement and loss/risk sharing as per investment between banks and customers as its main method. It provides several products through different modes. The products are recognized based on the contracts instead of the commercial orientation, Kettell (2011). Islamic banks have devised (and still devising) new instruments/products to enable them achieve their objectives in accordance with Islamic laws. Al-Sultan (1999).

#### **2.1.4 Islamic Banking Deposit Products**

According to Kettell (2011), in the mobilization of funds, Islamic banks depend on four main sources that include shareholders' funds, current accounts, investment accounts and savings accounts. The bank and the investment deposit holders share the realized profit in accordance with the ratio agreed upon between the parties at the time of contracting. The deposit in the current account is treated as if they are loans from the clients to the bank and therefore, bear no yield to the account holders. However, being loans to the bank, their principal is guaranteed by the bank. According to Ziauddin (1994), Hassen & Lewis (2007) and Kettll (2011) the source of deposit mobilization of IFB products are shown as follows, Kerima Ali (2016).

##### **Unrestricted Investment Deposits (Unrestricted Mudaraba)**

This type of deposit is an earning deposit which is mobilized with the knowledge that bank acts as the Mudarib (manager) and invests the fund without restriction and intervention of the capital provider in any Shariah compliant manner. The profit on the investment will be shared as per agreement and loss will be shared by the depositor (capital provider). The bank has discretion to participate in the investment. The bank can pool the money for its daily IFB business activities.

##### **2.2 Restricted Investment Deposit (Restricted Mudaraba)**

Such type of IFB deposit is an earning deposit which is mobilized with the knowledge that bank acts as the Mudarib (manager) and invests the fund in restricted investment based on active intervention of the capital provider complemented with professional advice from the bank side. The profit on the investment will be shared as per agreement and loss will be shared by the depositor (capital provider).

##### **2.2.1 Wadiah (Safekeeping) Deposit**

It is a peculiar non-earning type of IFB deposit that operates under the contract of Wadiah Yad Dhamanah (guaranteed custody). The bank accepts deposits from its customers looking for safe custody and convenience and requests permission to make use of the customer funds for investment purposes promoting transparency. The customers may withdraw their balances at any time. Profit generated from the use of the customers' funds belongs to the bank. However, the bank may at its absolute discretion reward the customers by declaring profits to them. Under the

contract of Wadiah, the custodian i.e. the Bank is not allowed to mention or to promise any reward on the deposit received. The owner/depositors too cannot demand any rewards or return from their Bank on their savings.

### **2.2.2 Demand Deposit (Amana Current Accounts)**

Amana Current accounts are non-earning deposits that operate based on the principle of alwadiah, whereby the depositors are guaranteed repayment or withdrawal of their funds on demand. At the same time, the depositor does not receive return for depositing funds in a current account, because the guaranteed funds will not be used for profit and loss ventures.

### **2.2.3 Islamic Banking Financing Products**

As a general rule, Islamic finance involves the carrying out of investment and /or the purchase of goods, services and assets. Islamic banks provide financing using two basic methods. The first depends on profit and loss sharing and the second involves the sale of goods and services on credit and leads to the indebtedness of the party purchasing those goods and services, Al- Jarhi and Iqbal (2001). Financial instruments based on Islamic principles have been developed to facilitate everyday banking activities by providing halal (Shariah-compliant) methods of lending or borrowing money and still offering some acceptable returns for investors. Theoretically, there are several IFB financing products which also include other than the below cited ones. Practically, banks do not provide all of the IFB products. Thus, this research also shows the popular IFB financing products which is described by the following researcher as major ones. According to Hassan & Lewis (2007), Al-Jarhi and Iqbal (2001); Kettell (2011); and Bello & Abubakar (2014) some of popular Islamic financing products being marketed worldwide by Islamic banks are the following.

### **2.2.4 Mudaraba (Silent Partnership)**

A mudarabah contract is a financial transaction in which there are two partners in the contract. One of the partners will provide the needed capital (Rabb-ul-Maal) and the other partner will go into the business as entrepreneur (Mudarib). That is, the Islamic bank will act as the capital Provider (Rabb-ul-Maal). In this type of financial contract, profits are shared between Islamic bank and the entrepreneur (client) based on predetermined ratio. However, in the event of loss

the Islamic bank (or depositors) bears the loss while the entrepreneur loses his or her effort provided it were not as a result of his or her negligence.

### **2.2.5 Murabaha (Cost-Plus Sales Contract)**

**This** type of contract is mostly used in the procurement of equipment. It is a sales contract between Islamic bank and its client at a fixed profit called mark-up. In this contract, the client will provide all the specifications of the commodity and the Islamic bank will take the risk of purchasing it for the client at a cost plus mark-up which the client can either pay in instalment or sum at a spot or at a stated period.

### **2.2.6 Ijara (Lease)**

Ijarah is synonymous to leasing contract in conventional banking. It is a contract whereby an Islamic bank purchases an asset and leases it out to its client on the agreement that the client will be paying a fixed amount at regular interval usually monthly for a specified period of time to the Islamic bank. It may also include the option of the client purchasing the asset at the end of the contract from the bank.

### **2.2.7 Musharaka (Equity Partnership)**

Musharaka is a contract in which two or more persons contribute capital for the establishment of a particular business venture in such a way that each partner has right to either involve in the administration of the business or not. However, partners may decide to be active or sleeping partner at their own will. In this kind of transaction in Islamic banking, profits are shared based on agreed ratio which need not be equal to their individual capital contribution, but loss is shared strictly based on individual capital contribution. So, Islamic bank will act as a partner in this case in order to contribute to the capital formation as well as in sharing profits and loss.

### **2.2.8 Salam (Forward Trade Contract)**

This is a sale contract whereby Islamic bank agrees to supply some specific commodities to the buyer (its client) at a future date that is specified in exchange of an advanced full spot payment to the bank. That is, the client pays the full amount and delivery of the commodity to the client is done in specific future date by the Islamic bank.

### **2.2.9 Istisna (contract of manufacture)**

It is a contract in which a party orders another to manufacture and provide a commodity, the description of which, delivery date, price and payment date are all set in the contract. It is used by Islamic banks, and consists of two separate Istisna contract.

## **2.3. Religion and adoption of Islamic banking**

Kirkpatrick (2005) expressed religion as psychological connection, dominant emotional relationship to things. Religion is a cause, principle, or a system of beliefs, practices held to with ardor and faith. Islamic bank has a spirit and philosophy of Islam, regarding interest-free transactions and risk sharing. Metawa and Almosawi (1998) found the religion as the main factor affect customer perception in the selection of Islamic banking system and not the yield on their investment. In addition he found religiosity is ranked highest factor affecting selection criteria followed by profitability. In UK, the volume of deposits of Muslims in Islamic financial institutions is primarily influenced by religious reasons, Omer (1992). The same finding is supported by Othman and Owen (2001); Walkhid and Afrita (2007); Haron et al (1994), where religion is major influential factor of IB adoption. Conversely, a Jordan based study found that religion did not play significant role to adopt an Islamic bank, but profit driven criteria was an important factor to choose a bank (Erol, C. and El.B. Radi, 1989). Regarding the Islamic banking selection criteria most of the customers have adopted Islamic banking due to the religious reasons, but there are some other factors that motivate the customers for the adoption of the Islamic banking system such as, bank efficiency in the transaction, their confidentiality to its customers, its working hours etc. (Khattak and Rehman., 2010). Studies by Hegazy (1995) on Egypt, Naser et al., (1999) on Jordan, Kareem and Afiff (2006) and Rohmah (2006) on Indonesia and Dusuki and Abdullah (2007) on Malaysia are agree with the findings that religiosity is not the main reason for people to support Islamic Banks.

### **2.3.1. Factors affecting Adoption of IFB**

#### **2.3.1.1 Shariah Compliance**

While financial soundness may be enough for retaining the confidence of clients of a conventional bank, in the case of Islamic bank, Shariah compliance is equally important. An Islamic bank could fail as much due to non-compliance to the Shariah as for financial imprudence. Therefore, it should be ensured that all activities of an Islamic bank comply with Shariah principles Al-Jarhi and Iqbal (2001). According to Kettell (2011), to ensure financial activities are in conformity with the Shariah law, religious Supervisory boards are mandatory for Islamic banks. The Shariah Supervisory Board (SSB), sometimes called the Shariah supervisory committee, examines contracts, dealings and transactions to assure that Islamic beliefs are being implemented. The board guarantees, and certifies, that the banking activities are halal (permissible). It is merely an advisory body, but nevertheless it has an authoritative and respected function because the bank entrusts the SSB with questions as to the permissibility of its activities. Being part and parcel of Islamic economic activities, Islamic/Interest free banking and financial activities are therefore subject to the Shariah law.

The Sources of guidance of Islamic financial operations compliances with shariah are derived from three sources the first one is Quran (primary source of sharia )and the second one is Sunnah (practise of the prophet) the third one is Ijma(consensus)and also Qias and IJTIHAD (The reasoning of a group of qualified scholars ,which is aimed at adapting Islamic rules to the contemporary world .) Islamic Banking Hand Book Institute of Bank of Malaysia (2010)

Despite the growth of Islamic banking worldwide, as the others African countries Ethiopian banking industry was continued to conduct most of their banking transactions using traditional banking system because of lack of supportive regulatory and policy regimes that facilitate the establishment of Islamic financial institutions is the most important worth of mentioning. Since, Muslims believe that banking with the conventional banks is against their religious faith; large numbers of potential Muslim customers are not banking with the existing conventional banks available in the country. Debebe Alemu (2015)

In the Ethiopian context, the IFB convention is introduced in the form of IFBW (interest free banking windows) short of full-fledge level, which has its own retarding impact on standard of

the convention and its contribution in driving the ED and complementing the banking industry in the process. Moreover, as emerging phenomena, it seems as it may face awareness and, to some extent, perception or misconception challenges as a value-adding convention to the banking industry and the economy as well (Teferi, 2015)

### **2.3.1.2. Awareness of the service and Adoption of IFB**

According to Oxford Dictionary; “Awareness is concern about and well-informed interest in a particular situation or development”. In this study we examine the awareness/knowledge regarding Product and services, awareness in term of advertisement and awareness about financial teaching of Islam. Previous studies provide evidences about the impact of awareness regarding products and services. Rammal and Zurbruegg (2007) discovered that people were interested in IB products however unawareness to these products was the biggest hurdle in Australian market. The customer’s awareness level towards IB products is better in some of the common products such as current accounts, time deposit account. But most of the customers are unaware of the specific Islamic financial products such as Murabaha, Ijara Khattak and Rehman (2010).

### **2.3.1.3. Perceived Relative Advantage**

According to the study made by guluma Abdisa (2017), Relative advantage has been designed to reflect perceptions of customers which all or certain qualities of the proposed innovation can offer incremental value to its potential adopter comparing with present available options Rogers, ( 2003). Relative advantage can be explained as economic profitability, discomfort decreasing, saving in time and effort, low initial cost, social prestige, and/or other potential benefits that possible user would receive by applying the current innovation ,Gerard (2003). Potential adopters want to know, if the new idea is better than an existing one. Besides, several scholars have found relative advantage to be one of the best predictors of an innovations rate of adoption (Brown et al., 2003; Tan and Teo, 2000; Hsu et al., 2007; Tung & Rieck, 2005; Thambiah et al., 2011b; Gerrard and Cunningham, 2003). Roger, 2003 and Gerard, 2003 argued that adopters invariably perceived relative advantage in terms of the economic benefits and the costs resulting from the adoption of an innovation and improvements that are afforded to their social status. In addition to these, economic profitability, discomfort decreasing, saving in time and effort, low



initial cost, social prestige, the immediacy of the reward and/or other potential benefits that possible user would receive by applying the current innovation, have been described as the sub-dimensions of relative advantage. The present study therefore intend to examine relative advantage within the dimension of economic benefits (profits earnings, reduce the burden of interest, reduce risk, profit and loss sharing benefits) and fairness (in the conduct of profit sharing, ethical banking system, equal distribution of wealth).

