



ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

**Factor Affecting the Adoption of Interest free Banking
Services: In the case of Hijra Bank s.c.**

A Thesis Submitted to the School of Graduate Studies of Addis
Ababa University in Partial Fulfillment of the Requirements for the
Degree of Master of Science in Accounting and Finance

Zehara Nassir

Id No: GSE/5983/13

Advisor: Abebaw Kassie, (PHD)

June, 2024

Addis Ababa, Ethiopia

Statement of Declaration

I declare that the thesis entitled “**Factor Affecting the Adoption of Interest free Banking Services In the case of Hijra Bank s.c.**” is a record of independent research work carried by me under the supervision and guidance of Dr. Abebaw kassie (PHD). This thesis work has not been previously submitted for the award of any diploma, degree program in this or at any university.

Name: Zehara Nassir Yasin

Signature:

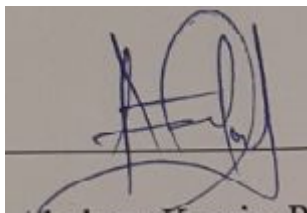
A rectangular box containing a handwritten signature in dark ink, which appears to be 'Zehara Nassir Yasin'.

Date: 03/07/2024

Place: ADDIS ABABA UNIVERSITY

Statement of Certification

The Thesis prepared by zehara Nassir entitled “Factor Affecting the Adoption of Interest free Banking Services In the case of Hijra Bank S.C. has been submitted for examination with my approval as an advisor.

A handwritten signature in blue ink, appearing to be 'Abebaw Kassie', written over a horizontal line.

Abebaw Kassie, PHD

(Advisor)

ADDIS ABABA UNIVERSITY

COLLAGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

FACTOR AFFECTING THE ADOPTION OF INTEREST FREE BANKING
SERVICES IN THE CASE OF HIJRA BANK S.C

BY

Zehara Nassir

<u>Abelaw Kaese</u> Advisor Name	<u>[Signature]</u> 02 July 2024 Signature
<u>Tengir Seitu</u> Name of External Examiner	<u>[Signature]</u> 02 July 2024 Signature
<u>[Signature]</u> Name of Internal Examiner	<u>[Signature]</u> Signature

ACKNOWLEDGMENTS

First of and foremost, I would like to thank ALLAH, the Almighty for giving me the direction, strength, wisdom, and dedication to finish this work successfully. Immense gratitude also goes to my advisor Dr. Abebaw Kassie whose unreserved advice guided me throughout the thesis process.

Furthermore, I would like give special thanks to Esayas Mekonint, who has been a great source of encouragement and has provided me with invaluable assistance during this journey. Your contributions have been truly remarkable and have played significant role in the successful completion of this work. Finally, I give special thanks to my parents for their unconditional support and unreserved effort during the thesis work.

LIST OF ACRONYMS

ADIB: Adoption of Islamic Banking

CBs: Conventional Banks

IFB: Interest Free Banking

iMAL: Islamic Banking and Investment System

NBE: National Bank of Ethiopia

IB: Islamic Bank

TABLE OF CONTENTS

ACKNOWLEDGMENTS.....	v
LIST OF ACRONYMS	vi
Table of contents.....	vii
List of figures.....	xi
List of tables.....	xii
ABSTRACT.....	xiii
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the Study	1
1.2 Statement of the Problem.....	4
1.3 Research Questions	6
1.4 Objectives of the study.....	6
1.4.1 General Objective	6
1.4.2 Specific Objectives	6
1.5 Research Hypothesis	7
1.6 Scope of the study.....	8
1.7 Significance of the study.....	8
1.8 Limitation of the study.....	9
1.9 Organization of the study.....	9
CHAPTER TWO: LITERATURE REVIEW.....	10
2. Introduction.....	10

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 Interest Free Banking Financial Products	12
2.2 Religion and adoption of Islamic banking.....	13
2.3 Factors affecting Adoption of IFB	14
2.3.1 Shariah Compliance	14
2.3.2 Awareness of the service and Adoption of IFB	15
2.4 Perceived Relative Advantage	16
2.4.1 Accessibility of IFB services	16
2.5 The Need for Islamic Banking in Ethiopia	17
2.6 Empirical Review	18
2.6.1 Summary and Gap in the Existing Literature.....	20
2.7 Conceptual Framework	21
CHAPTER THREE: RESEARCH METHODOLOGY	22
3. Introduction.....	22
3.1 Research Design.....	22
3.2 Research Approach	22
3.3 Data Collection Method.....	23
3.4 Population of study, sampling technique and sample size	23
3.5 Data Analysis	26

3.6 Variable Description and Model Specification	26
3.6.1 Description of Variable	26
3.7 Specification of the model	27
3.8 Validity and Reliability	28
3.8.1 Validity	28
3.8.2 Reliability.....	28
3.9 Ethical Consideration	29
CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS.....	30
4. Introduction.....	30
4.1 Descriptive Analysis	30
4.1.1 Demographic characteristics	30
4.1.2 Descriptive Statistics Analysis of Factors Affecting Adoption of Interest Free Banking	33
4.1.2.1 Sharia Compliance	33
4.1.2.2 Awareness of Interest Free Banking	37
4.1.2.3 Advertisement about product and service.....	39
4.1.2.4 Percived usefulness of interest Free banking.....	42
4.1.2.5 Accessiblity of Interest Free banking.....	45
4.1.2.6 Descriptive Summary of each variable influence	47
4.1.2.7 Correlation Analysis	48
4.2 Regression Analysis.....	50
4.2.1 Regression results	50

4.2.2 Diagnostic Test	52
4.2.2.1 Multicolinerity Test.....	53
4.2.2.2 Normality Test	53
4.2.2.3 Autocorrelation Test... ..	54
4.2.2.4 Hetroscedacity Test.....	54
4.2.2.6 Model summary	55
4.2.2.6 Discussion of the result.....	56
CHAPTER FIVE: FINDINGS, CONCLUSIONS AND RECOMMENDATIONS.....	55
5.1 Introduction.....	56
5.2 Summary of Major Findings	56
5.3 Conclusions.....	57
5.4 Recommendations	58
5.5 Limitations and Further Research Directions	59
6. References.....	60
Appendix A.1 Questionnaire.....	64

LIST OF FIGURES

Figure 2.9.1 Conceptual Framework.....	21
---	----

LIST OF TABLES

Table 3.1	The number of IFB account holder in selected branch	24
Table 3.2	Allocations of the computed sample size over the targeted sample branches.....	25
Table 3.3	Reliability Statistics.....	29
Table 4.1	Demographic characteristics	31
Table 4.2	Description of response on Shariah compliance	33
Table 4.3	Description of response on Awareness of Interest Free Banking	37
Table 4.4	Description of response on advertisement about products and services	39
Table 4.5	Perceived usefulness of interest-free banking.....	42
Table 4.6	Level of Accessibility of the IFB services	45
Table 4.7	Descriptive Summary of Each variable influence	48
Table 4.8	Correlation Analysis.....	48
Table 4.9	Regression results of the model	51
Table 4.10	Multicollinearity test	53
Table 4.11	Test for Normality.....	53
Table 4.12	Heteroscedasticity Test	54
Table 4.13	Model Summary	55

ABSTRACT

The aim of this research was to examine factors affecting the adoption of interest-free banking services at Hijira Bank S.C. The study used both qualitative and quantitative research approaches, analyzing primary data collected from customers of Hijira Bank S.C. The cross-sectional data was collected for the year 2022/2023 with a total sample size of 380 respondents. Using SPSS statistical software, the data was quantitatively examined using linear model estimation. The findings indicate that major factors for the adoption of interest-free banking, such as Shariah compliance, advertising, and accessibility, showed statistically significant positive relationships. In contrast, the study found that awareness and perceived usefulness had statistically insignificant positive effects on IFB adoption. The demographic data analysis suggests the majority of interest-free bank (IFB) clients were young and educated, allowing the bank to effectively market its services. The correlation analysis revealed significant positive relationships between the independent variables and IFB adoption, indicating improvements in these factors could enhance IFB uptake and client retention. The findings indicate Hijira Bank S.C. has the potential to implement a full-fledged IFB system by leveraging its capabilities, with the regression analysis explaining 51.8% of the variation in IFB adoption and identifying Shariah conformity, advertising, and accessibility as the most influential factors. To enhance IFB adoption, the bank should ensure its services strictly adhere to Shariah principles, invest in accessible digital platforms and branch networks, develop targeted advertising campaigns, educate customers on the benefits of IFB, implement loyalty programs for its largely young customer base, and prioritize exceptional customer service across all demographics. By strategically addressing these areas, the bank can effectively attract new IFB clients while also retaining its existing customer base over the long term.

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

CHAPTER ONE: INTRODUCTION

This Chapter consists of the background of the study, statement of the problem, research questions, research objectives, hypotheses of the study, Significance of the study, scope of the study, and limitations of the study.

1.1 Background of the Study

The most crucial and fundamental element for the development of any economy and community is banking. Because banks play a fundamental role in the economy as payment facilitators and financial intermediaries, and nations with stronger economic systems typically experience faster rates of economic growth (Levine, 2000). According to Abdullah, Sidek, and Adnan (2012), an Islamic bank is one that uses a banking system founded on the principles of Shariah, or Islamic law, and refrains from engaging in any transactions that are forbidden by the law. Because of its use of interest in fulfilling its role as a financial intermediary and its involvement in businesses that are prohibited by Islamic law, the conventional banking system does not provide to the needs of the Muslim community. As a result, a sizable portion of the global population has been without banking for generations. As a result, Muslims now have serious concerns about the traditional banking system and have called for one that does not conflict with their faith. Ali Mohammed Kerima (2016).

Article 22(2) of Banking Business Proclamation (BBP) No. 592/2008 states that the NBE authorized the Interest-free banking's (IFB's) limited business operations under the CB's purview through BSD No. SBB/51/2011. Interest-free banking business is any banking activity that involves rising or lending money while abstaining from paying or receiving interest in accordance with the rules of Islamic finance. An interest-free banking window is a section of a traditional bank that only provides interest-free banking services. According to Teferi (2015), the authorization for the IFB Business to be licensed under the CB with limited scope is thus intended to address two opposing national objectives of two extremes: on the one hand, optimize IFB's economic values to address the interests of its stakeholders and fill the gap left by the CB; on the other hand, restrict its operation under the CB with limited scope momentarily. 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. According to the provision, the IFB business is banking activity where money is advanced or mobilized in a way 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 term "Islamic banking" refers to banking that complies with Shariah and "offers and utilizes financial services and products that correspond to Islamic religious practices and rules Kettell (2010). Although Islamic finance law has a long history, the Islamic banking and finance industry is relatively new, having emerged in 1963 as a result of an unsuccessful attempt to establish an Islamic banking system by Mit-Ghamr Saving Bank in Egypt, which was attributed to improper marketing and management strategies (Platt, 2008). Islamic banking has expanded in the modern era by creating Islamic banks to rival conventional banks and by transforming a nation's whole financial intermediation from a conventional system to a fully-fledged Islamic system (Iran and Sudan) (Gusau, 2000).

The principles of interest-free banking differ from those of conventional banking in that they are founded on a broad system of ethics and moral values derived from the Islamic religion. These principles forbid receiving or paying interest (Riba), profit-and-loss sharing, forbid financing industries harmful to humanity, avoid uncertainty, are overseen by a Shariah Supervisor Board, and heavily rely on contractual relationships (Masood, 2013). In contrast, conventional banks rely on interest, where borrowers bear all risk, invest in any visible industry, deal with derivatives, lack a Shariah board, and rely solely on creditor-debtor contracts. 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). The term "interest-free banking" refers to a certain set of banking practices or products that do not charge interest. In addition to avoiding interest-based transactions, which are forbidden by Islamic Shariah, Islamic banking is expected to abstain from immoral behavior and actively contribute to the realization of the aims and objectives of an Islamic economy. (Akmel Hailu,2015).

On September 16, 2013, Oromia International Bank S.C. (OIB) received an IFB (Interest-Free Banking) service license from the National Bank of Ethiopia (NBE) following the issue of a working directive. As a result, the bank was able to pioneer interest-free banking in Ethiopia (Meraf, 2013). On October 16, 2022, Hijra Bank S.C. entered the market, after which the Commercial Bank of Ethiopia did the same at the end of October. IFB services are now being offered by a number of private banks as well. It is important for the growth of banking services and offerings that interest-free banking was introduced to Ethiopia's banking sector. In developed and some developing nations, the factors influencing the adoption of interest-free banking (IFB) have been well researched. But there is lack of published research that looks at the variables influencing interest-free banking usage from the standpoint of users in developing nations like Ethiopia. When compared to the level of growth of the global banking industry, the Ethiopian banking sector is generally characterized by a limited reach and a limited selection of banking products (Kerima, 2016). Hijra Bank was established on January 16, 2022 in the wake of the long-awaited government's approval of full-fledged interest-free banking in Ethiopia. A large part of the Muslim community in Ethiopia was financially excluded for decades due to the absence of Sharia-compliant banks in the country. Hijra Bank was founded to respond to this age-old appeal of this community. Inclusive since its very inception, Hijra bank has demonstrated its strict adherence to its core values of inclusion, fairness, and diversity in all its operations. Unlike most financial institutions in Ethiopia, which started with a small group of elites from a specific geographical area, Hijra has set off with a solid foundation of 9,000+ small farmers, pastoralists, unbanked communities, peasants, and small traders from all parts of the country. The bank's inclusiveness and diversity philosophy is also reflected in branch expansion, resource allocation, and staff recruitment.

