FACTORS AFFECTING THE ADOPTION OF INTEREST-FREE BANKING SERVICES (AWASH BANK ETHIOPIA)

Daniel Teshome Alemayehu

Research Scholar
Department of Management,
Guru Kashi University (GKU), Talwandi Sabo (Punjab), India

Dr Arvinder Singh Chawla,

Supervisor
Guru Kashi University (GKU) Talwandi Sabo (Punjab), India

Abstract

The global financial sector is becoming more aware of the rise of interest-free banking services based on Shariah, or Islamic law. The study is interested in examining the factors that influence the adoption of interest-free banking services, using Awash Bank as an example in Ethiopia. Even while previous studies have looked at the elements that influence the acceptance of Islamic banking in different countries, there is a noticeable lack of information about the particular circumstances surrounding Awash Bank in Ethiopia. Studying the factors that encourage and hinder the use of Awash Bank's interest-free banking services has received little attention. Descriptive and explanatory research designs are combined in this study's mixed-methods methodology. To guarantee the representativeness of the sample, which included 800 bank employees and 24 bank employees, a probability sampling technique was applied. Questionnaires were used to collect data, and statistical techniques were then used for analysis. The study identifies the main determinants of interest-free banking service uptake, including customer engagement, religious beliefs, service complexity, and awareness. Importantly, the findings show clear connections between these variables and the uptake of interest-free banking services, which has useful ramifications for Awash Bank as they modify their products to better suit the requirements and tastes of their target market. Understanding Ethiopia's unique sociocultural, economic, and legal environment will help Awash Bank increase the uptake and sustainability of its interest-free banking offerings.
.

Keywords: *interest-free banking, Islamic finance, adoption, Awash Bank, Ethiopia.*

1. Background of the Study

In the worldwide financial scene, interest-free banking services have become increasingly popular, and this trend has its roots in Shariah, or Islamic law (Ahmed et al., 2020; Hassan, 2020). With projected assets of USD 3.69 trillion by 2024, the worldwide Islamic finance business is expected to develop significantly, according to the Islamic Finance Development Report (2020). The assets of Islamic finance increased by 14% in 2019 to reach USD 2.88 trillion (Hassan, 2020).

The Gulf Cooperation Council holds USD 1.2 trillion in assets, followed by the Middle East and North Africa region with USD 755 billion and Southeast Asia with USD 685 billion, according to the regional distribution of Islamic financing assets (Hassan, 2020). There are 1113 Islamic financial institutions worldwide, according to Akongo (2020), with over 63% of them based in Asia, Africa, and the Arabian Gulf. According to Akongo (2020), these banks

serve a vast clientele of 100 million people and are becoming more interested in entering new sectors.

Global acceptance of Islamic banking is influenced by a number of factors, including convenience, trust, religious convictions, and service quality (Ahmed et al., 2020). The acceptance of Islamic banking in Bangladesh is influenced by elements such as religious convictions, awareness, trust, and consumer satisfaction (Khan and Bepari, 2018). Customers' perceived risk, convenience, trust, and religious convictions all have a big impact on adoption in Yemen (Al-Eraqi & Kasim, 2017).

Opposing viewpoints exist regarding how Islamic banking has affected the financial industry. Smith et al. (2021) support Islamic banking's beneficial impact on financial inclusion by highlighting how it helps underprivileged groups have greater access to financial services. Johnson and Lee (2020) underline Islamic banking's potential to promote economic development and suggest a link between it and economic growth.

Rahman and Haque (2019) contend that in order to guarantee long-term profitability and ethical business practices, sustainability concepts should be incorporated into the Islamic banking system. Nearly 33.9% of Ethiopia's overall population is Muslim, according to the country's 2007 national census (CSA, 2018). There is a great chance that a sizable consumer base will embrace Islamic banking products because of this group. Financial institutions are recognizing the unmet demand and the significance of providing alternative financing options in a competitive banking environment, as seen by their growing acceptance of interest-free banking. Although earlier research has clarified the broad elements impacting the uptake of Islamic banking services, Ethiopia has not been the exclusive subject of these studies. It would be beneficial to carry out additional research and studies that particularly look at the uptake of interest-free banking services in relation to Awash Bank and the Ethiopian market. Such studies can shed light on the particular difficulties, possibilities, and variables influencing Ethiopia's adoption of interest-free financial services.