#### **2.3.1.4 Accessibility of IFB services in all branches**

Accessibility is one of the important variables in determining the adoption criteria of Islamic Banks. It refers to geographically extended number of branches that a particular organization has in order to provide access to its customers. Haron et al, 1994 found convenience as a major factor influencing selection criteria of IFB, he conceptualize convenience as wide branch network, location being near home or work, convenient working hour of ATM, and bank location. Small network of branches is one of the factors that have significant effect on low growth of Islamic banking, so Islamic Banks should try to reach more people by opening more branches and it will certainly increase public confidence on them. Adnan ,( 2011).

#### **2.4. The Need for Islamic Banking in Ethiopia**

As horrendous disparities exist between different segments of the Ethiopian society, the government must provide the disadvantaged classes with the tools they need to improve their condition, (Mohamed M.Olad, 2012). Access to finance by the poor and the vulnerable groups is a prerequisite for poverty reduction and social cohesion. Such "financial apartheid" is one of the main causes of the majority of the unorganized sector; workers, semi-skilled persons, small farmers are all non-bankable. Exclusion of the majority of the population in terms of growth. Islamic banking is one way to ameliorate the poor and the disadvantaged segments of the society. The Ethiopian banking sector has opened up considerably in the past decade or so and openness to interest-free banks is a logical next step. The potential benefits of allowing Islamic banking include; decreased economic disparity between the haves and the have not's, better integration, and consequently accelerated economic growth. Government of Ethiopia can leap a step closer towards the fulfillment of the much cherished dream of "Middle Income Country" by reforming its banking sector and allowing the establishment of Islamic Banks. Islamic faith prohibits the use of financial instruments that pay interest, Song and Oosthuizen (2014).

The non-availability of interest-free banking products (where the return to the investor is tied to the bearing of risk) results in some Ethiopians, including those in the economically disadvantaged strata of the society, not being able to access banking products and services due to reasons of faith. While interest-free banking is provided in a limited manner through SMFI, it is recommended that measures be taken to permit the delivery of interest-free finance on a larger commercial scale. This is in consonance with the objectives of inclusion and growth through innovation. Also, it would be possible, through appropriate measures, to create a framework for such products without any adverse systemic risk impact. With improved labor capital ratio, our vulnerable workers associated with agriculture and unorganized sector might be able to compete effectively with the formal sector workers. Thus Islamic Banking may financially empower majority of Ethiopian workers and farmers. Cited by Alyu Abate (2016), Song and Oosthuizen (2014).

In general Financial institutions, Islamic or others, play indispensable roles in financial systems. The first role is providing support for various financial markets. For instance, exchanges of various types are institutions that facilitate the functioning of markets, by setting rules of trading and providing clearinghouse and margin logistical support. (Iqbal and Mirkahor, 2011)

NBE granted the IFB service license to the Oromia International Bank S.C (OIB) on September 16, 2013 enabling the bank to pioneer the Islamic Banking in Ethiopia (Meraf, 2013). Accordingly OIB launched the IFB operation on December 16, 2013 as a pioneer at its 24 branch offices and currently expanded out to its other branches. United bank S.C is the third bank which offering a suite of interest free banking products and services to its clients who are interested in conducting their personal and business financial transactions in a shariah-compliant manner through “window model” ,an operational strategy adopted by conventional banking services operate alongside with IFB services within the same banking hall. It has a separate and dedicated IT system that segregate the interest free banking window from conventional banking operations. Mostly religion is the main reason for preferring IFB services which is based on sharia . Because of that the following activities are not permissible in interest free banking.

Paying or receiving any kind of interest (riba)

Engaging in business forbidden by shariah like alcohol, prostitution, pork, armament, tobacco environmentally and socially damaging business.

Engaging in business involving gambling (Maysir or Qimar), business dealings with uncertainty (Gharar)

## **2.5. Empirical Review**

IFB industry is highly nascent in comparison to the conventional banking industry. It is striving to develop its own institutional, operational, and regulatory infrastructures in order to grow and prosper (Khan & Bhatti, 2008). At international experience, many studies on challenges of Interest free/Islamic banking have been conducted. These studies have shown that Islamic banking in Muslim or non-Muslim countries have faced a number of challenges (Iqbal, Ahmed & Khan (1998); Bello & Abubakar (2014); Njamike (2010); Ibrahim (2012); Kinyanjui (2013); Jabr (2003)). Thus, Ethiopia is not an exception. However, to the best knowledge of the researcher, there is paucity of research work on the topic under study in Ethiopian context and the researcher believed this will make the study to contribute knowledge and fill the gap in the area.

Though it is prevalent and customary alternative banking convention in the rest of the world, it is obvious that the IFB is a very recent phenomenon to the Ethiopian context. As a result, there is no or little empirical literature conducted on the subject in view of the context and scope pursued by the researcher. The available literature review so far about the IFB in the Ethiopian case basically put up the feasibility of introducing IFB in Ethiopia. Accordingly, among the researchers conducted in the Ethiopian context so far on the subject is the research and surveys conducted by Sankaramu (2009). At that moment, the statement of the problem was not about informed or knowledge-based operation of IFB. It was rather about introducing or not of IFB as a country. Accordingly, the researcher recommended the importance of considering introducing the IFB into Ethiopia by making use of smooth relationship between the Christians and Muslims as an opportunity on the basis of its immense and untapped merits in filling the gap left by the conventional banking in general and various microeconomic benefits in particular (Teferi, 2015).

Akmel (2015). Most of the developments of Islamic finance in the Ethiopia have taken place in the last four years, but the existence of *Sharia-compliant* transactions in the Ethiopian financial

industry is yet something to be seen. The study undertaken by Debebe (2015) on factors affecting customers' to use interest free banking is concerned with examining the willingness of the Ethiopian customers to use interest free banking and the factors that may influence their decision. The results showed that perceived relative advantage; perceived compatibility; customers level of awareness and subjective norm, have significant positive impact on the attitude towards interest free banking in commercial bank of Ethiopia. The outcome of this study shows impact assessment on the attitude towards IFB usage which doesn't address the current problems.

A study undertaken by Teferi (2015) the contribution of IFB to Economic development of Ethiopia ,the level of stakeholder awareness and attitude towards the IFB services ,the comparative advantages of IFB ,the factors that account for the growth of IFB , Challenges and prospective in the Ethiopian context based on OIB and commercial bank of Ethiopia with the result of the use of IFB as a more convenient for economic development and considering revisiting the infrastructure of IFB in Ethiopia could enhance its comfortable operation and its role in assisting economic development.

A research undertaken by Kerima (2016) Challenges on interest free banking services in Ethiopia with particular reference to the commercial bank of Ethiopia, indicates lack of commitment of the bank lack of shariah advisor, lack of supportive regulatory directives ,problem related to Ethiopian commodity Exchange (ECX)law, lack of capacity to deliver IFB products at full range, lack of trust and confidence of customers unavailability of IFB products in all of its branches and the IFB being delivered in a window model. This research is undertaken based on the government institution of commercial bank that differ from private banks ,therefore it has the gap to show to specifically the private banks recently starting operations of IFB and also it lacks specific structural beliefs in pointing factors affecting adoption of interest free banking.

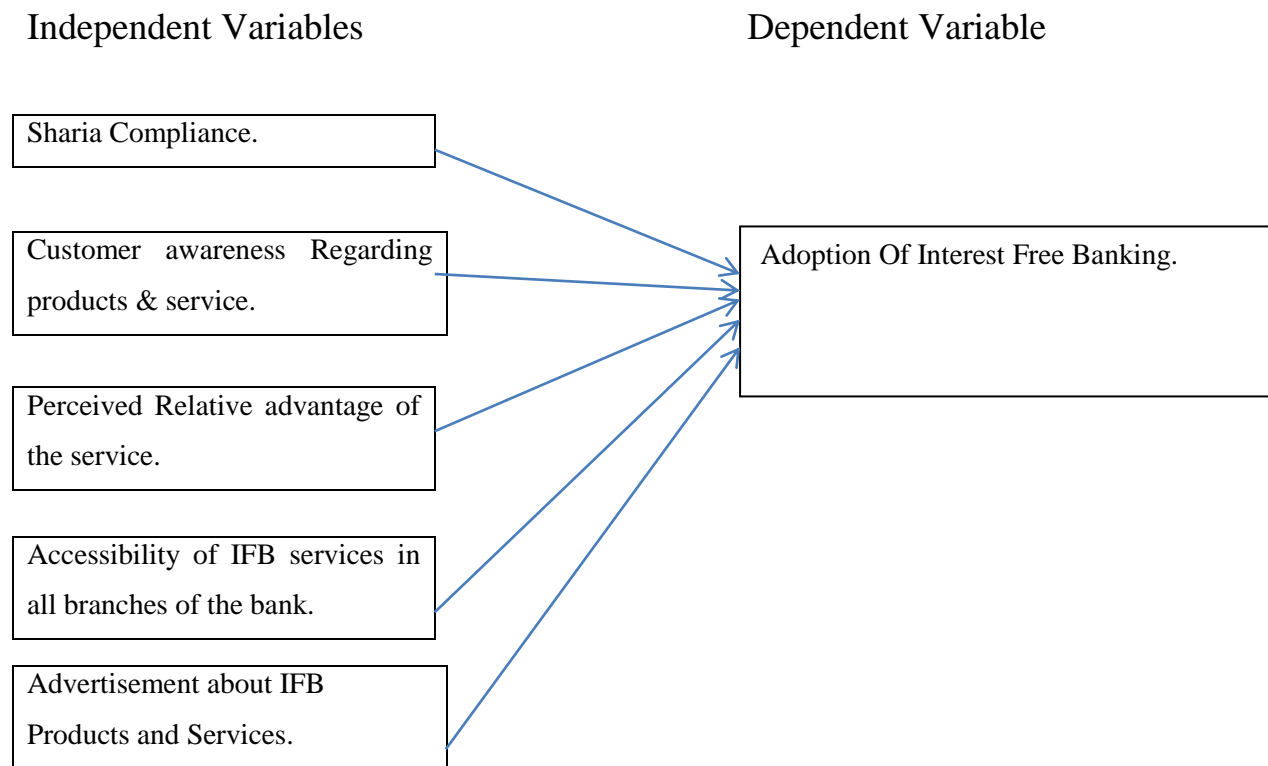
Guluma (2017) the study on factors Influencing customers behavioural intention to adopt interest free banking in Ethiopia ,the case of Oromia International bank S.C the study was based on the general framework of behavioural intention to adopt interest free banking which shows , Perceived behavioural control ,subjective norm ,relative advantage ,compatibility, valued people opinion ,media influence. So it is general behavioural study, and has the gap on the specific practical factors that influence IFB adoption.

A few banks began to offer simple products such Special Non-interest Savings Accounts (i.e Special Demand Deposit offered by the commercial bank of Ethiopia (CBE) to give a slight degree of choice flexibility to the Muslim Community. This did not, however, cater for the wider Muslim consumers. These products are relatively uncomplicated in structure and fell outside the scope of the mainstream consumers and did not generate significant volumes of customers and transactions, however, these compared unfavorably with their conventional equivalents in several respects, including their generally uncompetitive structure and negative real rate of return they offer.

The growth of the Islamic Financial services remained stuck for almost half a decade since the first individual and group initiatives surfaced in early 2008. Much has not changed since then. Not a single commercial bank has announced yet that it will engage Islamic financial products whether publicly or privately owned, whether through '*Special Window*' or subsidiary. Not a single "Full-fledged" Islamic Financial Institution has come out still from so many publicized initiatives to establish what was dubbed as the first Islamic Financial Institution in Ethiopia. Not a single government initiative or program has still yet to come from the concerned authorities, kerima Ali (2016).