Within a year of operation, Hijra Bank has built a strong reputation for its unwavering subservience to Sharia principles. All the bank's financial products and services are regulated by Islamic Banking principles. They are periodically reviewed and approved by the Sharia Advisory Committee, consisting 7 members of Sheiks, imams, and respected religious scholars. Furthermore, the bank's Core Banking System is acquired from the first and only Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)-certified Sharia-compliant

software solutions: iMAL. With its vision to be ‘the premier partner in Ethical banking’, Hijra Bank is expanding into more and more territories through its more than 70 branches, making it one of the fastest-growing banks in the country. The bank has also leveraged digital technologies with Mobile and Internet banking to enhance financial inclusion to more than 300,000 customers across the nation. In addition to its regular banking operations, Hijra Bank is taking the leading role in the promotion of Islamic banking in the country through media campaigns and community engagements.

However, to the best knowledge of the researcher, there are no published surveys on the adoption of IFB services at Hijra Bank S.C. Therefore the main focus of this study is to investigate the gap that affect the adoption of IFB services at Hijra Bank S.C.

1.2 Statement of the Problem

The banking industry operates in a complicated and highly competitive environment (Agbolade, 2011). Banks play a crucial role in the economy, yet they are facing significant challenges to survive in today's cutthroat market conditions. Additionally, businesses must comprehend the demands, attitudes, and current issues of their clients in order to fulfill their mission and achieve their goals (Dusuki & Abdullah, 2007).

Empirical data demonstrates that interest-free banking is becoming more and more popular worldwide. There are a number of factors that appear to be connected to the spread of IFB, including the financing principles of risk sharing, the expansion of economies rich in oil, Muslim population, supportive legislative frameworks, economic integration with Middle Eastern nations, and accessibility to Islamic financial centers (Alam2011).

Trade with the Middle East and economic stability also promote the spread of Islamic banking (Ibrahim, 2012). One way to measure the success of banking services is to provide full-fledged services such as IFB in addition to traditional banking in order to satisfy customers, win competition, and expand market bases, by identifying and challenging the effects of the factors that influence the adoption of Interest Free Banking services.

Even if there are a lot of opportunities, Hijra Bank 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.

Few researches have been done in Ethiopia on the factors influencing the adoption of IFB; some relevant studies are carried out by various researchers in various parts of the world.

The research conducted by Mohamed (2012), titled "The Prospects, Opportunities and Challenges of Islamic Banking in Ethiopia," is one of these studies. It reveals a number of issues, including a lack of knowledge, issues with regulations and supervision, institutional difficulties, a lack of support and connections between institutions, a gap in the field's research and development, lack of qualified human resources, and an incorrect association between a particular religion and international terrorism.

The research conducted by Teferi (2015) on the impact of IFB on Ethiopia's economic development demonstrates the macro-level influence of IFB rather than addressing any particular issues with the bank. The study on the difficulties in providing interest-free banking services in Ethiopia carried out by Kerima (2016) was based on government banks (CBE), which are not the same as private banks. As a result, it was unable to identify the factors that influence the adoption of IFB.

Therefore, this study attempts to fill the above research gap by investigating the challenges and opportunity of Islamic banking Establishment from the service provider's view. Having in mind that Islamic Banking has its part in the Business area globally; the eagerness to know whether the so called full-fledged Islamic Banking is a feasible alternative package in Ethiopia in the banking arena with all possible challenges is the point that motivated me to conduct this study.

The widespread presence of interest-free banking (IFB) and the increasing number of Ethiopian banks offering IFB services, including HIJRA Bank S.C., demonstrate the growing importance of this banking model in Ethiopia. the adoption rate of IFB services at HIJRA Bank S.C remains low. This indicates a gap between the potential market demand for IFB services and the actual adoption by customers. To address this issue, it is crucial to identify and understand the specific factors that are affecting the adoption of IFB services at HIJRA Bank S.C. based on available data.

While previous studies have provided insights into the challenges and prospects of Islamic banking in Ethiopia, there is a need for a focused analysis on HIJRA Bank S.C. to uncover the factors responsible for the low adoption rate. By utilizing the available data, this study aims to investigate variables such as Sharia compliance, awareness levels regarding IFB products and services, the impact of advertising efforts, the perceived relative advantage of IFB services, and the accessibility of IFB services across all branches of HIJRA Bank S.C. In the study, researchers examined various factors to determine their influence on the adoption of IFB services by customers at HIJRA Bank S.C. Through an empirical analysis of the data, this study seeks to provide insights into the factors that hinder the adoption of IFB services at HIJRA Bank S.C. Therefore this study tries to assess the Factors affecting the adoption of interest free banking services at Hijra bank S.C based on the appropriate measurements using empirical evidences.

1.3 Research Questions

- What is the effect of Shariah compliance on the adoption of IFB?
- What is the relationship between awareness of the service and adoption of IFB?
- Is there any relationship between advertisement of the service and adoption of IFB?
- What is the impact of perceived usefulness of the service on the adoption of IFB?
- What is the impact of accessibility of IFB services 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 Hijra 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 Research Hypothesis

Ho: Sharia Compliance does not have a positive and significant effect on the adoption of interest-free banking.

Ha: Sharia Compliance has a positive and significant effect on the adoption of interest-free banking.

Ho: Customers' awareness regarding interest-free banking does not have a positive and significant effect on the adoption of interest-free banking.

Ha: Customers' awareness regarding interest-free banking has a positive and significant effect on the adoption of interest-free banking.

Ho: Perceived relative advantages of interest-free banking do not have a positive and significant effect on the adoption of interest-free banking.

Ha: Perceived relative advantages of interest-free banking have a positive and significant effect on the adoption of interest-free banking.

Ho: Accessibility of interest-free banking services in all branches of the bank does not have a positive and significant effect on the adoption of interest-free banking.

Ha: Accessibility of interest-free banking services in all branches of the bank has a positive and significant effect on the adoption of interest-free banking.

Ho: Advertisement about interest-free banking does not have a positive and significant effect on the adoption of interest-free banking.

Ha: Advertisement about interest-free banking has a positive and significant effect on the adoption of interest-free banking.

1.6 Scope of the study

In this study, the focus is on Hijra Bank S.C. offering Islamic/Interest-Free Banking (IFB) services. Ten branches located in different areas of Addis Ababa were selected to represent the bank's operations, based on their larger size and customer base. The key variables to be investigated include Shariah compliance and how Hijra Bank ensures it, as well as the impact of Shariah compliance on customer adoption of IFB services. The level of awareness and perceptions among Hijra Bank's customers regarding IFB services and their impact on adoption was explored. Finally, the study investigated the effect of the partial implementation of IFB on its adoption and overall contribution. The findings of this study could potentially be generalized to other branches of Hijra Bank and the broader banking industry.

1.7 Significance of the study

The significance of this study holds great importance for the proposed research. The findings generated from this investigation will contribute to the existing body of knowledge by shedding light on the factors that influence the adoption and operation of Interest-Free Banking (IFB) specifically within Hijra Bank S.C. The insights gained from this study will be invaluable for the bank's IFB customers, as it will enhance their understanding of the key drivers that impact their decision-making process. Furthermore, this research will serve as a valuable resource for the researcher, providing them with practical experience and knowledge in the field of IFB. The outcomes of this study will also benefit bank managers, policy and decision-makers, providing them with evidence-based insights that can inform strategic decisions and improve the effectiveness of IFB services at Hijra Bank S.C. Additionally, this research will offer guidance and ideas to other banks that are considering the adoption of IFB services, serving as a benchmark for best practices. Finally, this study will serve as a foundation for future research endeavors, providing a solid starting point for further exploration and analysis in the field of IFB adoption and operations.

1.8 Limitation of the study

One of the limitations of this study is that it focused only on Hijra Bank S.C. in Addis Ababa city among the interest-free banks and other commercial banks with dual services. As a result, the findings from this case study may not be generalized to other banks with IFB and conventional services or to customers of banks in rural areas. Another limitation is the use of a cross-sectional design for the survey research, which was feasible due to time and money constraints, but does not allow for understanding how customers' perceptions, attitudes, and behaviors toward the use of interest-free banking change over time.

1.9 Organization of the study

The research proposal 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.

CHAPTER TWO: LITERATURE REVIEW

2. INTRODUCTION

This chapter reviews literature on factors affecting the adoption of interest-free banking. The chapter is divided into three sections as a result. The first portion examines the theoretical review, which includes information gathered from various sources, followed by an empirical assessment of prior

2.1 Theoretical Background

2.1.1 Basic Concepts and definition of Interest free banking

According to Teferi (2015), an "interest-free banking window" is a division within a traditional bank that only offers interest-free banking services. The term "interest-free banking business" describes banking operations that do not involve the collection or payment of interest by mobilizing or advancing funds in a way that is compliant with Islamic finance principles. Islamic banking adheres to all other Islamic precepts that forbid unethical behavior in addition to refraining from interest-based transactions. On the other hand, even if interest-free banking does not involve interest-based transactions, Shariah, or Islamic law, is not strictly adhered to in this system. The broader idea of Islamic banking is supposed to abstain from unethical practices as well as interest-based transactions, which are prohibited by Shariah. It is also anticipated to actively support the accomplishment of the aims and objectives of an Islamic economy.

2.1.2 Principles of IFB

According to "TayoFakiyesi, 2011," the fundamental tenets of Islamic banking mainly consist of the following:

Prohibition of Interest/Usury: Interest charges, whether simple or compound, on loans for productive or unproductive spending are strictly forbidden under the Islamic banking system. To put it simply, interest is a fixed return on money lent or deposited, and shariah forbids it completely. The holy Quran contains several passages that support the prohibition, including 30:39; 4:161, 3:130, and 2: 281. For instance, verse 130 of chapter 3 says, "O you, who believe,

fear Allah so that you may prosper, and devour not riba, doubled and multiplied." "If you are truly believers, then fear Allah and relinquish any remaining demand for usury." If you don't, Allah and His messenger will declare war on you; but, if you repent, you will receive your capital gains. Treat people fairly, and you will also be treated fairly. The verses 278–279 of Chapter 2.

Profit and Loss Sharing: Economic participants in any financial transaction are required to split the transaction's profit and loss. At the beginning of the business, the terms and circumstances pertaining to such a transaction should clearly state the sharing ratio.

Ban on Uncertainty: It is forbidden and shouldn't be permitted for there to be any uncertainty regarding the terms and circumstances of any transaction. At the outset of the business, all parties involved in the financial transaction should fully comprehend and have a comprehensive understanding of all the terms and conditions pertaining to the associated profit and loss.

Prohibition of Unethical Investment: It is necessary to prevent financing of businesses engaged in the manufacture of alcoholic beverages, pornographic images, gambling, and pork-based goods. When permitted in a society, these activities lead to a growth in social vices as opposed to the use of resources for constructive endeavors.

Asset backing: Every financial transaction in the Islamic banking system needs to be connected to a concrete, distinguishable underlying asset. This is due to the fact that money is not regarded as an asset class because it is not a tangible good and may not yield a profit. The idea is to convert all assets to gold standard or comparable assets, whose value does not decrease with time.

This does not imply, however, that Islam forbids any gain on principle amounts. Profit is the acknowledged recompense for capital in Islam. The surplus capital that is produced by using capital in a legal business becomes the owner's legitimate and justifiable claim. Consequently, no other factor of production is anticipated to bear the risk of loss; it likewise lies solely on the capital. The fact that profit or reward can only be claimed after work has been put in or risk of loss has been assumed is another crucial aspect of Islamic banking. Thus, the provider of capital receives profit, and labor/manager receives wages/remuneration. A depositor in an Islamic bank can therefore make earnings on his or her deposit in several ways:

- Through return on his capital when that capital is employed in a business venture.
- Through sharing of profit when his capital or part of capital is employed in a Partnership, and finally,
- Through rental earnings on an asset that has been partially financed by his capital (Muhammad, 2008).

2.1.3 Interest Free Banking Financial Products

The following is a brief description of Islamic financial products Adopted from (Habibullah Khan et al, 2008):

I. Profit sharing financial products.

- **Musharakah**- each partner's share of the profit (based on a pre-agreed ratio), loss (based on equity contributions), management, investment, and equity.
- **Mudarabah**- While some offer finance, others offer entrepreneurship. The ratio of profit sharing is predetermined.
- **Qard Hasan**- charity loans with no profit-sharing margins or interest that must be repaid in installments. A reasonable service fee is acceptable.
- **Wakalah**- A bank has the authority to act on behalf of its clients.
- **Hawalah**- an arrangement wherein the bank accepts a portion of the client's liabilities in exchange for a service charge. After the obligations mature, the client reimburses the bank.

II. Advance purchase financial products

- **Murabahah**- a sales agreement wherein the bank and its client agree on a price for the items to be sold for, plus a profit margin.
- **Istithna'**- a contract for the purchase of products based on a specification or order, with payment made gradually when the project is completed.
- **Mu'ajjal**- a purchase agreement that permits postponed delivery.
- **Ijarah**- a leasing arrangement wherein a bank purchases equipment needed by its clients and leases it to them for a charge.

III. Deposit products

- **Wadi'ah-** deposits, including current accounts (wadi'ahyaddamanah, wadi'ahyad Amana).
- **Mudarabah-** deposit products, such as time deposit products and anytime savings products that are based on a revenue-sharing arrangement between the depositor and the bank.
- **Qard al-Hasanah-** unpaid deposit goods, typically offered to support charitable causes.