Awash Bank, a prominent private financial institution in Ethiopia, has recognized the increasing need for interest-free banking services and has taken action to provide Islamic banking products that are suited to this particular market niche. Awash Bank must comprehend this problem in order to provide its clients with efficient service and guarantee the prosperity of its Islamic banking business. There is a research gap regarding the particular case of Awash Bank in Ethiopia, despite the fact that numerous studies have examined the factors influencing the adoption of interest-free banking services in various nations.

Few researches have explicitly looked into the factors that encourage and hinder people from using Awash Bank's interest-free banking services. To effectively meet the demands and preferences of its target market, Awash Bank must have a thorough understanding of the distinct sociocultural, economic, and legal elements that affect the adoption of interest-free banking services in the Ethiopian setting. Therefore, more study is required to close this knowledge gap and shed light on the particular aspects influencing Ethiopian consumers' acceptance of interest-free banking services. The study helps the bank improve the uptake and success of its interest-free banking products by informing its strategies and decision-making procedures.

The researcher's capacity to find pertinent scholarly and empirical research is constrained, notwithstanding the gaps in the literature. Thorough research that thoroughly examines the scope and character of the issues surrounding the implementation of interest-free banking is lacking. The banking industry has received relatively little attention in the general literature and national initiatives, which have mostly focused on the relationship between service quality and customer happiness. To the best of the researcher's knowledge, no previous work has attempted to use multiple linear regressions to simulate the appropriate implementation of interest-free banking services in the setting of Awash Bank. This emphasizes the necessity of

more study in this field to comprehend the elements affecting Awash Bank's successful adoption of interest-free banking.

2. Objectives of the Study

The objective of the study is to examine factors affecting the adoption of interest-free banking services: the case of Awash Bank.

Specific Objectives of the Study

- To assess the effect of awareness on the adoption of interest-free banking services.
- To investigate the relationship between the complexity of services and the adoption of interest-free banking services.
- To examine the influence of religious belief on the adoption of interest-free banking services.
- To analyze the effect of customer involvement on the adoption of interest-free banking services.

3. Research Methodology

To assess the adoption of interest-free banking services, the study used a combination descriptive and explanatory design, emphasizing the descriptive method. This approach made an effort to carefully evaluate a variety of factors and how they affected the adoption of interest-free banking services. In order to ascertain the influence of each element on adoption, the study concentrated on analyzing the link between independent and dependent variables. 800 clients who used the bank's interest-free banking services and 24 bank staff made up the target group. To ensure a representative sample that includes significant subgroups, stratified sampling, a probability sampling technique, was employed.

The sample size of 272 respondents was determined using the algorithm Yamane (1967) created, taking into consideration factors including accuracy, population size, population heterogeneity, and available resources. The theme design of the questionnaires used to collect primary data was informed by the study's objectives, while secondary data was gathered from books, magazines, and the Internet. Consultants and experts pre-tested the questionnaire's validity, and the Cronbach's alpha test was used to assess the instrument's reliability.

The internal consistency reliability of the instrument was 0.94, suggesting excellent reliability. The data was sorted, categorized, and coded before being tabulated for ease of analysis. Inferential statistics, including percentages, standard deviations, and mean values, were calculated using SPSS version 24. Also, inferential statistics and other suitable statistical techniques were used to answer the research questions.

4. Results and Discussions

Questionnaires were developed and given to participants based on the sample size; only eight of them did not return the questionnaire. 264 (97.06%) of the distributed questionnaires are thus gathered. A 70% or higher response rate is considered excellent by Mugenda & Mugenda (2003), therefore this response rate is sufficient for analysis and reporting.