## **2.6. Conceptual Frame work**

Conceptual framework is defined as an interconnected set of ideas, about how particular phenomenon functions or related to its parts (Svini; 2010). The main purpose of conceptual frame work was to clarify concepts and relationships among the variables in the study. The following conceptual frame work shows the conceptual foundation of the research conducted, that aims to explain how the indicated independent variables affect the adoption of IFB at United S .C.



**Figure 1 Conceptual Framework of the Study, Akhtar, Mehmood Akhtar (2016)**

## **2.7. Research Hypothesis**

**H<sub>0</sub>:** Sharia Compliance hasn't a positive and significant effect on adoption of of interest free banking.

**H<sub>a</sub>:** Sharia Compliance has a positive and significant effect on adoption of interest free banking.

**H<sub>0</sub>:** Customers awareness regarding interest free banking hasn't a positive and significant effect on adoption of interest free banking.

**H<sub>a</sub>:** Customers awareness regarding interest free banking has a positive and significant effect on adoption of interest free banking .

**H<sub>0</sub>:** Perceived relative advantages of interest free banking hasn't a positive and significant effect on adoption of interest free banking.

**H<sub>a</sub>:** Perceived relative advantages of interest free banking has a positive and significant effect on adoption of interest free banking.

**H<sub>0</sub>:** Accessibility of IFB services in all branches of the bank hasn't a positive and significant effect on adoption of interest free banking.

**H<sub>a</sub>:** Accessibility of IFB services in all branches of the bank has a positive and significant effect on adoption of interest free banking.

**H<sub>0</sub>:** Advertisement about interest free banking hasn't a positive and significant effect on adoption of interest free banking.

**H<sub>a</sub>:** Advertisement about interest free banking hasn't a positive and significant effect on adoption of interest free banking.

## **CHAPTER THREE**

### **3. METHODOLOGY OF THE STUDY**

#### **3.1 Research Design**

Research designs are plans and procedures for the research that span the designs from broad assumptions to detailed methods of data collection and analysis (Creswell, 2012)

This study is focus on factors affecting adoption of IFB at United Bank S.C. Thus, research design is the conceptual frame work within which a research is conducted .The type of research design that was employed for the purpose of this study is causal research design, for the purpose of demographic profile of respondents descriptive design was used, and for the rest part of response causal research design was used. Because Causal study conducted in order to identify the extent and nature of cause and effect relationships among variables, Griffin.M (2012)

#### **3.2 Research Approach**

According to Creswell (2003) there are three types of research approaches. The first one is qualitative , which involves emerging questions and procedures, data typically collected in the participants setting. The second one is quantitative research, it means for testing objective theories by examining the relationship among variables. The last one is mixed method research approach which combines both qualitative and quantitative forms, Creswell (2003). For this study the researcher used mixed method approach of causal relationship of dependent and independent variables in the study, because of the researcher collect the attitude of customers of IFB through questioner the qualitative part and analyzing the ideas using the correlation, and regression statistics by using SPSS version 20 for quantitative part, that makes the approach of the research mixed method.

#### **3.3 Population of study**

United Bank S.C has more than 203 branches throughout the country. From these branches, 103 branches are city branches. The bank has no district structure, thus the researcher select purposely 8 branches that had good experience, big and have high turnover of customers on delivering IFB. Accordingly, these branches had a total of 8000 IFB services user customers. Therefore, the total population of this study was 8000 IFB customers of the United Bank S.C



.The selected branches are Ayer Tena, Yrer Ber, Meskel Squer , Tana, Bomb Tera, Kolfe , Sefere Selam and Meskel squer.

### **3.4 Sample Size Determination**

To obtain a comprehensive sample, convenience sampling technique is applied for the purpose of primary data collection .This study will be conducted in Addis Ababa city branches of United Bank S.C. The numbers of branches of the bank in Addis Ababa are 103 as of April 2018. The researcher target on eight branches found at different locations of Addis Ababa .The reason for these branches selection is by assuming those big branches can represent the rest . The selected branches are Ayer Tena, Yrer Ber, Meskel Squer , Tana, Bomb Tera, Kolfe , Sefere Selam and Meskel squer branches, with a total interest free banking customers of eight thousand.

The sample size is determined based on Krejcie And Morgan (1970) formula using Owen survey of 2018 G.C. The researcher target on the relevant and suitable respondents of 366 customers from IFB users.

**Table 3 1 Table for determining sample size of a Known population**

N	S	N	S	N	S
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	10000	384

Note: N is population size ,S is Recommended sample size.

Source : Kerjcie and Morgan (1970)

**Table 3. 2 Composition of sample from each branch**

No.	Branch Name	No. of IFB customers	$X = (n/N)*C$
1	Ayer Tena	850	38
2	Yrer Ber	567	26
3	Meskel Squer	321	15
4	Tana	1670	76
5	Bomb Tera	1400	64
6	Kolfe	1865	85
7	Sefere Selam	601	28
8	Alem Bank	726	35
	Total	8000	367
Where, n = sample size (366), N = total population (8000), C = total customer of each branch, X = sample from each branch			

Own Survey April 2018

### **3.5 Sampling Techniques**

The researcher was used non probability sampling techniques that the researcher prefers “Convenience Sampling” for it is difficult to get all customers at the same time and place and to be able conveniently distribute questionnaires for the targeted population the researcher prefers convenience sampling .

### **3.6 Sources of Data**

To conduct the study the researcher used two sources of data, primary sources and secondary sources of data. Primary data sources were close ended , likert scale adopted ,self developed questioners distributed and collected from selected branches of United Bank S.C IFB user customers. The secondary data sources were collected from relevant materials, journals, articles

magazines, and other documents related with interest free banking services .The questioners were prepared in three parts. The first part of the questioners consist issues related to the personal information of the respondents, the second part concerned on the questions used to assess the factors that affect adoption of interest free banking services at United Bank S.C. to analyse using five points likert scale which range from strongly disagree to strongly agree.

### **3.7 Method of Data Collection**

To conduct the Study for primary data source, the researcher use questioners which distributed to United Bank S.C. interest free banking customers of selected branches located in different parts of Addis Ababa based on the number of interest free banking services users. In order to collect information regarding factors that affect the adoption of IFB services at United Bank S.C the respondents filled the questioners and collect timely and ready for analysis. The questioners are close ended type and measured on a five likert rating scale where :Strongly Disagree=1;Disagree= 2 ; Neutral =3 ; Agree= 4 ; Strongly Agree= 5.

### **3.8 Procedure of Data Collection**

Data was collected from respondents through structured questionnaires. The questionnaires were handed over to the customers and given sufficient time to read and respond for the questions.

### **3.9 Data Analysis Techniques**

In order to meet the stated research objectives, the collected data was analysed based on the nature of the objective. The data gathered from questionnaires was checked for completeness coded to feed to Statistical package for social sciences (SPSS version 20),to summarize and analyse a descriptive statistical analysis using tables and percentage for the demographic data of the respondents. The inferential statistical analysis such as correlation and regression analysis are used. Correlation analysis used to measure the relationship between the dependent variable (adoption of IFB) and the factors affecting adoption of IFB (independent variables), while regression analysis used to see the effects of the determinant variables on adoption of interest free banking at united bank S.C .and, then it will be supported by interpretation.

### 3.10 Reliability and Validity

#### 3.10.1 Reliability

The researcher conducted a reliability test to measure the internal consistency of the instruments, by using **Coronach** Alpha. It provides measure the internal consistency of a test or scale. It is expressed as number between 0 and 1 and the higher the score of Coronach's Alpha, the more reliable the generated scale is and the closer the alpha coefficients is to one ,the greater the internal consistency .The following table shows the reliability of the questionnaire conducted on SPSS version 20.

Reliability Statistics	
Cronbach Alpha	No of Items
.897	35

#### 3.10.2 Validity

The researcher check the validity of questionnaires that ware developed for the study by getting comments from the advisor and by making pilot study before it is distributed .Then the comments from both were considered to revise the questionnaire.

#### 3.11 Ethical Considerations

The researcher has to know and respect the willingness of the respondents and has not disclosed the respondent's identity, and will not have used the information for personal purpose. Additionally, all participants for the success of the research will be acknowledged. The data collected will be only for the purpose of the research and it will be kept confidential.

## **CHAPTER FOUR**

### **DATA ANALYSIS AND INTERPRETATION**

#### **4.1 Descriptive Response Rate**

This chapter presents the analysis and interpretation of results; data were collected through questionnaire from customers of United Bank S.C. Based on the proposed research design a total of 367 questionnaires were distributed, however 366 were returned successfully, whereas 1 was not correctly filled and rejected. Therefore 366 were effectively used for analysis that shows response rate of 99.72%. According Dusuki, W.A. and Abdullah, I.N. (2007), above 75% response rate is considered as adequate.

The following table represents the demographic characteristics of the respondents.

**Table 4 1 Demographic characteristics**

Variable	Classification	Number of Respondents	Percentage
Gender	Male	210	57.37
	Female	156	42.63
Total		366	100
Age	18 – 28	166	45.36
	29 -38	74	20.22
	39 -48	68	18.58
	Above 49	58	15.84
		366	100
Marital Status	Single	184	50.27
	Married	182	49.73
Total		366	100
Education level	Certificate	186	50.82
	Diploma	96	26.23
	First Degree	60	16.39
	Masters Degree and Above	18	4.92
	Others	6	1.64
Total		366	100
Type of employment	Public Sector	75	20.49
	Private Sector	148	40.44
	Self employed	94	25.69
	Student	4	1.09
	Others	45	12.29
Total		366	100
Income States(ETB)/Month	Less than 3000.00	36	11.83
	Between 3001.00 and 5000.00	79	21.58
	Between5001.00 and 7000.00	67	18.31
	Between 7001.00 and 10,000.00	93	23.40
	Between10,001.00 and 15000.00	55	15.03
	Above 15000.00	36	9.85
Total		366	100

Source: Own Survey (2018).

## **4.2 Demography of Respondents**

### **4.2.1 Gender and Age of Respondents**

The total of 366 respondents were contacted for the purpose of this study, among them 57.37 percent of the respondents were male and the rest 42.63 percent of them were female respondents. The descriptive statistics indicates the sample incorporates four different age categories. The first age category was 18 to 28 years of age, and this category takes 45.36 percent of the respondents. 29 to 38 years of age was the second age group which represent 20.22 percent of the respondents. The last two age groups were 39 to 48 and above 49 years of age, these age category represents 18.58 and 15.84 percent of the respondents respectively. The age category indicates majority of the interest free customers are between the ages categories of 18 to 28 years of age.

Out of the total respondents 50.27 percent of them were single and the rest 49.73 percent of the respondents were married. Observing the statistics, the data seems almost proportional in terms of marital status.

The education level of respondents were also incorporated on the analysis. Accordingly, 50.82 percent of the respondents were certificate holders whereas, 26.23 percent were diploma level and 16.39 percent of them first degree holders and 4.92 of the respondents were masters and above holders respectively and 1.64 percent of the respondents were included in the others group. In general, the statistics indicates that majority of the interest free bank service customers were young and educated at different level. This might be because of the more individuals become educated the more will be their access to information towards interest free banking so that information access leads to be a customer of the service.

### **4.2.2 Employment Type and Income Level of Respondents**

The income level represents how much income the respondents are generating monthly; accordingly, 11.83 percent of the respondents had a monthly income of below 3000 birr monthly; 21.58 percent of the respondents generate a monthly income of between 3001 and 5000 birr. Further, 18.31 percent of the respondents had a monthly income of between 5001 and 7000 birr, 23.40 percent of the respondents earn a monthly income in a range between 7001 and 10000 birr monthly. 15.03 And 9.83 percent of the respondents also produce an income between 10,001 &



15000 and above 15000 respectively. From the analysis one can understand majority of the respondents were private company employees and run their own business. These shows because of most of the Muslim community (users of IFB) prefer to engage and run their own business.