2.2 Religion and adoption of Islamic banking

According to Kirkpatrick (2005), religion is a psychological bond and a predominately emotional engagement with objects. A religion is a cause, a principle, or a set of deeply held, passionately practiced ideas. When it comes to interest-free transactions and risk sharing, Islamic banks adhere to the spirit and philosophy of Islam. Metawa and Almosawi (1998) discovered that, rather than the rate of return on investment, customers' perceptions of Islamic banking systems are most influenced by their faith. Furthermore, he discovered that the top element influencing selection criteria is religiosity, which is followed by profitability. According to Omer (1992), Muslims' deposits in Islamic financial institutions in the UK are primarily motivated by their religious beliefs. Othman and Owen (2001), Walkhid and Afrita (2007), and Haron et al. (1994) all confirm this conclusion, pointing out that religion has a significant role in influencing IB adoption. On the other hand, a study conducted in Jordan discovered that while profit-driven criteria was a major consideration when choosing a bank, religion did not play a big part in adopting an Islamic bank (Erol, C. and El.B. Radi, 1989). According to the Islamic banking selection criteria, the majority of customers have embraced Islamic banking for religious reasons; however, there are other reasons why customers have adopted the system, including the bank's efficiency in transactions, customer confidentiality, operating hours, etc. (Khattak and Rehman, 2010). According to research conducted in 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, the primary reason why people accept Islamic banks is not because they are religious. The Background of Interest Free Banking in Ethiopia.

To provide the Muslim community in Ethiopia with a small amount of choice and flexibility, a few banks started to offer basic financial products. These products include the Special Demand Deposit offered by the Commercial Bank of Ethiopia (OB), the Amanah (or Safe-guarding) Account, and the Micro-credit scheme (Murabaha) offered by the Somali Micro-finance Institution (SMFI) (Muhamed, 2016). However, due to their extremely constrained scopes and transactions, these products did not attract sizable numbers of clients.

The first reference to non-interest-bearing banking company in the history of the country was added by NBE after a suggestion on Islamic banking was presented to the Prime Minister's Office, when the 2008 banking proclamation was being drafted. But it took the bank more than two years to put together a draft of the directive after the proclamation's article 22(2) granted it the authority to prepare one. After some time, NBE created a draft dubbed "Directive for conducting interest free banking" and shared it with the sector. The final draft of Directive SBB/51/2011, "Directives to authorize the business of interest free banking," however, stated that fully-fledged Islamic banks are not permitted and that Islamic banking operations are only permitted as part of other conventional interest-based services.

2.3 Factors affecting Adoption of IFB

2.3.1 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).

Kettell (2011) states that Islamic banks are required to have religious Supervisory boards in order to guarantee that their financial operations comply with Shariah law. In order to ensure that Islamic principles are followed, the Shariah Supervisory Board (SSB), also known as the Shariah Supervisory Committee, reviews agreements, agreements, and transactions. The board attests to and certifies that the banking operations are compliant with Islamic law. Even though the SSB is

only an advisory body, the bank entrusts it with questions about the legitimacy of its operations, giving it an authoritative and respected role. Islamic banking and financial operations are governed by Shariah law since they are an integral part of Islamic economic activity. Three sources serve as the foundation for Islamic financial operations conformance with shariah. the fundamental source of sharia, the Quran; the second, the Prophet's Sunnah; the third, Ijma, or consensus; and finally, Qias and IJTIHAD, or the reasoning of a group of trained scholars, which aims to adapt Islamic law to the modern world.) The Bank of Malaysia's Islamic Banking Hand Book Institute (2010)

The most significant factor worth mentioning is that, despite the expansion of Islamic banking globally, Ethiopia's banking sector has continued to use traditional banking systems for the majority of its transactions. This is due to the absence of regulatory and policy frameworks that encourage the creation of Islamic financial institutions. Many prospective Muslim clients are not banking with the mainstream banks already operating in the nation because they feel that doing business with them violates their religious beliefs. Alemu Debebe (2015)

The IFB convention is adopted in Ethiopia in the form of interest-free banking windows, or IFBW's, which are not fully developed. This has a delaying effect on the convention's standards and its ability to advance the ED while enhancing the banking sector. Furthermore, as a value-adding convention to the banking industry and the economy as a whole, it appears that it may encounter knowledge and, to some extent, perception or misinterpretation difficulties as a growing phenomenon (Teferi, 2015).

2.3.2 Awareness of the service and Adoption of IFB

Awareness is concern about and well-informed interest in a particular situation or development, according to the Oxford Dictionary. This study looks at people's awareness of various products and services, their awareness of advertisements, and their knowledge of Islamic financial teachings. Evidence on the impact of product and service awareness can be found in earlier studies.

People were interested in IB products, but the largest obstacle in the Australian market, according to Rammal and Zurbruegg (2007), was people's ignorance of these items. For certain common products, such current accounts and time deposit accounts, the customer's awareness of IB products

is higher. However, the majority of clients are ignorant of particular Islamic financial products like Rehman, Ijara Khattak, and Murabaha (2010).

2.4 Perceived Relative Advantage

The concept of relative advantage refers to how potential adopters perceive an innovation as providing incremental value compared to existing options (Abdisa, 2017; Rogers, 2003). Relative advantage can be assessed based on factors such as economic profitability, reduced discomfort, time and effort savings, low initial cost, social prestige, and other potential benefits that would motivate adoption (Gerard, 2003). Multiple studies have found relative advantage to be a strong predictor of an innovation's rate of adoption (Brown et al., 2003; Tan & Teo, 2000; Hsu et al., 2007; Tung & Rieck, 2005; Thambiah et al., 2011b; Gerrard & Cunningham, 2003), as adopters tend to evaluate relative advantage in terms of the economic benefits and costs, as well as potential improvements to social status (Rogers, 2003; Gerard, 2003). The specific sub-dimensions of relative advantage that have been examined include economic benefits (e.g. profitability, reduced interest burden, risk reduction, profit-loss sharing benefits) and fairness (e.g. fair profit sharing, ethical banking, equitable wealth distribution), in addition to initial cost, social prestige, and immediacy of rewards (Abdisa, 2017), and the present study aims to investigate relative advantage within these economic and fairness dimensions.

2.4.1 Accessibility of IFB services

One of the key elements in establishing the requirements for Islamic banks to be adopted is accessibility. It speaks about the geographically distributed number of branches that a specific company maintains in order to serve its clientele. Convenience was identified by Haron et al. (1994) as a significant factor influencing the IFB selection criterion. Convenience is defined as having a large branch network, being close to one's home or place of employment, having an ATM with convenient hours, and having a bank site. Islamic banks should aim to reach more people by creating more branches as this would undoubtedly boost public confidence in them. A small branch network is one of the issues that significantly affects the low growth of Islamic banking. Adnan,(2011).

2.5 The Need for Islamic Banking in Ethiopia

Given the extreme inequality that exists among Ethiopia's many social groups, the government needs to give them the resources they require to improve their lot in life (Mohamed M. Olad, 2012). Poverty alleviation and social cohesion are contingent upon the impoverished and vulnerable groups having access to financing. Small farmers, workers, and semi-skilled individuals are all non-bankable, which is one of the key causes of this "financial apartheid" and the bulk of the unorganized sector. One strategy to help the underprivileged and impoverished members of society is through Islamic banking. It makes sense for Ethiopia to become accessible to interest-free banks after the country's banking system opened up significantly over the last ten or so years. Permitting Islamic banking could provide several advantages, such as reducing the gap between the rich and the poor, improving integration, and ultimately spurring economic expansion. By opening up the banking industry to Islamic banks and allowing their development, the Ethiopian government can take a giant step toward realizing the long-held goal of becoming a "Middle Income Country". Interest-bearing financial instruments are forbidden by Islamic faith. 2014 saw Song and Oosthuizen.

Due to religious beliefs, some Ethiopians, particularly those in the economically disadvantaged segments of society, are unable to obtain banking products and services because interest-free banking products, which tie the investor's return to taking on risk, are not readily available. Although SMFI offers interest-free banking in certain limited circumstances, it is advised that steps be taken to enable the provision of interest-free financing on a more extensive commercial basis. This aligns with the goals of growth via innovation and inclusivity. Furthermore, a framework for these items might be established with the right precautions and without having a negative impact on systemic risk. Our most vulnerable workers in the unorganized sector and in agriculture may be able to successfully compete with those in the formal sector if we can enhance the labor capital ratio. Therefore, the bulk of Ethiopian farmers and laborers may benefit financially from Islamic banking. Referenced in Song and Oosthuizen (2014) and Alyu Abate (2016).

2.6 Empirical Review

In comparison compared to conventional banking, the IFB business is still in its early stages. To grow and prosper, it is working to build its own institutional, operational, and regulatory infrastructures (Khan & Bhatti, 2008).

Several researches on the issues of interest-free/Islamic banking have been undertaken on an international scale. According to these research, Islamic banking in Muslim or non-Muslim nations has encountered a number of problems. (Iqbal, Ahmed, and Khan (1998); Bello & Abubakar (2014); Njamike (2010); Ibrahim (2012); Kinyanjui (2013); Jabr (2003).

Therefore, Ethiopia is not an exception. However, to the best of the researcher's knowledge, there is a scarcity of research on the topic under consideration in the Ethiopian setting, and the researcher hoped that this study would provide information and fill a vacuum in the area.

It is evident that the IFB is a relatively new phenomenon in the Ethiopian setting, while being a common and accepted alternative banking norm in the rest of the globe. Because of this, there is either no empirical literature on the topic or very little given the context and scope of the researcher's work. The literature evaluation that has been made accessible thus far regarding IFB in the Ethiopian context essentially established the viability of IFB implementation in Ethiopia. As a result, Sankaramu's research and surveys (2009) are among the studies done on the topic in the Ethiopian environment to date. The issue at hand had nothing to do with the informed or knowledge-based operation of IFB. It was more about introducing IFB as a nation, or not. Because of its enormous and untapped potential to fill the void left by conventional banking in general and its numerous microeconomic benefits in particular, the researcher advised that Ethiopia take into consideration introducing the IFB by using the cordial relationship between Christians and Muslims as an opportunity (Teferi, 2015). Akmel (2015). The previous four years have seen the majority of Ethiopia's Islamic banking innovations, however it is still unclear whether or not the country's financial sector engages in Sharia-compliant transactions. Debebe (2015) conducted a study on the factors influencing customers' willingness to use interest-free banking. The study aimed to investigate Ethiopian customers' willingness to use interest-free banking as well as potential influencing factors. The findings demonstrated that the level of awareness among consumers,

perceived compatibility, perceived relative advantage, and subjective norm all significantly positively influence their attitudes regarding interest-free banking at Ethiopia's commercial banks. The study's findings demonstrate an evaluation of the attitude regarding IFB usage, but they don't deal with the present issues. According to a study conducted by Teferi (2015), using IFB as a more convenient means of promoting economic development could lead to challenges and opportunities in the Ethiopian context. Reexamining the infrastructure of IFB in Ethiopia could improve its comfortable operation and its role in promoting economic development. The study also examined the contribution of IFB to Ethiopia's economic development, the level of stakeholder awareness and attitude toward the IFB services, the comparative advantages of IFB, the factors that account for the growth of IFB, and the factors that account for the growth of IFB.

Challenges with interest-free banking services in Ethiopia, a study by Kerima (2016) with specific reference to the Commercial Bank of Ethiopia, shows that the bank is not committed, that it lacks a shariah advisor, that it lacks supportive regulatory directives, that there are issues with the Ethiopian Commodity Exchange (ECX) law, that it is unable to deliver its entire range of IFB products, that its customers lack trust and confidence, that its IFB products are unavailable in all of its branches, and that the bank only offers its products in a window model. This research is based on government commercial banks, which are distinct from private banks. As a result, it lacks specific structural beliefs in identifying factors influencing the adoption of interest-free banking, and it has a gap in its analysis when it comes to the private banks that have just recently begun to operate as IFBs.

The study conducted by Guluma (2017) examined the elements that influence Ethiopian customers' behavioral intention to adopt interest-free banking, specifically focusing on Oromia International Bank S.C. The general behavioral intention framework for interest-free banking served as the study's foundation and revealed the following: perceived behavioral control, subjective norm, relative advantage, compatibility, valued people's opinions, and media impact. Therefore, it is a broad behavioral study with a gap about the particular real-world circumstances influencing the adoption of IFB.

The study used the Diffusion of Innovation theory proposed by Rogers (2003) to investigate

Bruneian customers' propensity to accept Islamic banking services. The findings demonstrated that, despite having below-average knowledge and awareness, Bruneian consumers are generally open to adopting Islamic banking (Amin, 2020; Loo, 2010). Adoption was not hampered by complexity or uncertainty, but rather by factors such as relative advantage, compatibility, observability, and service quality (Amin et al., 2011; Loo & Lam, 2014). While noting limitations in the study instrument, sample size, and geographical scope that should be addressed in future research, this offers new insights for Islamic banking practitioners and regulators in Brunei (Amin, 2008; Amin et al., 2013). To provide the Muslim community with a little amount of option freedom, a few banks started to offer basic products such Special Non-interest Savings Accounts (i.e., Special Demand Deposit issued by the Commercial Bank of Ethiopia (CBE). However, this did not serve the needs of the larger Muslim consumer base. These products are not in the mainstream and have a relatively simple structure. They also did not attract large numbers of customers or transactions, but they compared poorly to their conventional counterparts in a number of areas, including their generally uncompetitive structure and negative real rate of return.

Since the initial individual and collective initiatives emerged in early 2008, the growth of Islamic Financial Services has been stagnant for nearly five years. Since then, not much has changed. Not a single commercial bank, whether privately held or publicly traded, has declared that it will offer Islamic financial products through a subsidiary or "Special Window." Despite numerous reported endeavors to build the first Islamic Financial Institution in Ethiopia, not a single "full-fledged" Islamic financial institution has emerged. The relevant authorities have not yet released any government initiatives or programs, according to Kerima Ali (2016).

2.6.1 Summary and Gap in the Existing Literature

From the above empirical review at international level most of studies were emphasized on countries with large number of Muslim culture and community than those are Christian dominated country like Ethiopia which both the communities (Christians and Muslims) live in peace and harmony.

