



ADDIS ABABA UNIVERSITY
COLLEGE OF BUSSINESS AND ECONOMICS
MASTER OF BUSINESS ADMINISTRATION

**Banking Behaviors Of Interest Free Banking Customers: The Case Of
Selected Commercial Banks In Addis Ababa.**

BY

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COLLEGE OF BUSSINESS AND ECONOMICS
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THE CASE OF SELECTED COMMERCIAL BANKS IN ADDIS ABABA**

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DECLARATION

I, the undersigned declare that this research project paper is my original work. Furthermore, all sources of materials used for the paper had been duly acknowledged.

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STATEMENT OF CERTIFICATION

This is to certify that Habib Elias carried out his project on the topic entitled “banking behaviors of customers in interest free banking. In case of selected commercial banks in Addis Ababa under my supervision. This work original in nature and is suitable for submission for the Master in the Department of Management.

ADVISOR: JEMAL MOHAMMED (PhD)

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ACRONYMS

AB: Awash Bank

CBE: Commercial Bank of Ethiopia

CBO: Cooperative Bank of Oromia

IFB-Interest Free Banking

NBE: National Bank of Ethiopia

OIB: Oromia International Bank

SPSS: Statistical Package for Social Science

ABSTRACT

This study investigates the banking behavior of Interest Free Banking customers of commercial banks in Addis Ababa. It investigates three aspects of banking behavior: (I) the social factors influencing customers banking behavior on bank selection, (II) the awareness about the products and services provided (iii) the level of customer's satisfaction on interest free banking services provided. Ten hypotheses were developed to address the research question of the study. Purposive sampling was employed for this study and Samples of 399 respondents were purposely selected from the customers in eight branches of four banks, namely Commercial Banks of Ethiopia, Cooperative Bank of Oromia, Oromia International Bank and Awash Bank. Logistic regression model analysis was used to examine the relationship between the independent variables (religion, previous relationship with the bank, awareness on IFB products and service provided, influence of friends & family on IFB selection, service quality, branch location, responsive attitude of staff, reputation of the bank and physical facility of the banks) and dependent variable(banking behavior). The findings of the study have shown that, religion, previous relationship with the bank, awareness, and convenient branch location, influence of family and friends, bank reputation, responsive attitude of staff, service quality and physical facility were found to have significant relationship with customers banking behavior. However; except religion all other personal factors (age, sex, income. level of education, occupation, and marital status) found to have no significant relationship with banking behavior of interest free banking customers. Furthermore, the analyzed data using descriptive statistics of mean, frequency and percentage using SPSS shows that customers were satisfied with a number of IFB products and service provided. However, the finding indicates that customers were not satisfied with service quality and responsive attitude of staff. Beside awareness, the study reveals that customers have good awareness on IFB products like Wadia-Amana, Quard and Mudaraba accounts.

Key Word: Interest Free Banking

Chapter one

Introduction

1.1 Background of the study

Today banks are playing an important role in maintaining a healthy financial system and economy for the country. It is one of the essential mediums for mobilizing development funds and sustainable Economic activities. The most recent and significant development in the banking industry is the emergence of Interest Free Banking in both developing and developed countries of the World (Ibahim, Malami, and Abdullahi, 2011).

Interest Free Banking performs similar function as of the conventional banks, but it carry out such function in accordance with Islamic principles. Thus, it prohibits receiving or paying of Interest and financing harmful industry to mankind (Ballalah, Masood, 2013).

According to NBE's Directive SBB/51/2011, Interest Free Banking refers to banking business in which mobilizing or advancing funds is undertaken in a manner consistent with Islamic finance principle and mode of operation that avoids receiving or paying interest.

The history of Interest Free Banking service in Ethiopia dates back to 2010, during initiation of the unrealized bank Zemzem. In 2011 a proclamation by the NBE, Ethiopia Financial regulation introduces IFB in Ethiopia and then in 2011, issued formal directive on Islamic compliant Financing.