### **4.3. Descriptive Statistics Analysis of Factors Affecting Adoption of Interest Free Banking**

#### **4.3.1. Sharia Compliance**

Under this sub-issue it is going to be seen the interest free banking from the perspective of shariah compliance. Accordingly, more than half of the respondents confirmed that the Bank has Shariah advisory Committee; further, more than 70 percent of the respondents replied that Interest free banking service is Shariah compliant. In addition to this more than 80 percent of the respondents confirmed that the bank used to keep the money of IFB services in separate vault and it is provided completely free of interest. Overall, six questions were employed in order to measure the banks interest free banking service, and hence, 21.03 percent of them strongly agreed that the service is reconciled with shariah compliance, 49.45 percent of the respondents agreed that the service is Shariah compliance, 22.40 percent of them neither agree nor disagree; and the rest 5.74 and 1.36 disagreed and strongly disagreed on that the interest free banking is shariah compliance. In addition to this, as we observe from the table below shariah compliance had a mean score of 3.82. Looking in to the mean statistics it is possible to conclude that respondents were confirmed and agreed that the bank is consider the compliance of Shariah when it deliver the interest free banking service. Therefore, the analysis indicates that as much as possible the bank is practicing the interest free banking service through considering the rules and regulations of Shariah.

**Table 4.2 description of response on Shariah compliance**

Statements	Alternatives						
	Strongly Disagree (1)	Disagree (2)	Neutral	Agree (4)	Strongly Agree (5)	Mean	St. Dev
The Bank has Shariah advisory Committee.	0	6.56	42.62	36.07	14.75	3.59	0.8190
Interest free banking service is Shariah	1.64	6.56	19.67	49.18	22.95	3.85	0.9042
The bank used to keep the money of IFB services in separate vault.	0	4.92	11.48	62.30	21.31	4	0.7257
Interest free banking service is provided completely free of interest.	0	3.28	14.75	44.26	37.70	4.16	0.7946
Interest free banking service is offered under separate window	3.28	8.2	16.39	52.46	19.67	3.77	0.9668
The bank split profit and loss as per the agreement.	3.28	4.92	29.51	52.46	9.84	3.60	0.8564
<b>Sharia Compliance</b>	<b>1.36</b>	<b>5.74</b>	<b>22.40</b>	<b>49.45</b>	<b>21.03</b>	<b>3.82</b>	<b>0.8444</b>

#### **4.3.2. Customers Awareness Regarding Products and Service**

Customer awareness in this research context mean to what extent customers are aware regarding the interest free banking service. Accordingly, more than 65 percent of the respondents have awareness about the major types of interest free banking products. The bank offer differing kinds of interest free banking service such as Qard, Amanah, Mudarabah, Murabahah, Musharaka, Istisna, Ijarah and Salam. Apparently, more than 55 percent of the respondents have the awareness and information about the above mentioned interest free banking service. In general, eleven items were used to understand to what extent customers has awareness regarding the interest free banking service; accordingly 9.34 percent of the respondents confirmed and strongly agreed that they have the know about the service, 49.33 percent of them agreed that they have the awareness, conversely, 21.46 and 18.62 percent of the respondents disagree and strongly disagree that they have awareness about the service. Moreover, customer's awareness got a mean score of 3.46. Overall, the statistics indicate that customers had the awareness and know how about the interest free banking service the bank provides .

**Table 4.3 customer awareness regarding interest free banking service**

Statements	Alternatives					Mean	St. Dev
	Strongly Disagree (1)	Disagree (2)	Neutral	Agree (4)	Strongly Agree (5)		
You have awareness about the major types of interest free banking products.	0	19.67	14.75	52.46	13.11	3.59	.9493
I know the Interest free banking products that currently provided by the bank.	1.64	13.11	11.48	62.30	11.48	3.68	.8988
I Know that Interest free banking products are offered to Muslim and non-Muslim users.	3.28	8.20	22.95	52.46	13.11	3.63	.9257
I know about Quard	3.28	26.23	16.39	50.82	3.28	3.24	.9880
I know about Amanah	0	14.75	16.39	60.66	8.2	3.62	.8347
I know about Mudarabah	0	16.39	16.39	62.30	4.92	3.55	.8220
I know about Murabahah	1.64	16.39	26.23	49.18	6.56	3.42	.8973
I know about Musharaka	1.64	19.67	22.95	45.90	9.84	3.42	.9679
I know about Istisna	0	26.23	26.23	36.07	11.48	3.32	.9891
I know about Ijarah	1.64	21.31	29.51	37.70	9.84	3.32	.9723
I know about Salam	0	22.95	32.79	32.79	11.48	3.32	.9553
<b>Customers Awareness Regarding products and service</b>	<b>1.19</b>	<b>18.62</b>	<b>21.46</b>	<b>49.33</b>	<b>9.39</b>	<b>3.46</b>	<b>0.9273</b>

### **4.3.3. Advertisement about products and services**

In most literatures advertisement influence the sales of product and services, in this context advertisement represents to what extent the advertisement reaches to the customers, accordingly, more than 62 percent of the respondents confirmed that the media gave them a good feeling about using interest free banking and close to 54 percent of them replied that they understand the advertisement from Electronic media and from printed media.. Furthermore, close to half of the respondents said that the bank promotes about interest free banking services adequately. Apart from these, five items were employed to measure to what extent the advertisement about products and services reaches to the customers; accordingly, 11.8 percent of them strongly agreed that the media advertising influence them to use the interest free banking, 44.91 agreed that media creates a good awareness regarding the service. Conversely, 16.06 and 5.07 percent of the respondents disagree and strongly disagreed regarding the awareness creation of the advertisement. Moreover, advertisement had a mean score of 3.4. The mean score falls between neutral and agree level, in most cases it approaches to the agree level, which indicate making the advertisement using either electronic or printed media helps customers to know more about the service whereby leads them to use the service.

**Table 4.4 level of advertisement influence on customer’s awareness**

Statements	Alternatives						
	Strongly Disagree (1)	Disagree (2)	Neutral	Agree (4)	Strongly Agree (5)	Mean	ST. Dev
The media gave me a good feeling about using interest free banking.	1.64	14.75	21.31	44.26	18.03	3.62	.9965
I understand Advertisement on Electronic media.	6.56	16.39	14.75	52.46	9.84	3.42	1.0804
The way the bank advertises is very interesting to create awareness.	4.92	11.48	26.23	45.90	11.48	3.47	1.0038
The bank promotes about IFB products and services adequately.	8.20	21.31	22.95	36.07	11.48	3.21	1.1491
I read and understand advertisement from printed media.	6.56	16.39	22.95	45.90	8.20	3.32	1.0536
<b>Advertisement about products and services</b>	<b>5.57</b>	<b>16.06</b>	<b>21.63</b>	<b>44.91</b>	<b>11.80</b>	<b>3.40</b>	<b>1.0566</b>

**4.3.4. Perceived relative advantage of the service**

The perceived relative advantage refers to what different service advantage could the service offer to the customers. Around 46 percent of the respondents confirmed that the interest free banking services are cheaper as compared to the conventional banking; they (55%) also suggested that interest free banking is trustworthy to adopt it. In addition to these, more than 60 percent of the respondents said that the bank provides interest free loans, although 24.5 percent of them neither agree nor disagree regarding the interest free loan. Apart from these, more than 45 percent of the respondents replied that overall interest free banking services are better than the

conventional ones. The perceived relative advantage got a mean score of 3.38, lies between neutral and agree level. Generally, 13.34 percent of the respondents strongly agreed that the interest free banking had Perceived relative advantage, and 34.66 percent of them agreed the interest free banking had Perceived relative advantage; on the other hand 14.52 percent of the respondents disagree that the interest free banking had Perceived relative advantage, and 3.98 percent of them strongly disagree that interest free banking had Perceived relative advantage. Apart from these, the relative advantage measurement had a mean score of 3.38. The analysis implied that customers were believed that the interest free banking system had a relative advantage compared the conventional one in terms of interest free loan, trust worthiness and its security.

**Table 4.5 Level of Perceived relative advantage of the service**

Statements	Alternatives						
	Strongly Disagree (1)	Disagree (2)	Neutral	Agree (4)	Strongly Agree (5)	Mean	St. Dev
Profit –loss-sharing between the lender and the borrower is advantageous to you.	3.28	9.84	37.70	39.34	9.84	3.42	.9155
Interest free banking services are cheaper as compared to the conventional banking.	3.28	21.31	37.70	24.59	13.11	3.22	1.0326
Investments are more secure in interest free banking than conventional one.	4.92	16.39	32.72	36.07	9.84	3.29	1.0158
Interest free banking is trustworthy to adopt it.	1.64	11.48	31.15	40.98	14.75	3.55	.9344
Provides free of interest loan.	3.28	11.48	24.59	39.34	21.31	3.63	1.0428
In general, interest free banking services are better than the conventional ones.	6.56	14.75	32.79	31.15	14.75	3.32	1.0995
Awareness program on service of IFB.	4.92	16.39	37.70	31.15	9.84	3.24	1.0046
<b>Perceived relative advantage of the service</b>	<b>3.98</b>	<b>14.52</b>	<b>33.47</b>	<b>34.66</b>	<b>13.34</b>	<b>3.38</b>	<b>1.0064</b>

#### 4.3.5. Accessibility of the IFB services in all branches of the bank

Under this sub-section to what extent the service is accessible in all branches of the bank would be assessed. Majority (57%) of the respondents agreed that a fully-fledged service were provided in all branches and the geographical distribution of the branches were accessible. Apparently, more than 63 percent of the respondents confirmed that ATM card banking services and internet banking services was available for IFB in all branches. In addition to these around 75 percent of the respondents said that the locations of the branches were conventional to customers. With regard to accessibility, generally, 63.65 percent of the respondents agreed that the interest free banking service were accessible in all branches of banks; conversely, 16.11 percent of the respondents disagrees the accessibility of IFB in all branches of the bank, the rest 20.21 percent of the respondents neither agree nor disagree. Apparently, the accessibility of IFB had a mean score of 3.58, which lies between neutral and agree level, however, as the mean approaches to the agree level, the analysis indicates that the IFB service is accessible in if not all but most of the branches of the bank.

**Table 4.6 Level of Accessibility of the IFB services in all branches of the bank**

Statements	Alternatives						
	Strongly Disagree (1)	Disagree (2)	Neutral	Agree (4)	Strongly Agree (5)	Mean	St. Dev
Full-fledged services are provided in all branches.	6.56	11.48	24.59	40.98	16.39	3.49	1.0980
The geographical Distribution of the branches are accessible.	6.56	14.75	21.31	45.90	11.48	3.40	1.0792
Wide electronic communication system.	3.28	16.39	16.39	54.10	9.84	3.50	.9875
ATM card banking services is available for IFB.	4.92	13.11	19.67	49.18	13.11	3.52	1.0360
There is Internet banking services for IFB in all branches	1.64	8.20	22.95	45.90	21.31	3.77	.9321
Convenient branch location.	3.28	6.56	16.39	52.46	21.31	3.81	.9516
<b>Accessibility of the IFB services in all branches of the bank</b>	<b>4.37</b>	<b>11.74</b>	<b>20.21</b>	<b>48.08</b>	<b>15.57</b>	<b>3.58</b>	<b>1.0140</b>



#### 4.4. Descriptive Summary of Each variable influences

Totally there were five factor variable were identified, all of the variables were measured using Likert scale where 1 represents Strongly Disagree and 5 represents Strongly Agree. Apart from these mean was used as a measure of central tendency, implies that the interpretation were also made using the mean result. The first identified variable was Shariah Compliance; this variable mean score was 3.82 as shown in the table below, this score falls between neutral and agree level, in most cases in measure of mean if the mean is greater than 3.2 it is considered as agreed, therefore, the analysis indicates that Shariah compliance that means since the Shariah allows interest free banking, that makes customers to adopt the interest free banking service. Apparently, all of the other perceived variables had a mean score of greater than 3.2; this implies that customers had awareness regarding the interest free banking system; they see and read advertisements and whereby the advertisement helps to join the interest free banking service. Moreover, the mean statistics implied that the interest free banking service had a relative advantage compared to the conventional one so that customers are attracted to use the service. Likewise, the mean statistics indicates the interest free banking service were accessible in most branches of the bank

**Table 4.7 Descriptive Summary of Each variable influences**

<b>Variables</b>	<b>Mean</b>	<b>St. Deviation</b>	<b>Minimum</b>	<b>Maximum</b>
Sharia Compliance	3.82	0.8444	1	5
Customers Awareness Regarding products and service	3.46	0.9273	1	5
Advertisement about products and services	3.40	1.0566	1	5
Perceived relative advantage of the service	3.38	1.0064	1	5
Accessibility of the IFB services in all branches of the bank	3.58	1.0140	1	5
Adoption Of Interest Free Banking	3.83	.8735	1	5

## 4.5 Correlation Analysis

Correlation shows the strength and direction of the relationship between variables. The linear relationship between variables can be measured by correlation coefficient ( $r$ ), which is commonly called Pearson product moment correlation.