Even if some study conducted regarding Islamic banking in Ethiopia by only emphasizing in Muslim community. Till January, 2015 there is no research undertaken in Ethiopia regarding

customers’ perception towards adoption of interest-free financial product and services in the case of Hijra Bank Sc.

This study was emphasized on Interest free financial products and services to determine their perception toward interest-free financial product and services at bank levels. The purpose of the study was to explore the behavior of customers towards interest-free banking by using Shariah complaint, awareness, advertisement, perceived usefulness (advantage) and accessibility as well as mainly to find out which variables mainly influence customers adoption of interest free financial product and services in the context of Hijra Bank S.C.

2.7 Conceptual Framework

This study explores the factors influencing the adoption of interest-free banking services at Hijra Bank S.C., employing a comprehensive conceptual framework based on relevant theories and utilizing appropriate quantitative and qualitative measures to gather empirical evidence. Therefore, the conceptual framework is constructed as follows;

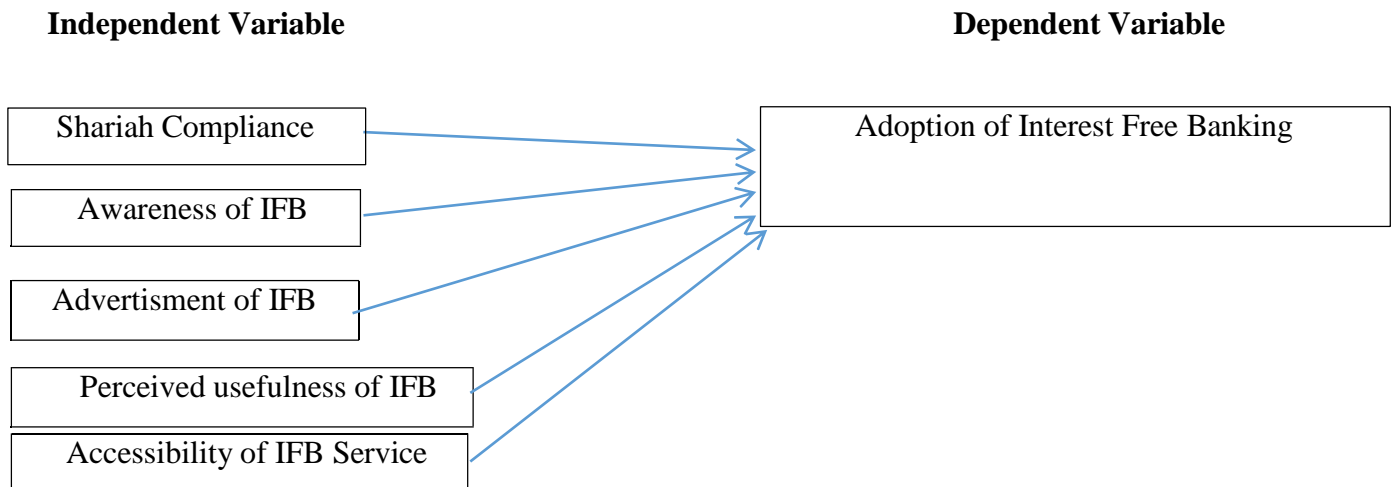


Figure 2.7.1 *Conceptual Framework*

(Source: Adapted and modified from Mishra et al. (2014) and Van Zomeren and Postmes (2008))

CHAPTER THREE: RESEARCH DESIGN METHODOLOGY

3. INTRODUCTION

In this section, the data type and sources, the methods and techniques adopted for collection of data and for their analysis in this study are presented along with some discussions.

3.1 Research Design

The process and methodology for gathering and evaluating the necessary data was known as research design. The goals or study questions that a researcher wished to address determined which research design they chose (John, 2007).

The research design for the study on the factors affecting the adoption of interest-free banking (IFB) services at Hijra Bank S.C. involves a combination of causal and descriptive research designs. The causal research design aims to establish cause-and-effect relationships between variables, examining factors that influence IFB adoption. The descriptive research design focuses on gathering demographic information about the respondents. The sampling strategy was determined to ensure a representative sample of the target population. Data analysis techniques, including statistical analysis and thematic analysis, were applied to analyze the collected data. By implementing this research design, the study aims to gain valuable insights into the factors influencing the adoption of IFB services at Hijra Bank S.C. These insights can inform strategic decisions and help improve adoption rates by better understanding customer preferences and needs.

3.2 Research Approach

This research utilizes a mixed methods approach to investigate the factors influencing the adoption of interest-free banking (IFB) services at Hijra Bank S.C. The qualitative component involves collecting customers' attitudes through questionnaires and analyzing the data thematically. The quantitative component utilizes statistical techniques such as correlation and regression analysis, with data collected through structured surveys. By combining qualitative and quantitative methods, this research aims to provide a comprehensive understanding of the factors driving IFB adoption. The findings were triangulated to enhance validity and reliability. Overall, this mixed methods

approach offers a robust framework for informing strategic decision-making and improving IFB adoption strategies at Hijra Bank S.C.

3.3 Data Collection Method

The researcher used both primary and secondary data source for possible attainment of the objective. The types of instruments used to collect the data were through close and open ended questionnaire. The format of the questionnaire for variables were 5 point likert scale from strongly agree to strongly disagree to categorize the respondents level of agreement on the mentioned statements. Secondary data source which are derived from published and unpublished reports, Journals, article, dissertation and theses were also used. So that the researcher used cross sectional survey, **FY 2022/2023**, in which independent and dependent variables are measured at the same point in time using a single questionnaire.

3.4 Population of study, sampling technique and sample size

The research focuses solely on **customers** to understand their opinions on interest-free banking products and services. This makes sense since they are the ultimate users and adopters of these services. As a result, the study only considers IFB customers in Addis Ababa as its sample frame. However, it's important to acknowledge that front-line employees and branch managers play a crucial role in implementing and promoting these offerings to customers. While they are not directly included in this specific research, their perspectives and experiences could be valuable for future studies exploring the overall success of interest-free banking initiatives.

Hijra Bank S.C has more than **71** branches throughout the country with a customer base of 294,787 (Annual Report 2022/23). From these branches, **17** branches are city branches located in Addis Ababa. The bank has no district structure so far, hence, the researcher won't apply cluster sampling, thus the researcher select purposely t o p **10** branches in the capital city that had good experience, big and have high turnover of customers on delivering IFB. Accordingly, these branches had a total of **75,889** IFB services user customers as at June 30, 2023 GC. Therefore, the total population of this study was **75,889** IFB customers of the Hijra Bank S.C. The selected branches are **Olompia - Nejashi Br, Merkato - Bilal Bran, Bole - Medina Branch,**

Bethel - Ansar Branc, Kolfe - Quba Branch, Furi - Hikma Branch, Abdi Nonno – Hijrate, Alembank - Mus'ab Ma, Ehil Berenda –Haji and Somale Tera-Sheikh I.

Considering the total population of the study, the sample size of the study was determined using Taro Yamane’s simplified formula. As stated by (Yamane, 1967), for a 95% confidence level and p=0.5 the size of the sample would be:

The sample size: $n = \frac{N}{1 + N(e)^2}$ ----- (1)

(Taro Yamane, 1967 simplified sample taking method)

Where; n = signifies required sample size
 N =signifies total number of IFB account holder
 e =signifies confidence interval.

$$\approx \frac{75,886}{1 + 75,886 (0.05)^2} = 397.90 \approx 398$$

Table 3.1 The number of IFB account holder in selected branch

NO.	Branch	No. of Customers
1.	Olompia - Nejashi	9,289.00
2.	Merkato – Bilal	9,378.00
3.	Bole – Medina	8,154.00
4.	Bethel - Ansr	8,295.00
5.	Kolfe – Quba	7,836.00
6.	Furi – Hikma	8,129.00
7.	Abdi Nonno - Hijrate	7,967.00
8.	Alembank – Musab Ma	6,218.00
9.	Ehil Berenda Haji Musa Kikiyan	6,534.00
10.	Somale Tera-Sheikh I	4,086.00
Total		75,886.00

(Source: HIJIRA BANK 2022/23)

And the sample size (i.e. n=398) will be distributed among the target branches that is computed proportionally as;

$$\text{Allocated samples for branches} = \frac{\text{Number of Accounts for branches} \times \text{Sample Size (n)}}{\text{Total Number of customers(N)}} \quad (2)$$

Hence, **Table 3.2** summarizes the allocations of the computed sample size over the targeted sample branches.

Table 3.2 Allocations of the computed sample size over the targeted sample branches.

No.	Branches	Customers
1	Olompia - Nejashi Br	48
2	Merkato - Bilal Bran	48
3	Bole - Medina Branch	42
4	Bethel - Ansar Branc	43
5	Kolfe - Quba Branch	40
6	Furi - Hikma Branch	42
7	Abdi Nonno - Hijrate	41
8	Alembank - Mus'ab Ma	32
9	Ehil Berenda Haji Musa Kikiyan	33
10	Somale Tera-Sheikh I	21
Total		398.00

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 Data Analysis

The information gathered from the questionnaire and other sources, which are the quantitative data, was analyzed using regression analysis and descriptive analysis methods using SPSS statistical software package in order to find the research questions and the effect of the independent variable on the dependent one as well.

3.7 Variable Description and Model Specification

3.7.1 Description of Variable

Most of the dependent and independent variables in the study came from earlier research on Islamic banking.

✓ Dependent Variable

Adoption of Interest-Free Banking (AIFB): This can be measured a multi-point scale to capture the extent of adoption, such as (Never used, Used once or a few times, Use occasionally, Use regularly and Use extensively

Independent Variables

- **Shariah Compliance (SC):** When using banking services, Muslims strictly adhere to Islamic principles. This refers to the individual's perception of how well interest-free banking products and services adhere to Islamic principles. The measurement of this variable is multi-point scale (Strongly disagree - Disagree - Neutral - Agree - Strongly agree). Ahmed et al. (2014) used a similar approach in their study "Factors Affecting the Adoption of Islamic Banking in Malaysia".
- **Awareness of Interest-Free Banking (AWRS):** This measures the individual's knowledge and understanding of interest-free banking concepts and products. The degree of awareness can be evaluated through a multi-point scale, such as: (Strongly disagree - Disagree - Neutral - Agree - Strongly agree). Ellul et al. (2013) employed a similar approach in their

research "Awareness and Perception of Islamic Banking among Non-Muslims in the United Arab Emirates".

- **Advertisement of Interest-Free Banking (AD):** This captures the individual's exposure to marketing and promotional activities related to interest-free banking. To understand the prevalence of advertisement, a multi-point scale can be utilized, like: (Strongly disagree - Disagree - Neutral - Agree - Strongly agree). Noor et al. (2017) used a similar scale in their study "The Impact of Marketing Strategies on Customer Awareness and Adoption of Islamic Banking Products".
- **Perceived Usefulness of Interest-Free Banking (ADV):** This measures the individual's belief about the potential benefits and value of using interest-free banking products and services. By employing a multi-point scale, we can gain insights into the extent of Perceived Usefulness of Interest-Free Banking, as shown by: (Strongly disagree - Disagree - Neutral - Agree - Strongly agree). Habib and Japar (2016) used a similar approach in their research "Factors Influencing the Intention to Use Islamic Banking among Young Adults in Malaysia".
- **Accessibility of Interest-Free Banking Services (ACC):** This captures the individual's perception of the ease and convenience of accessing interest-free banking products and services. We can assess this using a multi-point scale to gauge the level of Accessibility, for example (Strongly disagree - Disagree - Neutral - Agree - Strongly agree). Masih and Masih (2017) used a similar scale in their study "The Role of Service Quality and Accessibility in Driving Customer Satisfaction with Islamic Banking".

Generally speaking, As Neuman (2003) explained, likert-scale is used to ask many people the same questions and examining their answers research questions. So that the researcher would use cross sectional survey in which independent and dependent variables are measured at the same point in time using a single questionnaire (Anol Bhattacharjee, 2012).

3.8 Specification of the model

Based on the theoretical, empirical and conceptual framework of the study, the following Linear Regression model was developed. Thus, parameters for the following functional relationships were

estimated using the Regression model. Regression was a widely accepted model in many of the studies carried in the innovative product adoption (Alireza et al., 2010 and Alenezi et al., 2010). Regressing the dependent variable over independent variables helped to know the impact of each independent variable on the dependent variable.

The general formula used for the model is represented as follows:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \varepsilon \text{-----} \text{ (3)}$$

The model structure remains similar to the previous models, incorporating the chosen independent variables, moderating variables, interaction terms and disturbance term:

$$\text{Adoption of Interest-Free Banking (Y)} = \beta_0 + \beta_1(\text{Shariah Compliance}) + \beta_2(\text{Awareness}) + \beta_3(\text{Advertisement}) + \beta_4(\text{Perceived Usefulness}) + \beta_5(\text{Accessibility}) + \varepsilon \text{-----} \text{ (4)}$$

The regression coefficients (β) indicate the direction and strength of the relationship between each variable and the chosen measure of adoption. A positive coefficient suggests that an increase in the independent variable is associated with a higher level of usage or a greater number of products used.

3.9 Validity and Reliability

3.9.1 Validity

Validity pertains to the precision with which a method or tool gauges its intended target. It signifies how well the scores derived from a measure truly reflect the underlying variable. As defined by Heale and Twdross (2015), validity in a quantitative study signifies the degree to which a concept is faithfully captured. The development of the research questionnaire draws upon prior studies and relevant literature for guidance.