Oromia International Bank (OIB) is the first private financial institution to implement IFB in Ethiopia in Sep, 2013, three years after the issuance of Directive. This was later followed by

interest free banking (IFB) by Commercial Bank of Ethiopia, Cooperative Bank of Oromia and Awash Bank. The services are offered on separate window basis along with Conventional Banking Service. The services of the Bank under IFB are basically four: Amana-Safe Keeping safe on trust, Qerd-current account that allows transaction with cheques; Mudraba an investment account and Mudaraba Time deposit.

Customers banking behavior refers to the action and decisions process of peoples who purchase product and service. It's the mental and emotional process and the observable behavior during usage of product and service (James Engl, Roger D Blackwell and Paul W "Customers Behavior".(1990). The study of customers' behavior is concerning how individual make decision to spend their available resource. The various factors that influence the customers' behavior are as follows: Personal factors such as age, gender, education and income level, situational factors such as physical surrounding and time factors, social factors such as social status, reference group and family, cultural factors such as religious.

For business in every industry it's important to understand customer's behavior. Within the realm of banking, customer's behavior is fundamental to determine the flow of service and engagement from the first interaction through the entire customer's journey. Therefore, understanding customers banking behavior is just important and recently it becomes engine for banks success. Thus why recently most banks (here in our country Ethiopia too) focus on customers banking behavior and try to use a variety of advanced analytical tools to improve customer relationship. The aim of this research is to asses various determinants that influence customers banking behavior to select the IFB. Moreover, it examines customer's level of satisfaction and knowledge on IFB product and service.

1.2. Statement of the problems

Recently, many commercial banks are launching Interest-Free Banking in Ethiopia. This is really encouraging for the banking industry as a whole, since significant Muslim population did not have access to formal banking because of paying or receiving interest was prohibited. In our country IFB become more important and the demand and deposit was surprisingly high. Besides, Interest Free banking deposit market share is very low compared to conventional banks. There are many factors affecting customers banking behavior in selections of Interest Free banking products and services. Among some of the previous researches, Christos and Co (2012) had analyzed the factors affecting customers decision for bank selection in Greek by using demographic factors, service quality and banks policy affect the decision making and satisfaction from bank service. According to Chritos and Co (2012) their study has one limitation which focuses only on the corporate depositor without considering individual depositors.

Studies by Ahmed and Haron (2012), pointed out that religion as the main reason for choosing IFB products and service. However, studies in Malaysia found non-religious factors like efficiency, cost-benefit in conjunction with a religion as the influential factors behind choosing an IFB product and service (Duski and Abdullah, 2007).

In Ethiopia few studies were conducted on IFB. Among these studies, Debebe (2015) has conducted a study on Factors Affecting customers to use Interest Free Banking by using theory of decomposed Theory Planned Behavior (DTPB). Further, Mohammed (2012) has identified the potential challenge as: lack of promotion, regulatory and supervisory challenge, institutional

challenge, lack of support and link institution, gap in research and development in Islamic studies, lack of qualified human resource as well as wrongful association with specific religion.

Similarly, Karima (2016) study has identified the challenge to deliver IFB product as lack of commitment of the bank, lack of sharia advisor, lack of supportive supervisory directive, lack of capacity to deliver full range of IFB product, lack of awareness of customers, inadequate marketing and promotion and the IFB in window model. This research focused on the perception and understandings psychographic and socio characteristic of IFB respondents. The study lacks specific structural beliefs in pointing specific factors affecting banking behavior of IFB customers.

In previous research studies, some researchers are focus on factors affecting the IFB customer's bank selection criteria and other focus on the limited determinant to study customers behavior, they face a few limitation in their study. however, this research will try to examine further determinant affecting banking behavior of IFB customers.

Accordingly, the purpose of this study is to investigate the customer banking behavior towards Islamic banking by using their demographic profile, social factor and institutional factors, also check out which determinants variables (religious, service quality, responsive attitude of staff, influence of friends and family, bank image) are mostly effect on customer's selection towards IFB. Moreover, IFB has short history In Ethiopia, there is deficiency in literature on factors affecting customers banking behavior were the motive area of this research gab.

1.3. The objective of the study

1.3.1 General Objective of the study: The general objective of the study is to assess the determinant factors that influence customer banking behavior on IFB banks.