### Measures of Association and descriptive Adjectives

Measure of Association	Descriptive adjective
>0.00 to 0.20: < 0.00 to - 0.20	Very weak or very low
>0.20 to 0.40: < - 0.20 to - 0.40	Weak or low
>0.40 to 0.60: < - 0.40 to - 0.60	Moderate
>0.60 to 0.80: < - 0.60 to - 0.80	Strong or high
>0.80 to 1.0: < - 0.80 to - 1.0	Very strong or very high

**Table 4. 8 Correlations Result of Variables**

		Adoption of Interest free banking	Shariah Compliance	Customers Awareness regarding services	Advertisement about IFB products and services	Perceived Relative advantage of the services.	Accessibility of the IFB services in all branches of the bank
Adoption of Interest free banking	Pearson Correlation	1	.227**	.659**	.667**	.609**	.634**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	366	366	366	366	366	366
Sharia Compliance	Pearson Correlation	.227**	1	.266**	.240**	.279**	.143**
	Sig. (2-tailed)	.000		.000	.000	.000	.006
	N	366	366	366	366	366	366
Customers Awareness regarding services	Pearson Correlation	.659**	.266**	1	.718**	.550**	.747**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	366	366	366	366	366	366
Advertisement about IFB products and services	Pearson Correlation	.667**	.240**	.718**	1	.836**	.745**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	366	366	366	366	366	366
Perceived Relative advantage of the services	Pearson Correlation	.609**	.279**	.550**	.836**	1	.650**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	366	366	366	366	366	366
Accessibility of the IFB services in all branches of the bank	Pearson Correlation	.634**	.143**	.747**	.745**	.650**	1
	Sig. (2-tailed)	.000	.006	.000	.000	.000	
	N	366	366	366	366	366	366

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

Source: own survey 2018.

Based on the survey result, the correlation between Sheria compliance and adoption of interest free banking is positively correlated at ( $r = .227$ ), ( $P < 0.01$ ). According to macEachron (1982), magnitude of correlation, the relationship between the variables is positive and weak. Similarly, the correlation between Customers awareness regarding services and adoption of interest free banking is positive and they are correlated at ( $R = .659$ ), ( $P < 0.01$ ). Accordingly, the relationship between the two variables is very strong.

From the survey result, the correlation between advertisement about product and services and adoption of interest free banking is positive and they are significantly correlated at ( $R = .667$ ), ( $P < 0.01$ ) which reveals a strong correlation between the two variables. Perceived relative advantages are found to be strongly correlated with adoption of interest free banking with R value of  $.609$ , ( $P < 0.01$ ). Positive and Strong correlation is found between accessibility of the IFB services in all branches of the bank and adoption of interest free banking with ( $R = .634$ ), ( $P < 0.01$ ). In general, the correlation of five variables with adoption of interest free banking is analysed with the help of SPSS Version 20. Sheriah compliance was found to have positive but weak correlation with adoption of interest free banking. Customers awareness about products and services ,advertisement about products and services, Perceived relative advantage and accessibility of the IFB services in all branches of the bank have found to have very strong and positive correlation is observed.

#### **4.6 Regression Analysis**

Regression analysis is a statistical measure that attempts to determine the strength of the relationship between one dependent variables and a series of other changing variables known as independent variables. More specifically, regression analysis helps one understand how the typical value of the dependent variable (criterion variable) changes when any one of the independent variables varied, while the other independent variables remain constant.

#### **4.7 Common Assumption Test**

The following are common assumption tests of multiple linear regressions done in this study.

##### **4.7.1 Multicollinearity Test**

In multiple regression analysis, multi co linearity refers to a situation where a number of independent variables are closely correlated to one another. Multicollinearity test is done using

variance inflation factor (VIF). The VIF indicates whether predictors have a strong linear relationship with other predictor(S). As a rule of thumb, if the VIF of a variable exceeds 10, there will be a serious multicollinearity problem. The tolerance statistics, which is the reciprocal of VIF (1/VIF), also used to test multicollinearity. Tolerance value below 0.1 indicates serious multicollinearity problem.

As depicted on table 4.2 below, the value of VIF does not exceed 10 and the value of tolerance is not below 0.1. Therefore, it indicates that there is no multicollinearity among the predictor variables.

**Table 4.9 Multicollinearity test statistics**

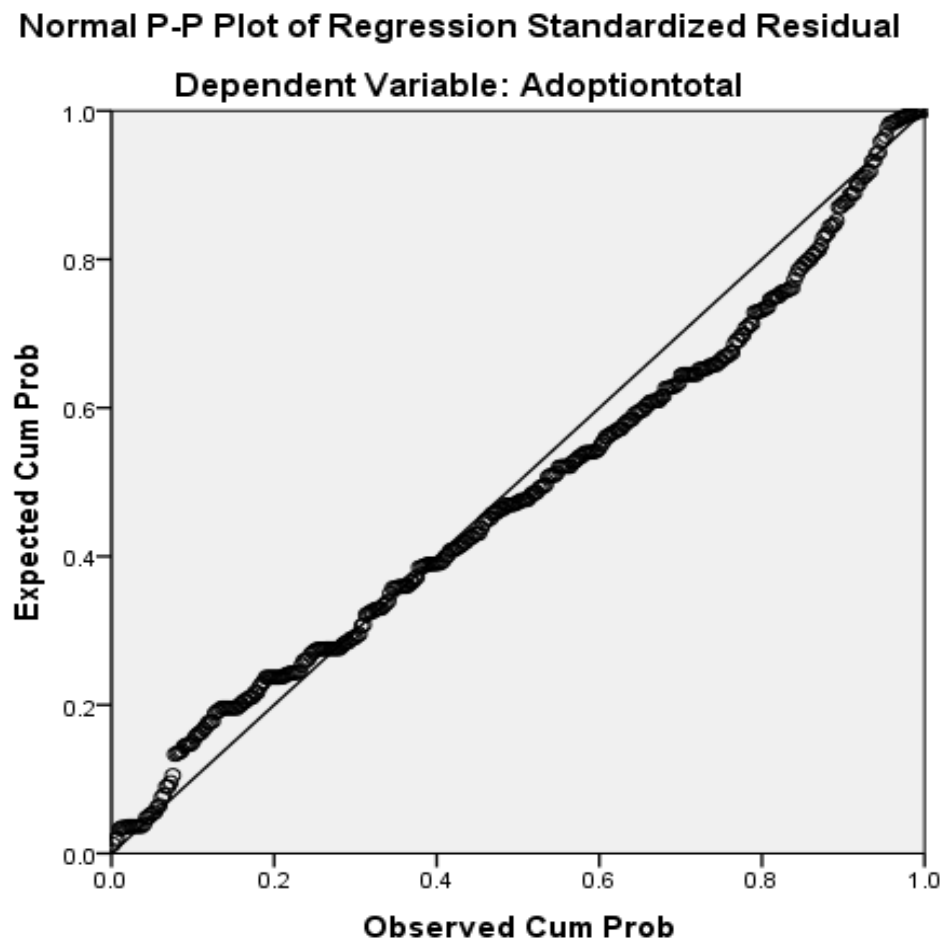
Coefficients <sup>a</sup>			
Model		Collinearity Statistics	
		Tolerance	VIF
1	Sheriah compliance	.873	1.145
	Awareness of IFB	.352	2.842
	Advertisement	.196	5.110
	Relative advantages of IFB	.278	3.602
	Accessibility of IFB in all branches	.334	2.994
a. Dependent Variable: Adoption Of IFB			

Source: own survey 2018.

### 4.7.2 Linearity Test

Linearity refers to the degree to which the change in the dependent variables is related to the change in the independent variables. The best test for normality distributes error is normal probability plot of the residuals. If the distribution is normal, the points on such a plot should fall close to the diagonal reference line. Therefore the below p-p plot approximately fall close to the diagonal reference line. Thus it fulfils the linearity assumption of multiple linear regressions.

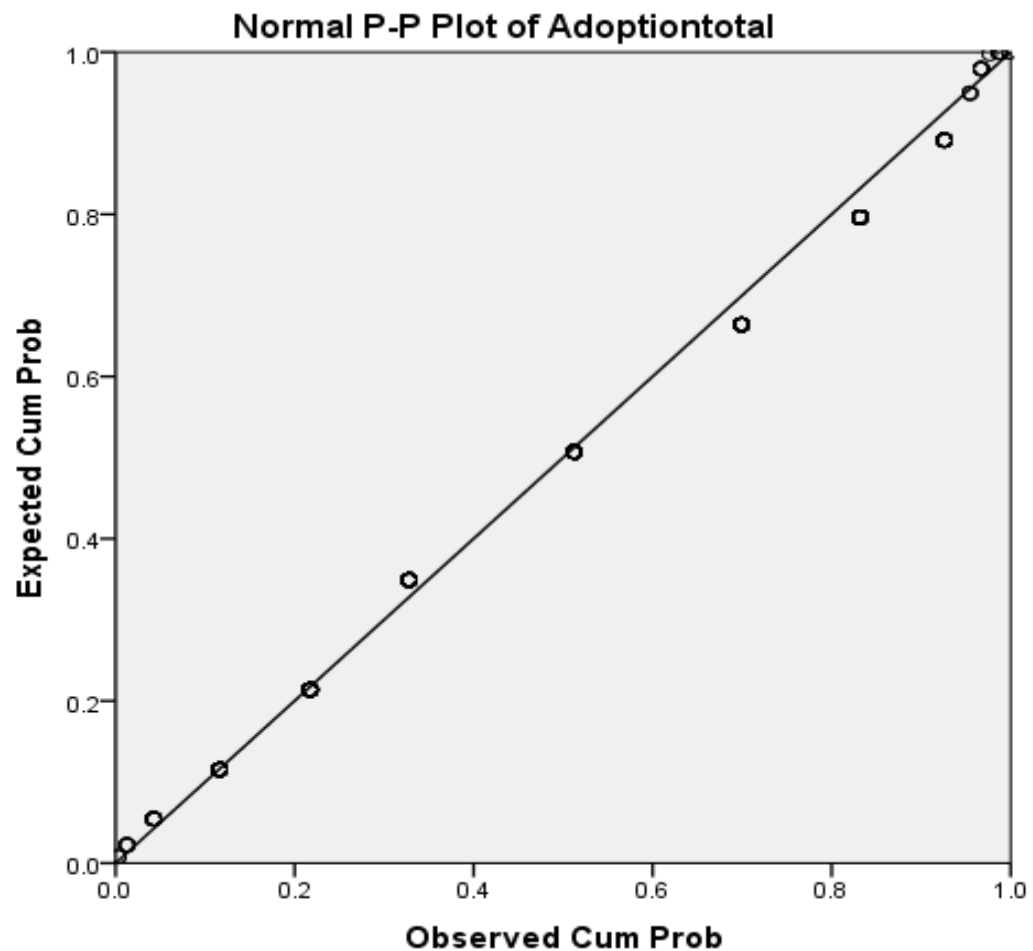
**Figure 2. Dependent Variable: Normal P-P plot of Regression of Adoption of IFB (Linearity Test )**



### 4.7.3 Normality Test

The following figure shows the frequency distribution of the standardized residual compared to a normal distribution. As can be seen from the figure below, the data points are close to the diagonal line confirming that there is normality.