3.9.2 Reliability

In research, consistency is key! As Heale & Twycross (2015) point out, reliability refers to how

consistent a measure is. For surveys with multiple Likert-scale questions, a common way to assess reliability is with Cronbach's alpha (α), developed by Lee Cronbach in 1951. This test focuses on internal consistency, meaning how closely all the questions in your survey relate to each other. Basically, it checks if the questions are all measuring the same underlying concept. According to Cronbach, a generally accepted threshold for a reliable scale is a Cronbach's alpha of 0.70 or higher. For this research, both the Cronbach's Alpha and Cronbach's Alpha Based on Standardized Items is 0.862 and 0.870 respectively, which is more than the desirable. The detail is as follows;

Table 3.93.3 Reliability Statistics

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No. of Items
0.862	0.870	32

3.10 Ethical Consideration

Gajjar (2013) emphasizes the importance of proper informed consent. This means participants must freely choose to join the research and have all the necessary information to make that decision. In this study, responses were collected entirely voluntarily, without any pressure. Participants were fully informed about the research goals and how their responses would be used solely for academic purposes. They were also clearly told of their right to withdraw at any point and assured of the confidentiality of their responses.

CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS

4. INTRODUCTION

The analysis and interpretation of the findings are presented in this chapter; the data was collected from Hijira Bank S.C. customers using a questionnaire. It contains both descriptive and regression result analysis. Firstly, to gain a basic understanding of the variable behaviors and patterns across the specified sample period, summary statistics and charts are applied in the descriptive part. The second part focuses on the regression result presentation and analysis. Presentations and interpretations of the findings are made in this portion of the study in line with the findings produced by SPSS statistical software.

Based on the proposed research design a total of 389 questionnaires were distributed, however 380 were returned successfully, whereas 9 was not correctly filled and rejected. Therefore 380 were effectively used for analysis that shows response rate of 97.7%. According Dusuki & Abdullah, 2007, above 75% response rate is considered as adequate.

4.1 Descriptive Analysis

Out of the 389 questionnaires sent out, an impressive 97.7% were returned in usable condition! Only 9 questionnaires were missing information and couldn't be included in the analysis. This high response rate, exceeding the 75% threshold recommended by Dusuki & Abdullah (2007), suggests we got a strong sample for the research.

4.1.1 Demographic characteristics

The demographic analysis of the 388 respondents provides valuable insights that can significantly contribute to achieving the study's objective of examining the factors affecting the adoption of interest-free banking (IFB) services at Hijira Bank S.C in Ethiopia. Here's a detailed interpretation of the demographic variables and their potential impact on the study's objectives:

Table 4.1 Demographic characteristics

Demographic Variables	Classification	Frequency/ No. of Respondent	Percentage
Gender	Male	207	54.5
	Female	173	45.5
Marital Status	Single	188	49.5
	Marred	168	44.2
	Widowed/widower/Divorced	24	6.3
Age	Less than 25 Years	24	6.3
	Between 25 and 35 years	174	45.8
	Between 36 and 45 years	104	27.4
	More than 45 years	78	20.5
Educational Qualification	No formal education	10	2.6
	primary School	164	43.2
	Secondary School	122	32.1
	Tertiary School	84	22.1
Employment Type	Public Sector	80	21.1
	Private sector	149	39.2
	Self Employed	151	39.7
Level of Income	Less than 5,000	181	47.6
	Between 5,001 and 15,000	148	39
	Between 15,001 and 25,000	35	9.2
	More than 25,000	16	4.2

(Source: Own Survey using SPSS Software 2024.)

According to Table 4.1.1 among them 54.5 percent of the respondents were male and the rest 45.5 percent of them were female respondents. The relatively balanced gender distribution ensures that the study captures perspectives from both genders, which is important for understanding if gender influences the adoption of IFB services.

The descriptive statistics also show that the sample includes four distinct age groups. The first age category was less than 25 years of age, and this category takes 6.3 percent of the respondents. 25 to 35 years of age was the second age group which represent 45.8 percent of the respondents. The last two age groups were 36 to 45 and above 45 years of age, these age category represents 27.4 and 20.5 percent of the respondents respectively. The majority of respondents (45.8%) are in the 26 to 35 age group, which is often a key demographic for banking services due to their active economic participation and potential for future financial growth. This can provide reliable insights into the adoption trends among the most economically active group.

Out of the total respondents 49.5 percent of them were single and the rest 44.2 and 6.3 percent of the respondents were married, and either divorced/Widowed/Widower respectively. A significant proportion of single respondents (49.5%) might indicate a younger demographic, which could influence the adoption of IFB services due to different financial needs and perspectives compared to married or divorced individuals.

The education level of respondents was also incorporated on the analysis. Accordingly, 2.6 percent of the respondents didn't follow formal education whereas, 43.2 percent were stopped at primary school and 32.1 percent of them stopped at secondary school and 22.1 of the respondents were holders of college degree and above. A substantial portion of respondents have primary (43.2%) and secondary education (32.1%), which might affect their awareness and understanding of IFB services. However, the 22.1% with higher education can provide more informed insights on perceived usefulness and accessibility.

The income level represents how much income the respondents are generating monthly accordingly, 47.6 percent of the respondents had a monthly income of below 5000 birr monthly 39 percent of the respondents generate a monthly income of between 5001 and 15000 birr. Further,

9.2 percent of the respondents had a monthly income of between 15001 and 25000 birr, 4.2 percent of the respondents earn a monthly income of above 25001. The income distribution shows that a large majority of respondents earn below 15000 birrs monthly, which might impact their accessibility and perception of the cost-effectiveness of IFB services.

In regards to the employment type 39.7 percent of the respondents are self-employed. Whereas private and public sector employed are 39.2 and 21.1 percent of the respondents. The high percentage of self-employed individuals (39.7%) and private sector employees (39.2%) suggests a significant portion of respondents might have a vested interest in IFB services, as these groups might prefer financial services aligning with Islamic principles due to their independent business activities.

Overall, the demographic data provides a comprehensive understanding of the respondents, which is instrumental in assessing the factors affecting the adoption of IFB services. The implications for the Study would be various. The education levels and employment types suggest varying degrees of awareness and understanding, which could influence the adoption of IFB services. The diverse age and education levels imply that targeted advertising strategies may be needed to effectively reach different segments of the population. Given the mix of income levels and employment types, the perceived usefulness of IFB services may vary. Those with higher education and income might have different expectations compared to those with lower income and education. With many respondents earning below 15000 birrs monthly and a significant portion being self-employed, accessibility in terms of service location, ease of account opening, and operational convenience will be crucial factors.

4.1.2 Descriptive Statistics Analysis of Factors Affecting Adoption of Interest Free Banking

4.1.2.1 Sharia Compliance

The results show a high level of confidence in Hijira Bank's adherence to Sharia principles, with 73.7% of respondents agreeing or strongly agreeing with this statement. This indicates a significant degree of trust in the bank's commitment to Islamic banking principles. This finding aligns with

previous research on the importance of Sharia compliance in Islamic banking, as Naser et al. (1999) found that the perception of Sharia compliance and ethical standards significantly affects the adoption of Islamic banking services. This high level of confidence in Sharia compliance is crucial for the adoption of interest-free banking, as it demonstrates that Hijra Bank has successfully communicated its commitment to Islamic principles, which can help attract more customers who are seeking Sharia-compliant financial services. The high confidence levels could be attributed to Hijra Bank's effective communication of its Sharia compliance efforts through marketing and customer education, as well as the presence of a well-respected Sharia board, which may contribute to assuring customers that the bank's operations adhere to Islamic principles. The 20.3% of neutral responses and 6.1% of disagree responses suggest that a small portion of customers may still have some uncertainty or lack of confidence in Hijra Bank's Sharia compliance. This could be due to a lack of understanding or transparency, or potentially some negative experiences with the bank's products or services.

The results show a more mixed response, with 44.4% of respondents agreeing or strongly agreeing that Sharia compliance makes them more likely to use Hijra Bank's interest-free banking services, while 49.2% remained neutral. This finding aligns with the research by Dusuki and Abdullah (2007), which highlighted that customers' awareness and understanding of Sharia principles play a pivotal role in their decision to use Islamic banking services. While a significant portion of respondents recognize the importance of Sharia compliance, a large neutral group suggests that there may be other factors beyond just Sharia compliance that influence their decision to use interest-free banking services. Hijra Bank may need to better understand and address these other factors to drive greater adoption. The neutral responses could indicate that some customers may prioritize other factors, such as pricing, convenience, or overall customer service, over Sharia compliance when choosing a bank. Alternatively, the neutral responses could suggest that some customers may not fully understand the implications of Sharia compliance or how it affects their banking experience. The 6.3% of disagree responses suggest that a small portion of customers may not see Sharia compliance as a significant factor in their decision to use interest-free banking services, which could be due to a lack of religious affiliation or a preference for conventional banking products.

The results show that the transparency of Hijra Bank's Sharia compliance procedures is important to the majority of respondents, with 61.3% agreeing or strongly agreeing with this statement. This finding aligns with the research by Gait and Worthington (2008), which noted that transparency and a reputable Sharia board are key factors influencing customer confidence in Islamic banks. Hijra Bank should focus on enhancing the transparency of its Sharia compliance procedures to further build trust and confidence among its customers. This could include providing detailed information about its Sharia board, the processes used to ensure compliance, and the specific Sharia principles that guide its product offerings. The importance of transparency in Sharia compliance can be attributed to customers' desire to understand and verify the bank's adherence to Islamic principles. Transparent communication can help alleviate any concerns or doubts customers may have about the bank's commitment to Sharia compliance. The 31.3% of neutral responses suggest that a significant portion of customers may not have a strong opinion on the importance of transparency in Sharia compliance, which could be due to a lack of understanding of the importance of this factor or a lower priority placed on it compared to other factors when choosing a bank.

The results show that a vast majority of respondents (90.7%) agree or strongly agree that they would be more comfortable using interest-free banking if they had a clearer understanding of how Sharia compliance works in practice. This finding is consistent with the research by Dusuki and Abdullah (2007), which highlighted that customers' awareness and understanding of Sharia principles play a pivotal role in their decision to use Islamic banking services. Hijra Bank should prioritize educational initiatives to increase customers' understanding of Islamic banking principles and how Sharia compliance is implemented in practice. This can help address the knowledge gap and increase customer comfort with using interest-free banking services. The strong agreement with this statement suggests that many customers may have a limited understanding of Sharia compliance, which creates uncertainty and hesitation in using interest-free banking services. Providing clear and accessible information can help overcome this barrier. The 9.3% of neutral responses could indicate that a small portion of customers may already have a good understanding of Sharia compliance or may not consider it a significant factor in their decision to use interest-free banking services.

The results show that a significant majority of respondents (76.6%) agree or strongly agree that the presence of a reputable Sharia board at Hijra Bank increases their trust in the bank's interest-free banking products. This finding aligns with the research by Gait and Worthington (2008), which noted that a reputable Sharia board is a key factor influencing customer confidence in Islamic banks. Hijra Bank should continue to support and highlight the qualifications and expertise of its Sharia board, as this can help maintain and enhance customer trust in the bank's interest-free banking products. Emphasizing the board's credentials and the bank's adherence to Sharia principles can be a valuable marketing and customer engagement strategy. The high level of agreement with this statement suggests that customers view the presence of a reputable Sharia board as a reliable indicator of the bank's commitment to Sharia compliance and the integrity of its interest-free banking offerings. This can help build confidence and trust among customers. The 23.4% of neutral responses could indicate that some customers may not be fully aware of the importance of a reputable Sharia board or may not consider it a significant factor in their decision-making process when choosing a bank.

Overall, the results demonstrate a significant degree of confidence and trust in Hijra Bank's adherence to Sharia principles, which is crucial for the adoption of interest-free banking. The bank should continue to focus on enhancing transparency, providing educational initiatives and highlighting the expertise of its Sharia board to further strengthen customer trust and drive the adoption of its interest-free banking services.

Table 4.2 Description of response on Shariah compliance.

No	Items/Description	Rate of agreement				
		Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
1	I am confident that Hijira Bank SC adheres strictly to Sharia principles in its financial products and services.	0.8%	5.3%	20.3%	41.3%	32.4%
2	Knowing that Hijira Bank SC is Sharia-compliant makes me more likely to use	-	6.3%	49.2%	25.5%	18.9%

	their interest-free banking services.					
3	The transparency of Hijra Bank SC's Sharia compliance procedures is important to my decision to use their services.	-	7.4%	31.3%	41.6%	19.7%
4	I would be more comfortable using interest-free banking if I had a clearer understanding of how Sharia compliance works in practice.	-	-	9.3%	52.7%	38.0%
5	The presence of a reputable Sharia board at Hijra Bank SC increases my trust in their interest-free banking products.	-	-	23.4%	51.3%	25.3%

(Source: Own Survey using SPSS Software 2024.)

4.1.2.2 Awareness of Interest Free Banking

Customer awareness in this research context mean to what extent customers are aware regarding the interest free banking service. Accordingly, 18.4 percent of respondents said they were neutral, indicating some familiarity but not complete understanding. This suggests there's a need for some education about the concept. However, a significant portion (75.8%) agreed (strongly or otherwise) they were familiar. Similar to question 1, over half (70.6%) were agreed or aware that Hijra Bank offers these services. This suggests Hijra's marketing materials about their Islamic banking products might be effectively communicating with the target audience. The majority (51.3% agreed and 25.3% strongly agreed) found the information clear and easy to understand. However, a significant portion (23.4%) remained neutral, which doesn't necessarily mean they found it unclear, but they might not have a strong opinion either way. The Fourth question asks if people would be more likely to consider using interest-free banking if they received more information about the benefits. Almost half (51.1%) of the respondents agreed with this statement, 17.1% strongly agreed, 25% were neutral on the issue, and only 6.8% disagreed. The fifth question asked whether respondents believed Hijra Bank SC's marketing materials effectively communicated the concept of interest-free banking. The responses were more mixed on this question, with 289 (48.8%) saying they agreed or strongly agreed, and 51.2% saying they were neutral. This suggests that there may be room for improvement in Hijira Bank SC's marketing materials.