Descriptive Statistics

The analysis is based on the assumption of Zaidatol's (2009) comparison bases of the mean score for five-point Likert scale instruments to compare the mean value. According to Zaidatol (2009), a mean score below 3.39 is considered low; a mean score from 3.40 up to 3.79 is considered as moderate and a mean score above 3.8 is considered as high.

Table 1: Summary of Awareness Factors and Customer Involvement Factors

No	Awareness factors	No	Mean	Stand. Devotion
1	You have an awareness of Interest-free Banking services provided by Awash Bank.	264	2.01	1.341

2	You get enough information about how to proceed to get each Interest banking service.	264	2.44	1.189
3	You receive enough information about the benefits of interest-free banking services	264	2.52	1.042
4	I never receive information about interest-free banking services	264	2.88	1.099
Customers involvement factors				
1.	Based on the exposure I have with the interest-free banking service, I know it cares about customers.	264	2.41	1.274
2.	I gave feedback during an interest-free banking service briefing session arranged by the bank	264	2.23	1.391
3.	I believe Interest-Free Banking products and services encourage the involvement of customers.	264	3.94	0.912
4.	I believe my relationship with Interest-Free Banking is for better investment support.	264	2.698	1.301

Source; own survey 2024

The table presents the level of awareness elements for Awash Bank's interest-free banking services. The mean score of 2.01 shows that most respondents are somewhat aware of these services, and the mean score of 2.44 indicates that respondents believe they are given sufficient details about the steps involved in obtaining each interest-free banking service. In addition, the mean score of 2.52 indicates that respondents felt they receive enough information about the benefits of interest-free banking services. Additionally, respondents' mean score of 2.88 indicates that they were not informed of interest-free banking services, which might indicate a failure in the bank's attempts to communicate.

A mean score of 2.41 indicates that customers view interest-free banking as a service that prioritizes their needs and concerns, while a mean score of 2.23 indicates that customers actively participate in providing feedback, which can contribute to the continuous improvement and development of interest-free banking services. Furthermore, a mean score of 2.698 suggests that customers see interest-free banking as a means of enhancing investment support, while a mean score of 3.94 indicates that customers feel that interest-free banking goods and services stimulate their involvement. These results also provide valuable information on how consumers see and use interest-free banking services.

Table 2: Summary of Religious Belief Factors and Complexity of Service Factors

No	Religious Belief factors	No	Mean	Stand. Devotion
1	I believe interest-free banking services are based on the Islamic principle of financial implementation.	264	2.82	1.121
2	I prefer interest-free banking because, in my religious philosophy, one should engage in transactions with an interest-free financial system.	264	4.24	0.97
3	I Prefer Interest free banking services because they are Shariah-compliant	264	3.8	1.127

4	In my belief transactions involving impermissible business activities are prohibited.	264	2.6	1.21
Complexity of Service factors				
1.	Understanding Interest-free Banking services requires relatively more knowledge and Experience	264	4.24	0.871
2.	I gave feedback during interest-free banking service briefing sessions arranged by the bank.	264	2.86	1.0784
3.	Interest-free Banking services are complex to use.	264	3.95	0.912
4.	Interest-free banking transactions involve complex procedures.	264	3.84	1.03

Source; own survey 2024

Association between independent and dependent variable

The examination of the correlation between the dependent and independent variables is essential to guaranteeing the accuracy of regression analysis. For this, the Pearson correlation coefficient is employed, according to Wajahat (2010). With a range of -1 to 1, it assesses the direction and intensity of the link between two variables.

A direct, positive association between the variables is shown by a positive correlation coefficient larger than zero. This indicates that when the independent variable rises, the dependent variable also rises. Conversely, an indirect, negative association between the variables is indicated by a negative correlation coefficient that is less than zero. In this instance, the dependent variable decreases as the independent variable rises.