**Figure 3. Normal P-P Plot of Adoption of IFB (Normality test)**



### 4.7.4 Autocorrelation/Durbin Watson Test

According to Andy (2009), the acceptable Durbin- Watson range is between 1.5 and 2.5. In this study the Durbin-Watson value is 1.621 which is between the acceptable ranges; show that there were no auto correlation problems in the data used in this research.

#### 4.8. ANOVA Model Fit

**Table 4. 10 ANOVA**

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1189.155	5	237.831	82.953	.000 <sup>b</sup>
Residual	1032.145	360	2.867		
Total	2221.301	365			

- a. Dependent Variable: Adoption of interest free banking.
- b. Predictors: (Constant) Accessibility of IFB Services ,Sheria Compliance, relative advantage of IFB , Awareness of IFB, Advertisement about IFB.

The result in the ANOVA table 4.4 above confirmed the significance of the overall model fit by P-value of 0.000 which is below alpha level of, i.e. 0.05.



## 4.9. Model Summary

**Table 4 .11 Model Summary**

Model	R	R Square	Adjusted Square	RStd. Error of the Estimate	Durbin-Watson
1	.732 <sup>a</sup>	.535	.529	1.69324	1.621
<p>a. Dependent Variable: Adoption of IFB.</p> <p>b. Predictors: (Constant), Accessibility of IFB Services, Sheria Compliance, Relative advantage of IFB, Awareness of IFB, Advertisement about IFB.</p>					

From the table 4.5 above, R is the square root of R<sup>2</sup>. R square is called the coefficient of determination which indicates how adoption of interest free banking varied with independent variables (Accessibility of IFB Services, Sheriah Compliance, Relative advantage of IFB, Awareness of IFB, and Advertisement about IFB) in the organization. From the table, the value of R<sup>2</sup> is 0.535 implying that, 53.5% of the variation of adoption of interest free banking is explained by the five independent variables (Accessibility of IFB Services ,Sheria Compliance, Relative advantage of IFB , Awareness of IFB, Advertisement about IFB.) and the unexplained variables may explain the variation of adoption of interest free banking accounted 46.5%.

## 4.10 Beta Coefficients

**Table 4. 12 Beta Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	Sig.
		B	Std. Error	Beta	
1	(Constant)	.600	.759		.430
	Sheriha Compliance	.027	.038	.027	.000
	Awareness of IFB services	.299	.055	.327	.000
	Advertisement of IFB services	.163	.088	.150	.000
	Relative advantage of IFB services	.160	.053	.205	.003
	Accessibility of IFB services in all branches	.160	.070	.141	.024
a. Dependent Variable: Adoption of interest free banking.					

The established regression equation was:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Where, Y = the dependent variable (adoption of interest free banking).

$\beta_0$  = is constant when all variables become zero (y- intercept).

$X_1$  = Sheriah compliance.

$X_2$  = Awareness of IFB services.

X<sub>3</sub> = Advertisement of IFB Services

X<sub>4</sub> = Relative advantage of IFB

X<sub>5</sub> = Accessibility of IFB

e = error term

(B<sub>1</sub> to B<sub>5</sub> were coefficients of the multiple regression equation).

$$Y = .6 + 0.027x_1 + 0.299x_2 + 0.163x_3 + 0.160x_4 + 0.160x_5 + 0.465$$

As we can see from the above table 4.6, multiple regressions of all the predictors are significant on the adoption of Interest free banking at  $P < 0.05$ . Beta weight reveals that the impact of each shariah compliance, customers awareness about IFB services , advertisement on IFB services , relative advantage of IFB services, and accessibility of IFB services at all branches on adoption of interest free banking are 0.027, 0.299, 0.163, 0.160 and 0.160 respectively. This informs the predicted change or any improvement in the dependent variable (adoption of interest free banking) for every unit increase in the predictor, while other variables being held constant.

Thus the un standardised Beta weight describes that as United Bank increased its awareness creation by 1% adoption of IFB will respond by 29.9% and as United Bank increased its Sharia compliance by 1% adoption of IFB will respond by 2.7% and also while the bank increased the advertisement of IFB by 1% adoption of IFB will increased by 16.3%,as united bank S.c increased the relative advantage of IFB by 1% adoption of IFB will increased by 16%, and as the bank increased its accessibility of IFB by 1% adoption of IFB will increased by 16%.

#### 4.11 Hypothesis Test Result

The researcher used Pearson's correlation coefficient to test the hypothesis. The result of the Pearson's correlation presented in table 4.8, interpreted by using the Pearson's correlation coefficient relationship between the predictors and outcome variable.

Hypothesis No	Hypothesis	P-value	Relationship Direction	Result
Ha	Sheria compliance has a positive and significant effect in adoption of interest free banking.	.000	Positive	Reject Ho
Ha	Custer awareness has a positive and significant effect in adoption of interest free banking.	.000	Positive	Reject Ho
Ha	Perceived relative advantages have a positive and significant effect in adoption of interest free banking.	.000	Positive	Reject Ho
Ha	Accessibility of IFB services has positive and significant effect in adoption of interest free banking.	.003	Positive	Reject Ho
Ha	Advertisement has a positive and significant effect in adoption of interest free banking.	.024	Positive	Reject Ho

Based on the survey result, the correlation between Sheria compliance and adoption of interest free banking is positively correlated at ( $r = .227$ ), ( $P < 0.01$ ). According to macEachron (1982), magnitude of correlation, the relationship between the variables is positive and weak. Similarly, the correlation between Customers awareness regarding services and adoption of interest free banking is positive and they are correlated at ( $R = .659$ ), ( $P < 0.01$ ). Accordingly, the relationship between the two variables is very strong.

From the survey result, the correlation between advertisement about product and services and adoption of interest free banking is positive and they are significantly correlated at ( $R=.667$ ), ( $P < 0.01$ ) which reveals a strong correlation between the two variables. Perceived relative advantages are found to be strongly correlated with adoption of interest free banking with R value of .609, ( $P < 0.01$ ). Positive and Strong correlation is found between accessibility of the IFB services in all branches of the bank and adoption of interest free banking with ( $R= .634$ ), ( $P < 0.01$ ). In general, the correlation of five variables with adoption of interest free banking is analysed with the help of SPSS Version 20. Shariah compliance was found to have positive but weak correlation with adoption of interest free banking. Customers awareness about products and services ,advertisement about products and services, Perceived relative advantage and accessibility of the IFB services in all branches of the bank have found to have very strong and positive correlation is observed.

Outcomes of this study propose that awareness about product and services of IFB have the most significant impact on adoption to Interest free banking with united bank S.C. This shows that people who are more aware are more likely to adopt IFB. Contradicting this, previous research on this topic ranked it third, whereas networking and adequate information are prior to adoption of IFB (Adnan et al., 2011). Findings of current study suggest that advertisement regarding services is the second and most important criteria for adoption of IFB. The results are supported by Taylor and Stanley (1999), Kennington et al (1996), who concluded the Perceived relative advantage and accessibility as a third important factor relative to other estimators.. Again it is possible to see findings of Haron et al (1994) and Adnan et al (2011) are in conformity with the current findings. It is proved that accessibility of IFB is a significant antecedent of Adoption of IFB, in terms of extended number of branches and more convenient branch locations. IFB are supposed to offer a range of financial Products & Services, in order to create strong customer base. It is obvious from the findings that sharia compliance level is low, as well as moderate significant relationship with adoption to IFB is found.

## CHAPTER FIVE

### FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Summary of Major Findings

The research was carried out in order to find out the factors that affect adoption of interest free banking service at United Bank S.C.

Causal research designs were employed and data were collected from 366 customers. In line with the objectives the following are the major findings of this study:

366 customers were participated on this study where 57.38 percent of the respondents were male and the rest 42.62 percent of them were female respondents and majority of them were certificate holders apart from these the very majority of the customer respondents works on self-employed.

The income level represents how much income the respondents are generating monthly; accordingly, 11.83 percent of the respondents had a monthly income of below 3000 birr monthly; 21.58 percent of the respondents generate a monthly income of between 3001 and 5000 birr. Further, 18.31 percent of the respondents had a monthly income of between 5001 and 7000 birr, 23.40 percent of the respondents earn a monthly income in a range between 7001 and 10000 birr monthly. 15.03 And 9.83 percent of the respondents also produce an income between 10,001 & 15000 and above 15000 respectively. From the analysis one can understand majority of the respondents were private company employees and run their own business.

- From the findings of quantitative results shariah compliance have positive influence that correlated at  $r = .227$ , ( $p < 0.01$ ) however it is positively correlated with adoption of IFB, being other variables constant.
- The correlation between customers awareness regarding services and adoption of IFB is positive and significantly correlated at ( $r = .659$ ), ( $p < 0.01$ ) this shows that the relationship between the two variables is very strong.
- From the survey result the correlation between advertisement of IFB about the product and services and adoption of IFB is positive and significantly correlated with adoption of IFB with R value of  $.609$ , ( $p < 0.01$ ).

- Perceived relative advantages are strongly correlated with adoption of IFB with R value of .609, ( $p < 0.01$ ).
- Positive and strong correlation is found between accessibility of the IFB services in selected branches of the bank and adoption of IFB with ( $R = .634$ ), ( $p < 0.01$ ).
- The independent variables Selected for the model,( Shariah compliance ,Awareness regarding IFB ,Advertisement on IFB, Relative advantage of IFB, and Accessibility of IFB at United Bank S.C. ) 53.5 % of the variation in adoption of IFB. But, the rest variations (46.5%) are from other unstudied variables. This implies narrowing the positive gap will increase the adoption of IFB at united bank S.C.
- From the finding and the results of the analysis it can be concluded that all maintained factors can affect the adoption of IFB.
- The finding showed that there are gaps of awareness of customers regarding all factors that have discussed .
- The finding from the regression analysis showed that there are other factors that have not included in the research which affects the adoption of IFB.

In general, the correlation of five variables with adoption of IFB is analyzed with the help of SPSS version 20, except Shariah compliance with positive but weak correlation, with adoption of IFB; all independent variables have significantly positive and strong relation with the adoption of IFB at United Bank S.C.

## 5.2 Conclusions

Based on the analysis of the data and findings the following conclusions are drawn:

- From the demographic data of the respondents one can concluded that as the statistics indicates that majority of the interest free bank service customers were young and educated at different level and this help the bank to easily promote the services and products . There is also potential for the bank to retain its customer for long period of time as the majority of its customers are aged below 40 years.
- The correlation analysis shows that there exist significant and positive relationships between independent variables and adoption of IFB. Therefore improvement in all independent variables can increase the adoption of IFB and also at the same time it helps to retain the existing customers of IFB for the United Bank S.C.
- The finding of the study reveals that based on the correlation and regression results , if the bank utilize its capacity very well, there is a potential for the adoption of IFB in United Bank S.C.
- As the finding of the study reveals that the (regression) R square result shows 53.5% of the variation, narrowing the gap will increase the adoption of IFB at United Bank S.C.
- The finding of the study shows from Beta unstandardized coefficients result shows all indicated independent variables are primarily important for the adoption of IFB while Shariah compliance relatively shows moderate effects.