Several possible reasons could explain these results Hijra Bank's marketing materials have been partially effective in communicating the concept of interest-free banking, as evidenced by the high levels of awareness and familiarity among respondents. The significant neutral responses suggest that while customers are aware of the services, they may not fully understand the details and benefits, highlighting the need for improved educational initiatives. The mixed feedback on the clarity and effectiveness of marketing materials suggests that while some customers find the information clear, others do not form a strong opinion, possibly due to variability in the clarity or detail of the information provided. Naser et al. (1999) found that the perception of Sharia compliance and ethical standards significantly affects the adoption of Islamic banking services. This aligns with the importance placed on understanding Sharia compliance in the current study. Dusuki and Abdullah (2007) highlighted that customers' awareness and understanding of Sharia principles play a pivotal role in their decision to use Islamic banking services. This is consistent with the finding that better understanding would increase the likelihood of adoption. Gait and Worthington (2008) noted that transparency and a reputable Sharia board are key factors influencing customer confidence in Islamic banks, reinforcing the importance of clear and effective communication. Echchabi and Aziz (2012) indicated that customer awareness significantly influences the acceptance and use of Islamic banking services. This supports the current finding that increased awareness and information can lead to higher adoption rates. Amin et al. (2011) found that perceived usefulness and awareness are critical determinants of Islamic banking adoption, aligning with the study's emphasis on these factors.

The implications of these findings for Hijra Bank and similar institutions include, Hijra Bank should invest in educational programs to improve customer understanding of the benefits and principles of interest-free banking Enhanced, since a significant portion of respondents indicated they would consider using interest-free banking with more information. The mixed responses on the effectiveness of marketing materials suggest that Hijra Bank needs to refine its marketing strategies to ensure clearer, more comprehensive communication that effectively conveys the benefits and workings of interest-free banking. Tailoring communication strategies to address the neutral respondents who have some familiarity but not complete understanding can help convert

awareness into actual adoption of services. Reinforcing the transparency in Sharia compliance and highlighting the qualifications and activities of the Sharia board can further build customer trust and confidence, essential for increasing adoption rates.

Table 4.3 Description of response on Awareness of Interest Free Banking.

No	Items/Description	Rate of agreement				
		Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
1	I am familiar with the concept of interest-free banking.	-	5.8%	18.4%	52.1%	23.7%
2	I am aware that Hijira Bank SC offers interest-free banking products and services.	-	-	-	70.6%	29.5%
3	The information available about Hijira Bank SC's interest-free banking options is clear and easy to understand.	-	-	23.4%	51.3%	25.3%
4	I would be more likely to consider using interest-free banking if I received more information about the benefits it offers.	-	6.8%	25%	51.1%	17.1%
5	Hijira Bank SC's marketing materials effectively communicate the concept of interest-free banking to me.	-	-	51.2%	25.8%	23%

4.1.2.3 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, the first question asked whether respondents had seen or heard advertisements for Hijra Bank SC's interest-free banking products. Just under half (76.6%) said they had seen or heard advertisements, while the 23.4 percent of the respondents said they had not. This suggests that Hijra Bank SC has increased awareness of its interest-free banking products by expanding its advertising campaigns. Of the 380 respondents, 261 (68.7%) agreed or strongly agreed that the advertisements were clear and easy to understand. This suggests that a majority of respondents found the advertisements to be

effective in communicating their message. However, there were also a significant number of respondents who did not find the advertisements to be completely clear. Specifically, 119 (31.3%) said they were neutral or disagreed with the statement. This suggests that there may be room for improvement in the clarity of Hijra Bank SC's advertising for interest-free banking products. The third question explores how Hijra Bank SC's advertisement makes customer curiosity about their interest-free banking products. The results indicate a positive influence of the advertisements on sparking curiosity. The majority of respondents (71.1%, combining "Agree" and "Strongly Agree") expressed curiosity about learning more after seeing the ads. This suggests the advertising campaign is successful in generating interest and potentially driving customers towards further information. However, a significant portion of respondents (28.2%, combining "Strongly Disagree," "Disagree," and "Neutral") remained neutral or uninterested in learning more. This suggests there might be ways to improve the advertisements in capturing the attention of this segment and turning their curiosity into a desire for further exploration.

Of the 380 respondents, 259 (68.2%) agreed or strongly agreed that the advertisements effectively portrayed the benefits of using interest-free banking. This suggests that a majority of respondents found the advertisements to be successful in communicating the product's advantages. However, there were also some respondents who disagreed with the statement. Specifically, 121 (31.8%) said they were neutral or disagreed. This suggests that there may be room for improvement in the way Hijra Bank SC communicates the benefits of interest-free banking in their advertising. The survey included a question asking respondents to rate their level of agreement with the statement: "Seeing advertisements for Hijra Bank SC's interest-free banking makes me more likely to consider using their services." The results reveal a positive influence of advertisements on interest in interest-free banking. A significant portion of respondents (77.1%, combining "Agree" and "Strongly Agree") indicated that exposure to advertisements increased their likelihood of considering using Hijra Bank SC's services. This suggests that the advertising campaign is successful in generating interest among potential customers. However, it is important to acknowledge the remaining portion of respondents (22.9%, combining "Strongly Disagree," "Disagree," and "Neutral"). These individuals were either not swayed by the advertisements or remained unsure about using the services. This

suggests there might be room for improvement in the advertising strategy to reach a wider audience or resonate more effectively with those who are currently neutral.

Several possible reasons could explain these results: The broad reach (76.6%) and high agreement on the clarity and impact of advertisements suggest that Hijra Bank's advertising campaigns are well-designed and effectively implemented. The significant portion of neutral or disagreeing respondents regarding clarity (31.3%) and benefits portrayal (31.8%) indicates that while the advertisements are effective for many, they may not fully resonate with all audiences, possibly due to varied customer expectations or needs. The positive influence on curiosity and consideration shows that the advertisements are successful in generating initial interest, though the neutral/uninterested segment (28.2%) suggests there might be better ways to engage these customers, possibly through more targeted or personalized messaging.

Naser et al. (1999) found that effective communication of ethical standards and Sharia compliance significantly influences the adoption of Islamic banking services. This aligns with the current findings where effective advertising increases consideration of interest-free banking. Dusuki and Abdullah (2007) highlighted the importance of customer awareness, which the study's findings support by showing that clear and engaging advertisements raise awareness and interest. Gait and Worthington (2008) noted that transparency and clear communication are key in building customer trust, resonating with the clarity and effectiveness of Hijra Bank's advertisements. Amin et al. (2011) found that perceived usefulness, influenced by effective communication, is critical for the adoption of Islamic banking, which the portrayal of benefits in Hijra Bank's advertisements supports.

The key implications for Hijra Bank include refining its advertising to ensure universal clarity and engagement, leveraging customer curiosity through informational initiatives, and clearly articulating the benefits of interest-free banking in marketing materials. Regularly gathering and analyzing customer feedback can help Hijra Bank continuously improve its marketing strategies.

Table 4.4 Description of response on advertisement about products and services.

No	Items/Description	Rate of agreement				
		Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
1	I have seen or heard advertisements for Hijira Bank SC's interest-free banking products.	-	-	23.4%	51.3%	25.3%
2	The advertisements for Hijira Bank SC's interest-free banking are clear and easy to understand.	-	3.9%	27.4%	48.4%	20.3%
3	The advertisements for Hijira Bank SC's interest-free banking make me curious to learn more about the products.	0.8%	0.8%	27.4%	51.6%	19.5%
4	The advertisements effectively portray the benefits of using interest-free banking at Hijira Bank SC.	-	6.8%	25%	51.1%	17.1%
5	Seeing advertisements for Hijira Bank SC's interest-free banking makes me more likely to consider using their services.	-	1.8%	21.1%	57.4%	19.7%

(Source: Own Survey using SPSS Software 2024.)

4.1.2.4 Perceived usefulness of interest-free banking

The results paint a generally positive picture. A significant majority of respondents expressed favorable views on various aspects of Hijira Bank SC's interest-free banking. Here's a breakdown:

Practical and Useful Alternative: A strong majority (72.7%, combining "Agree" and "Strongly Agree") viewed interest-free banking as a practical alternative to traditional banking (Statement 1).

Effective Financial Management Tool: Over three-quarters (76.6%, combining "Agree" and "Strongly Agree") believed these products could aid in effective financial management (Statement 2).

Appealing Profit-Sharing Model: A considerable portion (73.7%, combining "Agree" and "Strongly Agree") found the profit-sharing and loss-sharing models used in interest-free banking appealing (Statement 3).

Wealth-Building Potential: The majority (77.6%, combining "Agree" and

"Strongly Agree") saw interest-free banking as a viable option for growing wealth over time (Statement 4). Meeting Financial Needs: A large portion (74.7%, combining "Agree" and "Strongly Agree") expressed confidence that interest-free banking at Hijra Bank SC could meet their financial needs and goals (Statement 5). These findings suggest that Hijra Bank SC's offerings resonate with a significant segment of the target audience. The concept of interest-free banking, profit-sharing models, and potential for wealth growth appear to be attractive to many potential customers.

While the overall sentiment is positive, there's also a portion of respondents (ranging from 20.3% to 23.4%) who remained neutral across the statements. This highlights the need for further efforts to educate potential customers about the benefits and functionalities of interest-free banking.

Several possible factors could explain these positive perceptions. The adherence to Shariah principles may resonate strongly with customers seeking ethical and religiously compliant banking options. The positive response suggests that Hijra Bank SC's advertising and educational efforts have effectively communicated the benefits and functionalities of interest-free banking. Positive personal or community experiences with interest-free banking could have reinforced confidence in these products. The profit-sharing model and the potential for wealth growth might be particularly appealing in an economic context where customers are looking for safe and ethical investment opportunities. The presence of a reputable Sharia board could increase trust and assurance in the compliance and reliability of Hijra Bank SC's services.

The current study's findings align with previous research on the importance of perceived usefulness, customer awareness, and trust in Islamic banking adoption. Naser et al. (1999) found perceived usefulness significantly influences Islamic banking adoption, consistent with the positive perceptions at Hijra Bank SC. Dusuki and Abdullah (2007) highlighted customer awareness and perceived usefulness as key for using Islamic banking services, reflected in Hijra's high agreement levels. Gait and Worthington (2008) emphasized perceived usefulness and Sharia board presence in building customer confidence, which the study suggests positively impact Hijra's perceptions. Echchabi and Aziz (2012) found perceived usefulness enhances Islamic banking acceptance, supporting Hijra's effective marketing. Amin et al. (2011) determined perceived usefulness is

critical for Islamic banking adoption, mirrored in Hijira's high agreement on product benefits.

The findings have several implications for Hijra Bank SC. The positive perceptions indicate that Hijra Bank SC should continue its current marketing strategies, focusing on the practical benefits, ethical compliance, and wealth-building potential of interest-free banking. The neutral responses (20.3% to 23.4%) highlight the need for ongoing educational efforts to further inform customers about the benefits and functionalities of interest-free banking. This can be achieved through workshops, seminars, and informative content. The strong interest in profit-sharing models suggests that Hijra Bank SC could explore new products that emphasize these features, catering to the financial goals and risk preferences of their customers. Enhancing engagement through personalized communication and customer support can help address the neutral segment, potentially converting them into confident users of interest-free banking services. Maintaining and highlighting the role of a reputable Sharia board will continue to be crucial in building and sustaining customer trust and confidence.

Table 4.5 Perceived usefulness of interest-free banking

No	Items/Description	Rate of agreement				
		Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
1	Interest-free banking offered by Hijira Bank SC seems like a practical and useful alternative to traditional banking.	-	3.9%	23.4%	57.4%	15.3%
2	I believe interest-free banking products at Hijira Bank SC can help me manage my finances effectively.	-	-	23.4%	51.3%	25.3%
3	The profit-sharing and loss-sharing models used in interest-free banking at Hijira Bank SC are appealing to me.	0.8%	5.3%	20.3%	41.3%	32.4%
4	Hijira Bank SC's interest-free banking options seem like a good way to grow my wealth over time.	-	-	22.4%	51.3%	26.3%

5	I am confident that using interest-free banking at Hijira Bank SC would meet my financial needs and goals.	-	2.1%	23.2%	55%	19.7%
---	--	---	------	-------	-----	-------

(Source: Own Survey using SPSS Software 2024.)

4.1.2.5 Accessibility of interest-free banking

Under this sub-section to what extent the service is accessible in selected branches of the bank would be assessed. In evaluating the process and accessibility of interest-free banking services at Hijira Bank SC, respondents provided insights across five key dimensions.

The data indicates a generally positive perception of the ease and clarity associated with opening an interest-free banking account at Hijira Bank SC, with a majority of respondents expressing agreement or strong agreement (75.8%). Additionally, the minimum requirements to access these services were deemed reasonable by a significant proportion of respondents (75.2%), reflecting a perceived accessibility of such products.

Furthermore, the convenience of accessing interest-free banking services through Hijira Bank SC's network of branches or online platforms garnered substantial support, with 76.6% of respondents either agreeing or strongly agreeing with the statement. This suggests that the institution has effectively established a service delivery infrastructure that caters to the needs of its customers.

Moreover, the clarity and simplicity of the application process for interest-free banking products received favorable feedback, with 68.2% of respondents expressing agreement or strong agreement. This indicates a perceived transparency and user-friendliness in the procedures associated with obtaining these financial services.

Lastly, the competence and assistance provided by customer service representatives in navigating interest-free banking options were generally well-received, with 76% of respondents indicating agreement or strong agreement with the statement. This highlights the importance of knowledgeable and helpful staff in enhancing the overall customer experience.

Overall, these findings suggest a positive reception towards the accessibility, transparency, and quality of service associated with interest-free banking offerings at Hijira Bank SC. Such insights contribute to a comprehensive understanding of consumer perceptions within the context of Islamic banking, thereby informing potential recommendations and implications for both the institution and the broader financial industry.