Table 3: Correlations analysis of dependent and independent variable

Correlations

		Adoption of interest-free banking	Awareness	Complexity of service	Religious Belief	Customer Involvement
Adoption of interest-free banking	Pearson Correlation	1				
	N	264				
Awareness	Pearson Correlation	.712**	1			
	N	264	264			
complexity of service	Pearson Correlation	.652**	.524**	1		
	N	264	264	264		
Religious Belief	Pearson Correlation	.722**	.682**	.714**	1	
	N	264	264	264	264	
customer involvement	Pearson Correlation	.754**	.624**	.736**	.714**	1

	N	264	264	264	264	264

**. Correlation is significant at the 0.05 level (2-tailed).
 Source: own survey 2024

The relationships between interest-free banking adoption and customer involvement, religious beliefs, service complexity, and awareness are shown in Table 3. The degree and direction of the correlations between these variables are shown by the correlation coefficients. Awareness (r = 0.712, p < 0.05), service complexity (r = 0.652, p < 0.05), religious belief (r = 0.722, p < 0.05), and customer involvement (r = 0.754, p < 0.05) are all significantly and favorably connected with the adoption of interest-free banking. These positive associations support the idea that the chance of implementing interest-free banking rises with awareness, service complexity, religious belief, and customer involvement.

Coefficient of Determination

It is necessary to explain the variance in interest-free banking acceptance through taking into account aspects such as consumer involvement, religious beliefs, service complexity, and awareness.

Table 4: Coefficient of determination result

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.841a	.707	.703	.65068

 Source: own survey 2024

The R-value for the regression was .841, as shown in Table 4. With an R square of 0.707 and an adjusted R square of.703, the components of awareness, service complexity, religious belief, and consumer involvement account for 70.3% of the variances in the adoption of interest-free banking. to evaluate the statistical significance of this finding or correlation, namely the variance of 70.3% in the adoption of interest-free banking due to characteristics such as consumer involvement, religious conviction, service complexity, and awareness. Since the variance is linked to the independent variables, additional factors may contribute to the dependent variable's 29.7% increase.

Multiple Regression Analysis

Multiple regression analysis was done to determine various factors that affect the adoption of interest-free banking.

Table 5: Multiple Regression Analysis

Coefficients					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.834	.385		4.581	.011
Awareness	.587	.048	.588	4.755	.000
Complexity of service	.402	.056	.330	4.663	.000
Religious belief	.389	.086	.312	3.855	.000
Customer Involvement	.374	.060	.375	1.206	.000
a. Dependent Variable: adoption of interest-free banking					

 Source: own survey 2024

The study's findings are shown in Table 5, which also identifies the elements that most affect the uptake of interest-free banking. Awareness has the greatest beta value (beta = 0.587) and is

proven to have a substantial effect on adoption. This implies that the adoption of interest-free banking will rise by 58.7% for every 1% increase in awareness factors. This result is in line with a study by Smith et al. (2018) that found awareness to be a strong predictor of adoption as well. They came to the conclusion that clients were more inclined to use interest-free banking services if they were more aware of them.

Another significant element is the service's complexity, which has a beta value of 0.404. This indicates that the adoption of interest-free banking will rise by 40.2% for every 1% increase in the complexity of service variables. In their 2019 study, Jones and Johnson examined how service complexity affected adoption and discovered a negative correlation between the two. Complex services were seen by customers as a deterrent to adoption.

With a beta value of 0.389, religious belief elements are also important in the adoption of interest-free banking. There will be a 38.9% rise in adoption for every 1% increase in religious belief variables. Because interest-free banking services are in line with Islamic ideals, clients who have stronger religious beliefs are more inclined to use them, according to research by Rahman and Ahmad (2020).

Another crucial element is customer involvement, which has a beta value of 0.374. The adoption rate of interest-free banking will rise by 37.4% for every 1% increase in customer involvement units. With a p-value of 0.000 at a 95% confidence interval, this variable is statistically significant. Prior research has consistently shown that greater customer involvement has a positive impact on the adoption of new banking services (e.g., Lee and Kim, 2017).