### 5.3 Recommendations

Whether interest free banking is important or not in Ethiopian context needs more intensive study; however, based on the findings of this study the researcher forwards the following recommendations:

- Compared to the number of population of Muslim community the number of customers is insignificant, and hence a focused strategy should be provided that shows a way of developing and expanding the service as well as competition with other conventional banks.
- The services of interest free banking should be clear to the customers of the bank, and a separate window should be provided, if they have complete knowhow about their bank then they can easily motivated to adopt IFB at United bank S.C.
- Since Sheriah compliance, awareness of IFB, perceived relative advantage, and advertisement of the service, determine the intensity of adoption of IFB, therefore the bank needs to work more on public awareness regarding interest free banking to be adopted by customers.
- The Bank has to increase the accessibility of IFB products through increasing IFBW at customers' convenience and avail its products/services in most of and major branches with the necessary facility that will increase the marketability of IFB products/services.
- As IFB products are new to the market, it is the responsibility of the bank to market its products. Thus, the bank has to promote the products/services aggressively by developing good marketing and promotion strategy that will promote the products to the market and create awareness to the general public. As the finding of this research showed that customers have low level of awareness about IFB products, so, awareness creation particularly towards the target market (the Muslim community) must be done consistently. The bank has to develop well planned and effective marketing and promotion strategy like reaching the target market through the religious leader, use praying days where significant number of the target population easily available to advertise the IFB products in addition to the mainstream media and customer session. The awareness creation has to centre to clear the misconception about IFB and its product/services.

- Additionally the bank has work more and committed on marketing of IFB services and products of the bank for better results and awareness of customers.

Generalization has become the limitation to this study because it did not include all branches and other competing banks as well as under different environment setting. However, the findings of this study are able to give some dimensions for practitioners and researchers to measure customer's behavior in future research. And a future research could have as its focus the quality of services that are available to customers.

## REFERENCES

- Abbas Mirakhor and IqbalZaidi, "Profit-And-Loss Sharing Contracts in Islamic Finance", in M. Kabir Hassan and Mervyn K. Lewis (ed.), *Handbook of Islamic Banking* (2007), pp. 1-3. Accessed on 15, Nov, 2015
- Abdisa, G. (2017) *Factors Influencing Customers ' Intention To Adopt Interest Free Banking In Ethiopia The Case Of Oromia International Bank S . C*
- Abdullah, D. V. &Chee, K. (2010).*Islamic Finance: Why it makes sense – Understanding its Principles and Practices*. Marshall Cavendish Business
- Abdullah, S.R. and A. Abdul Rahman, (2007).*Factors Journal of Humanities and Applied Sciences (IJHAS), Influencing Knowledge of Islamic Banking pp: 29-35*
- Adnan, A. A. (2012, June). Perception of Non-Muslims Customers towards Islamic Banks in Malaysia. *International Journal of Business and Social Science, Vol. 3 No. 11;*. Retrieved march 2016
- Agbolade, O. K. (2011). Information and communication technology and banks profitability in Nigeria. *Australian Journal of Business and Management Research*, 1(4), 102-107.
- Ahmad, K. (2000). Islamic finance and banking: the challenge and Prospects. *Review of Islamic Economics*, 9, 57-82.
- Ahmad, K. (2000). Islamic finance and banking: the challenge and Prospects. *Review of Islamic Economics*, 9, 57-82.
- Ahmad, N. and Haron S. (2002). Perceptions of Malaysian corporate customers towards Islamic banking products and services. *International Journal of Islamic Financial Services*, Vol. 3 No. 4, pp. 13-29
- Akhtar, N,et al. (2016) 'factors influencing the perception of customers in Islamic Banking: A case study in Pakistan'. *International Review of Management and Business Research*,pp.844-859
- Akmel Hailu, (2015** challenges and prospects of Islamic banking service in resource mobilization efforts of Ethiopian commercial banks.

- Alam, S. S., & Sayuti, N. M. (2011). Applying the Theory of Planned Behavior (TPB) in "IT" halal"/IT" food purchasing. *International journal of commerce and management*, 21(1), 8-20.
- Alemu, D (2015) Factors Affecting customers to use Interest free Banking in Ethiopia
- Al-Jarhi, M and Iqbal, M (2001), „Islamic banking answer to some frequently asked questions“, Islamic development bank: Islamic research and Training institutes:, Occasional paper no.4
- Al-Sultan, W 1999, „Financial characteristics of Interest free banks and conventional bank“, Doctor of philosophy thesis, Department of accounting & finance, University of Wollongong
- Bello A & Abubakar M (2014), „Challenges and Solutions to Islamic Banking System in a Pluralistic–Secular Country like Nigeria“, Mediterranean Journal of Social Sciences MCSER Publishing, Rome-Italy Vol. 5 No 6.
- Dusuki, W.A. and Abdullah, I.N. (2007), “Why do Malaysian customers patronise Islamic banks?”, *International Journal of Bank Marketing*, Vol. 25 No. 3, pp. 142-60
- Elias Endale,(2015). *Customer Perception Towards Interest Free Banking Products And Services: In Selected Branches Of Commercial Bank Of Ethiopia*.
- Erol, C. and El-Bdour, R. (1989), “Attitudes, behavior and patronage factors of bank customers towards Islamic Banks”, *The International Journal of Bank Marketing*, Vol. 7, No. 6, pp. 31-9.
- Gait A and Worthington A. (2008); “ *An Empirical Survey of individual Consumer, Business firm and Financial Institution attitudes towards Islamic Methods of Finance*” working paper series ; University of Wollongong, School of Accounting and Finance.
- Gait, A., & Worthington, A. (2008). An empirical survey of individual consumer, business firm and financial institution attitudes towards Islamic methods of finance. *International Journal of Social Economics*, 35(11), 783-808.

- Gusau, S.A. (2000). “*Interest-Free Banking System: Theory and Practice*”. A Paper Presented in a Seminar on the Prospects and Problems of Interest-Free Banking System in Nigeria, Organized by the SIA Management Consultants, at the Royal Tropicana Hotel, Kano. 1st – 3rd August
- Haron, S., Ahmad, N., and Planisek, S. L. (1994). Bank patronage factors of Muslim and non-Muslim customers. *International Journal of Bank Marketing*, 12(1), 32-40.
- Ibrahim, A (2012), „An empirical analysis on the operational challenges of interest free banking window in Nigeria: a case study of keystone bank limited in Nasarawa state“, European scientific Journal, July edition Vol.8, No. 15
- IFB Working Policies, Procedures and Guidelines : OIB
- Iqbal, M, Ahmad, A & Khan, T (1998) „Challenges Facing Islamic Banking“, Islamic Development Bank, and Islamic Research and Training Institute Occasional Paper No. 1.
- Iqbal, Z. (1997), “Islamic financial systems: finance and development”, pp 42-45
- Islamic Banking Handbook (April 2010 First Edition), Institut Bank-Bank Malaysia, Kuala Lumpur, Malaysia.
- Kerima A. (2016), “Challenges on Interest Free Banking Services: The Case of Commercial Bank of Ethiopia“, An Executive MBA Thesis submitted to Addis Ababa University, Department of Management, College of Business and Economics.
- Kettell, B (2011), „Introduction to Islamic banking and finance“, first edition, John Wiley and Sons Ltd., UK
- Khattak, N.A. and Rahman, K.-U.-R. (2010), “Customer satisfaction and awareness of Islamic banking system in Pakistan”, *African Journal of Business Management*, Vol. 4 No. 5, pp. 662-671
- Kontot, K., Hamali, J. and Abdullah, F. (2016) ‘Determining Factors of Customers ’ Preferences : A Case of Deposit Products in Islamic Banking’, *Procedia - Social and*

*Behavioral Sciences*. The Author(s), 224(August 2015), pp. 167–175. doi: 10.1016/j.sbspro.2016.05.435.

Krejcie, R & Morgan, D (1970), „Determining sample size for research activities“, *Educational and psychological measurement*, 30, 607-610.

M.K. Hassan and Mervyn K. Lewis, *Handbook of Islamic Banking*, (2007), Edward Elgar Publishing Limited. Accessed on 15, Nov, 2015, from: <http://www.kantakji.com/media/2129/b029.pdf>

Metawa, S.and M. Almassawi, 1998. Banking behavior of Islamic bank's customers: Perspectives and Implications. *International journal of bank marketing*, 16(7): 299-315

Mirakhor, A.(2000), “General Characteristics of an Islamic economic System”, in siddiqi,A (ED),*Antology of Islamic Banking Institute Of Islamic Banking and Insurance*, London ,Pp.(11-31)

Mohamed Muhumed (2012, Addis Ababa). *Islamic Banking: Prospects, Opportunities and Challenges in Ethiopia* (unpublished project paper)

Muhammad Usmani, *Meezan Bank's Guide to Islamic Banking*, Darul-Ishaat (2002),

National Bank of Ethiopia, <http://www.nbe.gov.et/>

National Bank of Ethiopia. (2011). Directives to Authorize the Business of Interest Free Banking. <http://www.nbe.gov.et/>).

NBE ,Banking Business Proclamation No. 592/2008 , Article 22 (2)

Platt, G. (2008) *Islamic Financial Institutions Awards 2008: Global Finance*, 22(6), p.7

Rammal, H.G. and R. Zurbruegg, 2007. Awareness of Islamic Banking Products Among Muslims: The Case of Australia. *Journal of Financial Services Marketing*, 12(1): 65-74.

S. Sankaramuthukumar & A.Devamohan , (2008). The potentiality of Islamic banking in Ethiopia, *a research paper to be presented at the sixth international conference on the Ethiopian economy*

- Samad, A (2004), „Performance Of Interest-Free Islamic Banks Vis-À-Vis Interest-Based Conventional Banks Of Bahrain“ IIUM Journal of Economics and Management 12, no.2
- Svinicki,M.D. ( 2010) .A guide book on conceptual frameworks for research in engineering education: University of Texas
- Tara, N. (2014) ‘Factors Influencing Adoption of Islamic Banking : A Study from Pakistan’, *Journal of Public Administration and Governance*, 4(3), pp. 352–367.
- Teferi, M (2015), „Contribution of IFB to economic development and its prospect in Ethiopia“, An EMBA Thesis submitted to Addis Ababa University, Department of management
- Ziauddin A, (1994), „Islamic banking: State of The Art“, Islamic Research and Training Institute, Jeddah, 1994, p.13

## **APPENDICES**

St. Mary's University

School Of Graduate Studies

Department Of Post Graduate Study for General Masters of Business Administration (MBA)

A: Questionnaires

Dear Sir / Madam

Dear Respondents:

This questionnaire is developed to conduct research on Factors Affecting Adoption Of interest free banking Services at United Bank S.C. Hence, I hereby kindly request your participation in completing the questionnaire. I assure you that all information you shall provide will be kept strictly confidential.

Finally, I thank you very much in advance for your cooperation and time to fill the questionnaire.

For any information and unclear situation please contact me by my Email address:  
*bisratbekele04@gmail.com; Mobile Phone: 0911648528*

Important aspects of the questionnaire

No need to write your name

For all questions, mark or circle the alternative numbers of your choice

Thank you in advance,

Bisrat Bekele

GMBA student in St. Mary's University



Section I: Demographic profile of respondents; please indicate the following by ticking (√) on the spaces provided in front of the response options.

1. Gender Male  Female
2. Age : 1. 18-28  2.29-38  3.39-48  4. Above 49
3. Marital status: Married Single Separated Widow
4. Educational Level:
  - 1.Certificate  2.Diploma Holder  3.First Degree Holder
  - Masters Degree and above holder  5. Others
5. Type of employment:  
Public sector Private sector Self-employed Student others
6. - Income States (In ETB/month):-
  - 1-Less than 3000
  - 2-3001--5000.00
  - 35001--7000
  - 4-7001--10,000
  - 5-10,001--15,000
  - 6-Above 15,000

Section II: Questionnaires Related with factors that affect adoption of IFB system.