Several factors contribute to the positive perception of accessibility at Hijira Bank SC. The convenient branch network and online platforms provide easy access to services. Clear, simple application processes with reasonable requirements also enhance accessibility. Positive feedback on knowledgeable, helpful staff further improves the customer experience.

This aligns with research showing accessibility significantly influences Islamic banking adoption (Al-Malkawi et al., 2019). The transparency of processes builds customer trust (Haron et al., 2010), and quality customer service enhances satisfaction and loyalty (Chong & Liu, 2009) - both of which are evident at Hijira Bank.

The positive perceptions of accessibility, transparency, and service quality have several implications. Maintaining and improving these areas can enhance customer satisfaction, loyalty, and adoption of Hijira's interest-free banking. It also allows Hijira to differentiate itself, attract a wider customer base, improve efficiency, and build trust and credibility.

Table 4.6 Level of Accessibility of the IFB services

No	Items/Description	Rate of agreement				
		Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
1	Opening an interest-free banking account at Hijira Bank SC seems like a straightforward process.	-	5.8%	18.4%	52.1%	23.7%
2	The minimum requirements to access interest-free banking products at Hijira Bank SC are reasonable.	-	1.6%	23.2%	51.8%	23.4%

3	Hijira Bank SC has a convenient network of branches or online platforms for accessing interest-free banking services.	-	-	23.4%	51.3%	25.3%
4	The application process for interest-free banking products at Hijira Bank SC is clear and easy to understand.	-	6.8%	25%	51.1%	17.1%
5	The customer service representatives at Hijira Bank SC are knowledgeable and helpful when it comes to interest-free banking options.	-	2.4%	21.6%	57.6%	18.4%

(Source: Own Survey using SPSS Software 2024.)

4.1.2.6 Descriptive Summary of Each variable influences

Totally there were five factor variables were identified, all of the variables were measured using Likert scale where 1 represents Strongly Disagree and 5 represents Strongly Agree. Apart from this 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 3.811 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 was accessible in most branches of the bank.

Table 4.7 Descriptive Summary of Each variable influence

Variable	Mean	St. Deviation	Minimum	Maximum
Shariah Compliance	3.811	0.48141	2.6	5
Awareness of Interest Free Banking	3.902	0.57832	2.6	5
Advertisement of Interest Free Banking	3.897	0.44126	2.8	4.8
Perceived usefulness of interest-free banking	3.963	0.43242	2.6	4.8
Accessibility of interest-free banking	3.926	0.47773	2.6	4.8
Adoption of Interest free banking	3.84	0.721	2	5

(Source: Own Survey using SPSS Software 2024.)

It's a common statistical knowledge that relying solely on means has limitations. While they provide a general sense of central tendency, they don't capture the entire distribution of responses. Additional statistical tests could provide a more comprehensive picture of customer perceptions.

4.1.2.7 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. Table shows that there is a positive correlation between all of these factors. This means that when one factor is high, the others are also likely to be high. For example, table 4.8 shows that there is a correlation of 0.514 between awareness and adoption of interest-free banking. This means that people who are more aware of interest-free banking are more likely to adopt it. The correlations are all statistically significant at the 0.01 level. This means that there is a very low probability that these results are due to chance. The strongest correlation is between awareness and advertisement (0.752). This suggests that advertising is an effective way to raise awareness of interest-free banking.

The correlation between Shariah compliance and adoption of interest-free banking is 0.385. This is a weaker correlation than some of the others, but it is still statistically significant. This suggests

that Shariah compliance is one of several factors that influence people's decision to adopt interest-free banking.

Overall, the table suggests that there is a positive relationship between adoption of interest-free banking and Shariah compliance, awareness, advertisement, usefulness and accessibility.

It is important to note that correlation does not imply causation. Just because two variables are strongly correlated does not mean that one causes the other to change. There may be other factors that influence the variables. If the correlation among variables is too strong, above 0.80, this implies the presence of multicollinearity (Gujarati, 2004), the existence of which violates the assumption of CLRM (Baltagi, 2008). As shown in table 4.8, the correlation among the variables does not exceed 0.80 in any specification, which means there is no multicollinearity problem in our model.

Table 4.8 Correlation Analysis

		Adoption Of Interest Free Banking	Shariah Compliance	Awareness	Advertisement	Usefulness	Accessibility
Adoption of interest free banking	Pearson Correlation	1	0.385**	0.514**	0.357**	0.485**	0.434**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	380	380	380	380	380	380
Shariah compliance	Pearson Correlation	0.385**	1	0.566**	0.560**	0.610**	0.586**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	380	380	380	380	380	380
Awareness	Pearson Correlation	0.514**	0.566**	1	0.752**	0.561**	0.678**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	380	380	380	380	380	380

Advertisement	Pearson Correlation	0.357**	0.560**	0.752**	1	0.674**	0.628**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	380	380	380	380	380	380
Usefulness	Pearson Correlation	0.485**	0.610**	0.561**	0.674**	1	0.705**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	380	380	380	380	380	380
Accessibility	Pearson Correlation	0.434**	0.586**	0.678**	0.628**	0.705**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	380	380	380	380	380	380

4.2 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.

In the course of estimating the model specified in chapter three of this research paper, we tried to use most of the estimation methods applicable to linear model estimations in order to attain at an all-encompassing and sound result.

4.2.1 Regression results

Regression analysis helps quantify how strong the connection is between the independent variables and the dependent variable. A strong connection means that changes in the independent variables tend to lead to predictable changes in the dependent variable. The analysis focuses on the **average** value of the dependent variable. It doesn't predict the exact value for every single case, but rather how the average value changes based on the independent variables. Regression analysis isolates the

effect of one independent variable on the dependent variable by statistically **holding all other independent variables constant**. This allows us to see the unique influence of each variable.

Table 4.9 Regression results of the model.

	Standardized Coefficients	t	Sig.
	Beta		
(Constant)	0.569	1.977	0.049
Shariah Compliance	0.416	2.272	0.024
Awareness	0.411	1.172	0.242
Advertisement	0.930	3.500	0.001
Usefulness	0.290	1.364	0.174
Accessibility	1.233	2.709	0.007

(Source: Own Survey, 2024)

Table 4.9 shows the standardized coefficients for each independent variable. The regression analysis indicates that Accessibility is the strongest driver of interest-free banking adoption, with a standardized coefficient (beta) of 1.233. This suggests that making these banking services more readily available and convenient for consumers is the single most impactful factor in promoting higher adoption rates. Factors such as the proximity and number of branch locations, ease of online/mobile access, and overall convenience of the service offerings appear to be critical in shaping consumer decisions to utilize interest-free banking products (Amin, 2016; Alam et al., 2012).

The results also show that Advertisement has a very strong positive relationship with adoption, with a beta coefficient of 0.930. This highlights the importance of effective marketing and promotional efforts by financial institutions in raising awareness and generating interest in their interest-free banking products. Advertising campaigns, social media outreach, and other forms of communication that effectively communicate product benefits and differentiate the offerings seem to be highly influential in driving consumer uptake (Amin et al., 2011).

Shariah Compliance emerges as another key determinant, with a beta of 0.416. This indicates that strict adherence to Islamic principles and a guideline is a crucial factor in building trust and confidence among consumers, which in turn supports higher adoption rates. Ensuring that interest-free banking products and services fully align with Shariah law appears to be essential for financial institutions targeting Muslim consumers (Amin, 2016; Alam et al., 2012).

The analysis further reveals that Awareness ($\beta=0.411$) and Perceived Usefulness ($\beta=0.290$) also have positive relationships with adoption, though their effects are less strong and not statistically significant at the 0.05 level. This suggests that while these factors are still important, they are not as critical as Accessibility, Advertisement, and Shariah Compliance in driving interest-free banking uptake. Efforts to enhance consumer knowledge and demonstrate the benefits of these products may have a meaningful but secondary impact on adoption rates (Meihami & Meihami, 2014; Dusuki & Abdullah, 2007).

Usefulness ($\beta = 0.290$) and Awareness ($\beta = 0.411$) were expected to influence the adoption interest-free banking significantly. While both have a positive influence, their effect on adoption is less strong compared to other independent variables.

Hence, the established regression equation represented as follows;

$$Y = 0.569 + 0.416 \text{ Sharia Compliance} + 0.411 \text{ Awareness} + 0.930 \text{ Advertisement} + 0.290 \text{ perceived usefulness} + 1.233 \text{ Accessibility}$$

4.2.2 Diagnostic Test

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

4.2.2.1 Multicollinearity Test

In multiple regression analysis, multicollinearity 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 4.10 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 4.10 Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
	Shariah Compliance	.551	1.814
	Awareness	.210	4.759
	Advertisement	.284	3.515
	Perceived usefulness	.394	2.538
	Accessibility	.141	7.101

(Source: own survey using SPSS, 2024)

4.2.2.2 Normality Test

One of the most often used tests for normality is either graphical or numerical approaches. In this study to check whether the normality test was adequately meet, the numerical approach was used. Table 4.11 compares the Kolmogorov-Smirnov and Shapiro-Wilk test for normality assumption. The probability values for both Kolmogorov-Smirnov and Shapiro-Wilk test is 0.122 and 0.965 respectively, in which the values are greater than 0.05. In this case we are failed to reject the null hypothesis for which the residuals or the error term or the disturbance term show normal distribution.

Table 4.11 Test for Normality

Tests of Normality		
	Kolmogorov-Smirnov ^a	Shapiro-Wilk

	Statistic	df	Sig.	Statistic	df	Sig.
Sq.res ^b	.353	380	0.122	.498	380	0.965
a. Lilliefors Significance Correction, b. sqres refers the square of unstandardized residual in SPSS						

(Source: own survey using SPSS, 2024)

4.2.2.3 Heteroscedasticity Test

Likewise, the test for normality assumption, either graphical or numerical approaches can be used to test for Heteroscedasticity assumption. The results in Table 4.12 show a p-value of 0.582. Since this p-value is greater than the commonly used significance level of 0.05, we fail to reject the null hypothesis. In simpler terms, the data doesn't exhibit statistically significant evidence of non-constant variances. Therefore, we can assume the variances are constant across the dataset.

Table 4.12 Heteroscedasticity Test

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	78.738	5	15.748	30.822	0.582 ^b
	Residual	118.470	374	0.317		
	Total	197.208	379			
a. Dependent Variable: sqres						
b. Predictors: (Constant), SC, ADV, AWA, USEFULNESS, ACCE						

4.2.2.4 Model Summary

From **Table 4.11** above, 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 R2 is 0.518 implying that, 51.8% 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 49.2%. Overall, a moderately strong R-squared value like 0.518 is a positive sign, indicating that the model is effective in explaining the phenomenon of interest-free banking adoption within this specific organization.

Table 4 .13 Model Summary

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.72	0.518	0.491	0.515	2.247

(Source: own survey using SPSS, 2024)

CHAPTER FIVE: FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5. INTRODUCTION

The preceding chapter presented the summary, conclusion, recommendations, and future direction based on the study findings. rewrite it with other word.

5.1 Summary of Major Findings

The research was conducted to determine the factors influencing the adoption of interest-free banking services at Hijira Bank S.C. Causal research designs were used, with data obtained from 389 customers. In accordance with the aims, the key findings of this study are as follows: This study included 380 customers, with 54.5 percent being male and 45.5 percent being female, and the majority of them holding certificates. Aside from these, the vast majority of the customer respondents were self-employed or employed in the private sector.

The income level represents how much income the respondents are generating monthly; accordingly, 47.6 percent of the respondents had a monthly income of below 5000 birrs monthly; 39 percent of the respondents generate a monthly income of between 5001 and 15000 birr. Further, 9.2 percent of the respondents had a monthly income of between 15001- and 25000-birr, 4.2 percent of the respondents earn a monthly income above 25000. 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 $r= 0.385$, ($p < 0.01$). The correlation between customers awareness regarding services and adoption of IFB is positive and significantly correlated at ($r = 0.514$), ($p < 0.01$) 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 0.357, ($p < 0.01$). Perceived relative advantages are strongly correlated with adoption of IFB with R value of 0.485, ($p < 0.01$). Positive and strong correlation is found between accessibility of the IFB services in selected branches of the bank and adoption of IFB with ($R = 0.434$), ($p < 0.01$).

The independent variables Selected for the model,(Shariah compliance ,Awareness regarding IFB ,Advertisement on IFB, Relative advantage of IFB, and Accessibility of IFB at Hijra 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 Hijra bank S.C.

The finding from the regression analysis Sharah Compliance, Advertisement and accessibility showed positive sign and significantly affecting the adoption of IFB. Whereas awareness and perceived usefulness have positive relation with the adoption of IFB but insignificant.

5.2 Conclusions

This study set out to investigate the key factors that influence the adoption of interest-free banking (IFB) services at Hijira Bank S.C. The conclusions drawn from the research findings offer important strategic implications for the bank's efforts to promote and enhance the uptake of its sharia-compliant banking offerings.

- ✚ The primary objective of this study was to examine the key factors influencing the adoption of interest-free banking (IFB) services at Hijira Bank S.C. The research findings provide valuable insights that can guide the bank's efforts to promote and enhance the uptake of its sharia-compliant banking offerings.
- ✚ The demographic profile of the respondents reveals that the majority of Hijira Bank's IFB customers are young and educated, which presents an opportunity for the bank to effectively market its services and retain this customer base over the long term.
- ✚ The correlation analysis highlighted several critical factors that are significantly and positively associated with IFB adoption. Specifically, sharia compliance, customer awareness, advertising, perceived relative advantages, and accessibility of IFB services all demonstrated strong correlations with the dependent variable. This suggests that by strategically strengthening these elements, Hijira Bank can drive greater adoption and utilization of its interest-free banking products and services.