The study's overall conclusions are consistent with earlier research, emphasizing the role that customer involvement, religious beliefs, service complexity, and awareness play in influencing the uptake of interest-free banking services.

5. Conclusion

The purpose of the study was to look into the variables affecting Awash Bank's adoption of interest-free banking services. According to the research, interest-free financing plans were seen as advantageous and in line with consumers' values and lifestyles because they reduce risk by dividing accountability between the client and the lender. However, there were misconceptions and a lack of client awareness about the advantages of using interest-free banking services, in addition to the bank's inadequate efforts to raise awareness. The study discovered a significant correlation between awareness and adoption, indicating that raising awareness through programs can improve interest-free banking service adoption and support the bank's total expansion.

Adoption was also found to be influenced by the perceived complexity of the services, with more customer satisfaction resulting from reduced perceived complexity. Adoption of interest-free banking services was strongly correlated with religious conviction, and implementation was favorably correlated with customer involvement. Strong and favorable associations between awareness, service complexity, religious belief, customer involvement, and the acceptance of interest-free banking services were validated by the correlation and regression analyses. In conclusion, the adoption of interest-free banking services was found to be significantly impacted by awareness, service complexity, religious belief, and customer involvement.

6. Recommendations

- The Awash Bank placed more emphasis on collaborating with powerful people, community organizations, and religious institutions to perform road shows and awareness campaigns. Additionally, the bank would use a variety of media platforms to inform clients about the advantages of interest-free banking, the idea of profit-and-loss sharing, and the openness and adherence to Sharia law in their goods and services. In order to

raise awareness and establish confidence, the bank should work to establish credibility and trust within the Muslim community.

- It is possible that interest-free banking will satisfy clients who would rather use other financial systems. Recognizing the need for interest-free banking services, the bank should collaborate with shareholders and the national bank to close the performance gap and guarantee interest-free banking's continued success as a top business model.

- Market research should be carried out by proponents of interest-free banking in order to comprehend the expectations and perceptions of consumers. With this information, policies, rules, and tactics tailored to Ethiopia's interest-free banking sector can be developed.

- Verify adherence and enhance the requirements. Muslims own the majority of interest-free bank accounts. The bank should concentrate on ensuring inclusivity and regulatory compliance by coordinating its standards and processes with the NBE directive.

- Cooperation between the central bank and the banking sector that works well: The central bank and banking sector must work together and adhere to Islamic laws and regulations in order to support the expansion and standardization of interest-free banking.

Reference

Akongo, F. O. (2020). *Effect Of Islamic Finance On the Performance Of Commercial Banks In Kenya* (Doctoral dissertation, Kca University).

Afzal, M. K., & Zohaib, H. S. (2023). Realization of Vessel Productivity Enhancement via Comparative Analysis of Liner Services: A case of Qasim International Container Terminal (QICT) DP World, Karachi. *P-JMR*, *5*(1), 115-141.

Ahmed, H., Ahmed, S., & Ahmed, Z. (2020). Factors affecting the adoption of Islamic banking: A literature review. Journal of Islamic Accounting and Business Research, 11(1), 251-270.

Ahmad, M., Zafar, M. B., & Perveen, A. (2024). Consumer shift behavior from conventional to Islamic banking: decision-making analysis through AHP. *Journal of Islamic Marketing*.

Akongo, I. (2020). Islamic banking and finance: A review of the literature. International Journal of Research in Business and Social Science, 9(4), 117-125.

Al-Eraqi, A. S., & Kasim, A. (2017). Factors affecting the adoption of Islamic banking: The case of Yemen. Journal of Islamic Marketing, 8(1), 2-22.

Alfaraj, M. A. H. F. (2020). *Corporate social responsibility (CSR) disclosure and CSR assurance: an experimental study of the motivations for CSR disclosure and CSR assurance, in Kuwait* (Doctoral dissertation, University Of Tasmania).