After reading each statement, please rate each of the following statements by putting (√) Mark or circle on the appropriate number with respect to your level of agreement/disagreement against each question. (Where; 1="Strongly Disagree (SD)" 2="Disagree (D)" 3="Neutral (N)" 4="Agree (A)" 5="Strongly

Agree (SA)")

	Statements	Alternatives				
		Strongly Disagree (1)	Disagree (2)	Neutral	Agree (4)	Strongly Agree (5)
	Sharia Compliance					
1	The Bank has Shariah advisory Committee.					
2	Interest free banking service is Shariah compliant					
3	The bank used to keep the money of IFB services in separate vault.					
4	Interest free banking service is provided completely free of interest.					
5	Interest free banking service is offered under separate window					
6	The bank split profit and loss as per the agreement.					
	Customers Awareness Regarding products and service					
1	You have awareness about the major types of interest free banking products.					
2	I know the Interest free banking products that currently provided by the bank.					

3	I Know that Interest free banking products are offered to Muslim and non Muslim users.					
4	I know about Amanah					
5	I know about Mudarabah					
6	I know about Murabahah					
7	I know about Musharaka					
8	I know about Istisna					
9	I know about Ijarah					
10	I know about Salam					
	Advertisement about products and services					
1	The media gave me a good feeling about using interest free banking.					
2	I understand Advertisement on Electronic media.					
3	The way the bank advertises is very interesting to create awareness.					
4	The bank promotes about IFB products and services adequately.					
5	I read and understand advertisement from printed media.					
	Perceived relative advantage of the service					
1	Profit –loss-sharing between the lender and the borrower is advantageous to you.					
2	Interest free banking services are cheaper as compared to the conventional banking.					
3	Investments are more secure in interest free banking than					

	conventional one.					
4	Interest free banking is trustworthy to adopt it.					
5	Provides free of interest loan.					
6	In general, interest free banking services are better than the conventional ones.					
7	Awareness program on service of IFB.					
	Accessibility of the IFB services in all branches of the bank.					
1	Full fledged services are provided in all branches.					
2	The geographical Distribution of the branches are accessible.					
3	Wide electronic communication system.					
4	ATM card banking services is available for IFB.					
5	There is Internet banking services for IFB in all branches					
6	Convenient branch location.					
	Adoption Of Interest Free Banking					
1	In overall, I am adopting the interest free banking service of United Bank S.c.					

## በቅድሳት ማርያም ዩኒቨርሲቲ

### ድህረ ምረቃ ትምህርት ክፍል

ተ.ቁ :-----

ክቡር መላሾች

ከወለድ ነፃ የባንክ አገልግሎት ተጠቃሚ ደንቦች መጠይቅ

ይህ መጠይቅ በቅድሳት ማርያም ዩኒቨርሲቲ ድህረ ምረቃ ትምህርት ክፍል በቢዝነስ አድሚኒስትሬሽን ለማስተርስ ዲግሪ ከፊል ማሟያ ጥናት የሚያገለግል ሲሆን አላማው በሕብረት ባንክ አ.ማ በአ.አ ስለሚሰጠው ከወለድ ነፃ የባንክ አገልግሎት መረጃ ለመሰብሰብ ነው። መረጃው የሚያገለግለው ርዕሱ በሕብረት ባንክ አ.ማ ከወለድ ነፃ የባንክ አገልግሎቶችን ለመቀበል እና ለመጠቀም (adoption) ላይ ያሉ ተፅዕኖ ፈጣሪዎች ነው። ( Factors Affecting Adoption Of interest free banking Services at United Bank S.C) የሚሰበሰበው መረጃ ለጥናቱ ብቻ የሚውል ነው። ስለዚህ የሚከተሉትን ጥያቄዎች እንዲሞሉ በአክብሮት እጠይቃለሁ ።

ለትብብርዎት በቅድሚያ አመሰግናለሁ።

አጠቃላይ መመሪያ

ስምዎትን መጻፍ አያስፈልግም

አማራጭ ላልዋቸው መጠይቆች ከተሰጡት አማራጮች ይምረጡ

**ክፍል አንድ: የግል መረጃ**

1.ጾታ ሀ.ወንድ  ለ.ሴት

2.ዕድሜ: -----

3. ሀይማኖት: \_መስሊም ክርስቲያን ሌላ

4.የጋብቻ ሁኔታ ያገባ  ያላገባ

5.የትምህርት ደረጃ

የመጀመሪያ ደረጃ  ሁለተኛ ደረጃ /ሰርትፊኬት  ዲፕሎማ  የመጀመሪያ ዲግሪ  ማስተርስ ዲግሪ እና ከዚያ በላይ

6. የገቢ መጠን?

- ከ 3000 በታች
- ከ3000-5000
- 5001-7000
- 7001-10000
- 10001-15000
- 15000 በላይ

**ክፍል ሁለት :** ስለ ከወለድ ነፃ የባንክ አገልግሎት ላይ ተፅዕኖ ፈጣሪ ነገሮች

እባክዎን ከዚህ በታች ከ1-5 ባለው መለኪያ ለእያንዳንዱ ጥያቄ ያሎትን አመለካከት በቀረቡት አማራጮች መሰረት ይህን ምልክት√ ያድርጉ ::

1-ስለ ሸሪዓ መስፈርቶች

መስፈርቶች	በጣም አልሰማምም 1	አልሰማምም	ገለልተኛ	እሰማምለሁ	በጣም እሰማምለሁ 5
		2	3	4	
1	ባንኩ የሸሪዓ አማካሪ ኮሚቴ አለው				
2	ከወለድ ነፃ የባንክ አገልግሎቱ የ ሸሪዓ መስፈርቶችን ያሟላ ነው				
3	ከወለድ ነፃ የባንክ አገልግሎቱ የራሱ የሆነ የተለየ የገንዘብ ማስቀመጫ አለው				
4	ከወለድ ነፃ የባንክ አገልግሎቱ መሉ በመሉ ከወለድ የነጻ ነው				
5	ከወለድ ነፃ የባንክ አገልግሎቱ በተለየ መስኮት ይሰጣል				
6	ከወለድ ነፃ የባንክ አገልግሎቱ ትርፍና ኪሳራ በስምምነቱ መሰረት ተግባራዊ ይደረጋል::				

2. ስለ የወለድ ነፃ የባንክ አገልግሎት የተጠቃሚ ግንዛቤ አመለካከት

መስፈርቶች	በጣም አልሰማማም 1	አልሰማማም	ገለልተኛ	እስማማለሁ	በጣም እስማማለሁ 5
		2	3	4	
1	ስለ ከወለድ ነፃ የባንክ አገልግሎቶች በቂ እውቀት አለኝ።				
2	አሁን በባንኩ እየተሰጡ ያለትን ከወለድ ነፃ የባንክ አገልግሎቶች አውቃለሁ				
3	ከወለድ ነፃ የባንክ አገልግሎቶች የተለያዩ ሀይማኖት ተከታዮች መጠቀም እንደሚችሉ አውቃለሁ።				
4	አማኝ የተሰኘውን ከወለድ ነፃ የባንክ አገልግሎት አውቃለሁ				
5	ሙዲረባ የተሰኘውን ከወለድ ነፃ የባንክ አገልግሎት አውቃለሁ				
6	ሙራባሃ የተሰኘውን ከወለድ ነፃ የባንክ አገልግሎት አውቃለሁ				
7	ሙሻረካ የተሰኘውን ከወለድ ነፃ የባንክ አገልግሎት አውቃለሁ።				
8	ኢስቲስና የተሰኘውን ከወለድ ነፃ የባንክ አገልግሎት አውቃለሁ				
9	ኢጃራ የተሰኘውን ከወለድ ነፃ የባንክ አገልግሎት አውቃለሁ				
10	ሰላም የተሰኘውን ከወለድ ነፃ የባንክ አገልግሎት አውቃለሁ				

3. ስለ ከወለድ ነፃ የባንክ አገልግሎት የማስታወቂያ ተጽእኖ

መስፈርቶች	በጣም አልሰማማም 1	አልሰማማም	ገለልተኛ	እስማማለሁ	በጣም እስማማለሁ 5
		2	3	4	
1	ማስታወቂያዎች ከወለድ ነፃ የባንክ አገልግሎት እንድቀበል ተጽዕኖ አሳድረውብኛለ።				
2	ከኤሌክትሮኒክ ሚዲያ ያገኘሁት መረጃ ከወለድ ነፃ				



	የባንክ አገልግሎት እንድንጠቀማቸው ተፅዕኖ አሳድሮብኛል :					
3	ባንኩ ከወለድ ነፃ የባንክ አገልግሎትን የሚያስተዋውቅበት መንገድ ተወዳጅና ተስማሚ ነው።					
4	ባንኩ ከወለድ ነፃ የባንክ አገልግሎትን በበቂ ሁኔታ አስተዋውቋል ።					
5	ባንኩ ከወለድ ነፃ የባንክ አገልግሎትን አስመልክቶ የሚያወጣቸውን የተለያዩ ማስታወቂያዎች ከህትመት ውጤት በማግኘት ተረድቻለሁ					

4. ስለ አንፃራዊ ብልጫ

መስፈርቶች	በጣም አልስማማም 1	አልስማማም 2	ገለልተኛ 3	እስማማለሁ 4	በጣም እስማማለሁ 5
1 ከወለድ ነፃ የባንክ አገልግሎት ፋይናንስ ትርፍና ኪሳራ መጋራት ሊይ የተመሰረተ ስለሆነ ከነባሩ በጣም ጠቃሚ ነው።					
2 ከወለድ ነፃ የባንክ አገልግሎቱ ዋጋ ከነባሩ የተሻለ ርካሽ ነው					
3 ከወለድ ነፃ የባንክ አገልግሎቱ ለኢንቨስትመንት ከነባሩ የተሻለ አስተማማኝ ነው።					
4 ከወለድ ነፃ የባንክ አገልግሎቱ ተቀባይ ስራ ለይ ለማዋል ከነባሩ የተሻለ አስተማማኝ ነው።					
5 ከወለድ ነፃ የባንክ አገልግሎቱ ያለወለድ በማበደሩ ከነባሩ የተሻለ ነው					
6 ስለ ወለድ ነፃ የባንክ አገልግሎት የሚሰጠው የግንዛቤ ማስጨበጫ ከነባሩ የተሻለ እንዲሆን አድርጎታል።					
6 በአጠቃላይ ከወለድ ነፃ የባንክ አገልግሎቱ ከነባሩ የተሻለ ነው።					

5. ስለ ተደራሽነት

መስፈርቶች	በጣም አልሰማም 1	አልሰማም 2	ገለልተኛ 3	እስማማለሁ 4	በጣም እስማማለሁ 5
1 በሁሉም ቅርንጫፎች የተመጧል ከወለድ ነፃ የባንክ አገልግሎት ይሰጣል።					
2 የባንኩ ቅርንጫፎች የአካባቢ ስርጭት ተደራሽነት በቂ ነው።					
3 የባንኩ ቅርንጫፎች ለአገልግሎት ተስማሚ በሆኑ ቦታዎች ላይ ይገኛሉ።					
4 ከወለድ ነፃ የባንክ አገልግሎት ኔትወርክ በቂ ነው።					
5 ባንኩ ከወለድ ነፃ ባንክ ኤቲኤም ካርድ አገልግሎት ይሰጣል።					
6 ባንኩ ከወለድ ነፃ ባንክ የኢንተርኔት አገልግሎት ይሰጣል።					

6. ስለ መቀበልና አድራጎት አስተሳሰብ (Adoption)

መስፈርቶች	በጣም አልሰማም 1	አልሰማም 2	ገለልተኛ 3	እስማማለሁ 4	በጣም እስማማለሁ 5
1 በሕብረት ባንክ አ.ማ ከወለድ ነፃ የባንክ አገልግሎት ያለኝ ጠቅላላ አቀባበልና እይታዬ ከፍተኛ ነው።					