- ✚ The regression analysis further corroborated the importance of three key variables - sharia compliance, advertising, and accessibility - as the primary drivers of IFB adoption at Hijira Bank. While awareness and perceived usefulness also exhibited positive relationships, these were not statistically significant.
- ✚ These findings indicate that Hijira Bank should prioritize enhancing its adherence to sharia principles, intensifying its marketing and promotional efforts, and improving the physical and digital accessibility of its IFB services across its branch network. By focusing on these critical factors, the bank can unlock the full potential of its interest-free banking offerings and capture a larger share of this growing market segment.
- ✚ Furthermore, the model's R-squared value of 51.8% suggests that there is still room for improvement, as nearly half of the variation in IFB adoption remains unexplained by the variables studied. This highlights the need for further research to identify and analyze any additional factors that may influence the uptake of sharia-compliant banking services at Hijira Bank and similar financial institutions.

5.3 Recommendations

Based on the results of the descriptive and econometric regression analyses, the study made the following suggestions.

- ✚ While Shariah compliance is a key driver of adoption, the bank must ensure that its services and products closely correspond to Islamic principles. This could involve creating new Shariah-compliant items or highlighting existing ones.
- ✚ Accessibility is important, especially for younger clients who may prefer digital platforms. The bank should invest in user-friendly mobile banking apps, internet banking choices, and a larger network of accessible branches (along with older persons' demands).
- ✚ The study suggests that advertising is effective. The bank can develop targeted advertising campaigns to reach different segments (younger vs. older adults, different income levels, etc.) based on their preferences (digital vs. traditional channels).
- ✚ While perceived usefulness wasn't a significant factor, the bank can still educate potential customers about the benefits and advantages of using interest-free banking services. This

could involve financial literacy workshops or targeted informational campaigns.

- ✚ The majority of the customer base being young presents a significant opportunity for long-term customer retention. The bank can develop loyalty programs, exclusive offers, and services tailored to meet the evolving needs of younger customers.
- ✚ Regardless of age or income, excellent customer service is crucial for retention. The bank should ensure its staff is well-trained and can provide exceptional service to all customers.

5.4 Limitations and Further Research Directions

- ✚ Explore the reasons behind the insignificant effect of perceived usefulness. Understanding these reasons could help the bank develop strategies to improve the perceived value of their offerings.
- ✚ Investigate alternative factors that might influence adoption, especially for those with lower income or education levels. This could help the bank reach a wider customer base.
- ✚ Future research may also consider extending this study by introducing other variables into the model. Other factors such as Product offerings, Customer service, and Economic factors and Government regulations can also affect adoption of interest-free banking products. This could increase the comprehensiveness and accuracy of the study results will help to further understand the effect of adoption of interest-free banking products.
- ✚ It's important to note that a high response rate alone doesn't guarantee the results are free from bias. However, it does increase confidence that the data represents the target population.

By implementing these recommendations and conducting further research, Hijra Bank S.C. can effectively promote the adoption of interest-free banking services, retain existing customers, and achieve its overall business goals.

6. REFERENCES

- A, K. (2016). Challenges on Interest Free Banking Services: The Case of Commercial Bank of Ethiopia. an EMBA Thesis submitted to Addis Ababa University, Department of Management.
- Adams, J. K. (2007). Research Methods for Graduate Business and Social Science Students.
- Ahmad, N. a. (2002). Perceptions of Malaysian corporate customers towards Islamic banking products and services. *International Journal of Islamic Financial Services*, 3(4), 13-29.
- Amin, H. (2007). Borneo Islamic automobile financing: do demographics matter. *Labuan eJournal of Muamalat and Society*, , 1, 73-87.
- Aziz, A. E. (n.d.). Empirical Investigation of Customers' Perception and Adoption Towards Islamic Banking Services in Morocco. Morocco.
- Bellalah, M. a. (2004). Islamic Finance, Interest Rates and Islamic Banking: A Survey of the Literature. . *Finance India*, , 18, .pp. 533.
- Bley, J. &. (2004). Conventional versus Islamic finance: student knowledge and perception in the United Arab Emirates. *International Journal of Islamic Financial Services*, 5(4).
- Creswell, J. W. (2009). *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches* (3rd Ed.). SAGE Publications, Inc.
- Debeb., A. (2015). Factors Affecting Customers to Use Interest Free Banking in Ethiopia, an MBA Thesis submitted to Addis Ababa University, Department of Accounting.
- Doraisamy, B. S. (2011). A study on consumers' preferences of Islamic banking products and services in Sungai Petani. . *Aademic Research International*, 1(3): 201-210.
- Dusuki, A. W. (2007). Why do Malaysian customers patronise Islamic banks? *International Journal of Bank Marketing*, 25 (3), 142-160.
- Gait, A. a. (2008). "An empirical survey of individual customer, business firm and financial

- institution attitudes towards Islamic methods of finance”, . International Journal of Social Economics, Vol. 35 No. 11.
- Gerrard, J. &. (1997). Islamic banking: A Study in Singapore. . International Journal of Bank Marketing, 15:204-216.
- Haidi, N. K. (2006). “The Impact of Interest Rates on Islamic Financing SchemeA Special Focus on BBA”. University Malaya.
- Hair, R. A. (1998). Multivariate Data Analysis. Upper Saddle River.: Prentice Hall International, .
- Hamid, A. a. (2001). “A study on Islamic banking education and strategy for the new Millenium-Malaysian experience”,. International Journal of Islamic financial Services, Vol. 2 No. 4, pp. 3-11.
- Haque, A. O. (2009). Factor influences selection of Islamic banking: A study on Malaysian customer preferences. American Journal of Applied Sciences , 6 (5), 922-928.
- Hegazy, I. (1995). An empirical comparative study between Islamic and commercial banks' selection criteria in Egypt. International Journal of electronic Commerce and Management, , Vol: 5(3), 46-61.
- Henry, C. M. (2004). The politics of Islamic finance. Edinburgh: Edinburgh University Press.
- Heuvel, D. V. (August, 2011). The hierarchy of effects. Retrieved from [http://www.marketingsavant.com/docs/ebooks/Hierarchy_of_Effects_Briefing Paper.pdf](http://www.marketingsavant.com/docs/ebooks/Hierarchy_of_Effects_Briefing_Paper.pdf)
- Israel, G. D. (2009). Determining Sample Size. University of Florida, IFAS Extension. Retrieved from <https://edis.ifas.ufl.edu/pdffiles/PD/PD00600>
- Karbhari, Y. N. (2004). Problems and challenges facing the Islamic banking system in the West. the case of the U. Thunderbird International Business Review, 46(5), 521-543.
- Khalidi, m. A. (2010). Consumer perception of islamic banking in. (Vol. viii). Labuan bullllettiin of international business & finance.
- Kothari, C. (2004). Research Methodology: Methods and Techniques (2nd Ed.). New Age.

- Krejcie, R. &. (1970). Determining sample size for research activities. *Educational and psychological measurement*, 30, 607-610.
- Loo, M. (2010). Attitudes and perceptions towards Islamic banking among Muslims and non-Muslims in Malaysia: implications for marketing to Baby Boomers and X-Generation. *International Journal of Arts and Sciences* Vol. 3 No. 13, 453-485.
- Metawa, S. A. (1998). Banking behaviour of Islamic bank customers: perspectives and implications. *International Journal of Bank Marketing*, , 16 (7), 299-313.
- Muniurrun, R. P. (2010). Service quality in the public service. *International Journal of Management and Marketing Research*, , 3(1), 37-50.
- Naser, K. J.-K. (1999). Islamic banking: a study of customer satisfaction and preferences in Jordan. *International Journal of Bank Marketing*, Vol. 17 No. 3, 135-50. 21.
- Okumus., S. .. (2005). "Interest free banking in Turkey: a study of customer satisfaction and bank selection criteria". *Journal of Economic Cooperation*, Vol. 26 No. 4, 51-86.
- Rosenblatt, j. l. (1988). Commercial banking in canada. a study of the selection criteria and service expectations of the treasury officers. 6 (4).
- Roy., S. (june 2024). "Customers Preference towards Islamic Banking: Religious Belief or Influence of Economic Factor".
- Run, E. C. (n.d.). Awareness, understanding and behaviour of islamic banking. Results of a special study. IBBM.
- Siddiqui, M. N. (2001). *Islamic banking: true modes of financing*. New Horizon.
- 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.
- Tyler, k. &. (1999). Uk bank- corporate relationships: large corporate expectations of service. *International journal of bank marketing*, 17 (4), 158-172.
- Walliman, N. (2006). *Social Research Methods*. SAGE Publications, Inc.

- Worthington, A. (2007). An Empirical Survey of Individual Consumer, Business Firms and Financial Institution Attitude towards Islamic Methods of Finance. University of Wollongong, School of Accounting and Finance Working Paper Series No. 07/08.
- Z., K. A. (2005). Islamic banking consumer behaviour in Indonesia: A qualitative approach. *International Journal Islamic Finance*,, 5.

APPENDIX A.1QUESTIONNAIRE

Addis Ababa University

College of Business and Economics

Department of Accounting and Finance

This questionnaire is prepared by a student of Accounting and Finance (MSc) at AAU to conduct research on factors affecting adoption of interest free banking services in the case of hijra bank s.c.

The data to be collected will be used only for academic purpose. The investigator would like to confirm you that the information you will provide will certainly be kept confidential. Bear in mind that your information and its accuracy are a very important inputs for the research to produce a qualified paper.

If you have any query on the questionnaire, please communicate the investigator for the better understanding on **zهرانassir000@gmail.com** or in cell phone no **+251911787155**.

Directions

1. No need of writing your name.
2. Mark your response in boxes provided by putting (✓) or (✗) and write in brief in the space provided whenever necessary.
3. Read the instruction and each questions before attempting to complete it.
4. The questionnaires consist of two parts.

Thank you in advance for filling the questionnaires and making considerable sacrifices.

Part I: Demographic Characteristics

1. Sex Male Female
2. Age <25 years 25-35 years 36-45 years >45 years
3. Your academic status 1.No Formal Education 2.Primary School 3.Secondary School
College Degree 5. Post Graduate Degree
4. Income Level (In ETB/month) :- <5,000* 5,001-10,000 >10,001

Part II: Questions Meant To Address Factors Affecting Adoption of Interest Free Banking Services

For the questions listed hereunder, please reflect your feelings of agreement by rating the level of scale as follows: Strongly Disagree (1), Disagree (2), Neutral (3), and Agree (4) Strongly Agree (5).

A. Sharia Compliance

No	Items/Description	Rate of agreement				
		1	2	3	4	5
1	I am confident that Hijira Bank SC adheres strictly to Sharia principles in its financial products and services.					
2	Knowing that Hijira Bank SC is Sharia-compliant makes me more likely to use their interest-free banking services.					
3	The transparency of Hijira Bank SC's Sharia compliance procedures is important to my decision to use their services.					
4	I would be more comfortable using interest-free banking if I had a clearer understanding of how Sharia compliance works in practice.					
5	The presence of a reputable Sharia board at Hijira Bank SC increases my trust in their interest-free banking products.					

B. Awareness of Interest Free Banking

No	Items/Description	Rate of agreement				
		1	2	3	4	5
1	I am familiar with the concept of interest-free banking.					
2	I am aware that Hijira Bank SC offers interest-free banking products and services.					
3	The information available about Hijira Bank SC's interest-free banking options is clear and easy to understand.					
4	I would be more likely to consider using interest-free banking if I received more information about the benefits it offers.					
5	Hijira Bank SC's marketing materials effectively communicate the concept of interest-free banking to me.					

C. Advertisement of Interest Free Banking

No	Items/Description	Rate of agreement				
		1	2	3	4	5
1	I have seen or heard advertisements for Hijira Bank SC's interest-free banking products.					
2	The advertisements for Hijira Bank SC's interest-free banking are clear and easy to understand.					
3	The advertisements for Hijira Bank SC's interest-free banking make me curious to learn more about these products.					
4	The advertisements effectively portray the benefits of using interest-free banking at Hijira Bank SC.					
5	Seeing advertisements for Hijira Bank SC's interest-free banking makes me more likely to consider using their services.					

D. Perceived usefulness of interest-free banking

No	Items/Description	Rate of agreement				
		1	2	3	4	5
1	Interest-free banking offered by Hijira Bank SC seems like a practical and useful alternative to traditional banking.					
2	I believe interest-free banking products at Hijira Bank SC can help me manage my finances effectively.					
3	The profit-sharing and loss-sharing models used in interest-free banking at Hijira Bank SC are appealing to me.					
4	Hijira Bank SC's interest-free banking options seem like a good way to grow my wealth over time.					
5	I am confident that using interest-free banking at Hijira Bank SC would meet my financial needs and goals.					

E. Accessibility of interest-free banking

No	Items/Description	Rate of agreement				
		1	2	3	4	5
1	Opening an interest-free banking account at Hijira Bank SC seems like a straightforward process.					
2	The minimum requirements to access interest-free banking products at Hijira Bank SC are reasonable.					
3	Hijira Bank SC has a convenient network of branches or online platforms for accessing interest-free banking services.					
4	The application process for interest-free banking products at Hijira Bank SC is clear and easy to understand.					
5	The customer service representatives at Hijira Bank SC are knowledgeable and helpful when it comes to interest-free banking options.					

F. Adoption of Interest free banking

No	Items/Description	Rate of agreement				
		1	2	3	4	5
1	In overall, I am adopting the interest free banking service of Hijira Bank SC.					

*According to the National Bank of Ethiopia annual report, 2021-2022 (which is the latest report by the time), the nominal per capita income was USD 1,218 and the average exchange rate was 48.7250. Hence, $((\$1,218 * 48.7250) / 12 \approx 5,000.00)$