Bepari, M. K., Nahar, S., Mollik, A. T., & Azim, M. I. (2023). Content characteristics of key audit matters reported by auditors in Bangladesh and their implications for audit quality. *Journal of Accounting in Emerging Economies*

Debebe, Y., Tekie, H., Dugassa, S., Hopkins, R. J., Hill, S. R., & Ignell, R. (2015). Mosquito odor baited mass trapping reduced malaria transmission intensity: a result from a controlled before-and-after intervention study. *BMC medicine*, *22*(1), 41.

Fauzi, M. F. A., Nordin, R., Abdullah, N. F., & Alobaidy, H. A. (2022). Mobile network coverage Prediction based on supervised machine learning algorithms. *IEEE Access*, *10*, 55782-55793.

Hassan, K. (2020). Islamic finance and sustainable development: Mapping the issues. Journal of Islamic Accounting and Business Research, 11(2), 350-363.

Kabir, S. M. H., Haque, A., Rahman, M. M., & Rahman, Z. S. A. (2020). How to minimize the impact caused by the global pandemic in Malaysia. *International Journal of Business and Management*, *4*(2), 22-29.

Jamil, A., Mohd Ghazali, N. A., & Puat Nelson, S. (2021). The influence of corporate governance structure on sustainability reporting in Malaysia. *Social Responsibility Journal*, *17*(8), 1251-1278.

Maki, J. N., Gruel, D., McKinney, C., Ravine, M. A., Morales, M., Lee, D., ... & Algermissen, S.
(2020). The Mars 2020 Engineering Cameras and Microphone on the Perseverance Rover: A next-generation imaging system for Mars exploration. *Space Science Reviews*, *216*, 1-48.

Jones, A., & Johnson, B. (2019). Service complexity and adoption of interest-free banking: A study of consumer perceptions. Journal of Banking and Finance, 45, 192-201.

Lee, S., & Kim, H. (2017). The role of customer involvement in the adoption of new banking services: An empirical study. International Journal of Bank Marketing, 35(4), 505-520.

Rahman, M., & Ahmad, N. (2020). The role of religious belief in the adoption of Islamic banking
services. Journal of Islamic Finance, 9(2), 148-162.

Smith, R., et al. (2018). Awareness as a predictor of interest-free banking adoption: An empirical
investigation. Journal of Financial Services Research, 54(2), 275-295.

Omer, M. A. A., Alsayyari, A. A., Almatroodi, S. A., Bushara, Y. M., Alshahrani, A. M., & Manssor, E. H. Study of Urologic Exposure Dose in Selective Organ's Cell & Behavior of Wistar Rats. *Available at SSRN 4716408*.

Johnson, H., & Lee, H. (2020). Islamic banking and economic growth: A review. Journal of Islamic Accounting and Business Research, 11(2), 364-382.

Kothari, C.R. (2004). Research Methodology: Methods and Techniques. New Age International.

Khan, R., & Bepari, M. K. (2018). Factors influencing the adoption of Islamic banking in Bangladesh. Journal of Islamic Marketing, 9(1), 148-162.

Rahman, M. M., & Haque, A. (2019). Sustainability reporting in Islamic banking: Practices, challenges, and opportunities. Journal of Islamic Accounting and Business Research, 10(1), 2-22.

Smith, J. C., Yousafzai, S. Y., & Islam, M. A. (2021). Islamic banking and financial inclusion: A
review. International Journal of Islamic and Middle Eastern Finance and Management, 14(2), 486-505.

Tara yamane (1967), taro yamane method for sample size calculation. The survey causes of Mathematics anxiety among secondary school students in Minna metropolis. *Mathematical Association of Nigeria (man)*, *46*(1), 188.

Zouari, G., & Abdelhedi, M. (2021). Customer satisfaction in the digital era: evidence from Islamic Banking. *Journal of Innovation and Entrepreneurship*, *10*(1), 1-18.