1.3.2 Specific Objective of the study

1. To investigate effect of social factors on customer bank selection.
2. To investigate the effect of institutional factors on customer banking behavior.
3. To examine customer awareness on IFB products and service provided.
4. To analyze the customer's satisfaction on various IFB product and service.

1.4. Research Question

To get the compressive understanding of the phenomenon under investigation, the following research question need to be addressed.

- Which do institutional factors (service quality, responsive attitude of staff, physical facility) affect customers banking behavior?
- Which do social factors (sharia principle, religion, influence of family, bank reputation, and convenient branch location) affect behavior on bank selection?
- What is level of customer's awareness on IFB product and service?
- What are opinion of customers toward IFB banking product and service?

1.5. Significance of the study

Today in this competitive environment particularly in banks understanding and well-know the customers banking behavior is a crucial one for the success of the bank. Thus, the study was contribute to the bank to understanding customers banking behavior by examining factors affect customer banking selection and measure customer's satisfaction level of IFB product and service. In addition the study explores customer's awareness and usage of IFB product and Service. Therefore, the study provides bankers are well understand about customers behavior which help the management to draw lesson from the result of the study to framework additional strategy and tactic to overcome the problem customers switching to other bank. Also, the study enhances service quality of bank in order to win the customers' needs. Moreover, the study contribute to the existing pool of knowledge on IFB practice as well as a bases for further research in the field of IFB.

1.6. The scope of the study

This study could be comprehensive and all-inclusive in getting information and giving deep view of the banking behavior of customers of interest free banking in Ethiopia if it addresses all banks in the country. However, in order to make the study more manageable the researchers narrow its scope to four selected banks in Addis Ababa City branch. Moreover, there are many variables to measure behavior, this research focused on three main factors affect banking behavioral (personal factors, institutional factors and social factors).

1.7. Limitation of the study

The findings of this study are based entirely up on research conducted in the selected banks in Addis Ababa city branch and hence may be limited applicability to other area district and outlying district. Despite this, the study not assesses psychological factors that influence banking behavior of customers in IFB.

1.9. Organization of the study

The research paper is organized as follows: chapter one concern with the problem and its approach which include background of the study, statement of the problems, research objective, scope of the study, significant of the study and organization of the paper. The next chapter provides detail review of relevant literature to connect to the research question. The research methodology and procedure used to collect data for the study was present under chapter three. Chapter four presents the summarized results/findings of this study and interpret and/or discuss the findings to address the research question and objective. Lastly chapter five presents conclusion drawn from the finding and the recommendation made to address the problems. All the reference materials used in the study was listed under reference.

CHAPTER TWO

Review of Related Literature

This chapter deals with operational definition of terminology, literature that reviewed in relation to philosophy of interest free banking and IFB practice, level of awareness of customers toward IFB, important measurement of customers banking behavior, bank selection criteria in relations IFB.

2.1 Philosophy of Interest Free Banking

The definitions of Islamic Banking or IFB revolve around one thing- Islamic Law (Shariah). This can be understood in the following definition from different authors. For instance, Sanusi (2011) views Islamic Banking as an alternative form of financial intermediation that is based on profit motive. That is, IFB is market driven but with a moral dimensions based on the Islamic value system. Akram et al, (2011) see Islamic banking or IFB as that banking system which is run in accordance with Islamic laws and the sharia board; which guides the institution. Furthermore, Lawal (2010) defined Islamic banking that is consistent with the principle of Islamic Law and its application through the development of Islamic economy.

2.2. Difference between IFB and Conventional Banking

Many Interest Free Baking literature assert that although interest free banking perform mostly similar function to that of conventional banks, their approach is distinctly different. Islamic

financing is based on the theme of community banking, ethical banking and social responsible investing,(Shanmugam and Zahari 2009).

2.2. The Principle of IFB Vs Conventional Banking (Table 2.2)

Basic Principle	Interest Free Banking	Conventional Banking system
Business Framework	IFB system is base on Sharia Law	While the conventional financial system is base only on man -made and no religious law or guidance
Interest(Riba)	Riba in Islam is forbidden. instead of interest, the bank earns profit(markup) and fees on financing facilities it extend to customers	Interest base
Prohibited Activities	Sharia prohibits using or dealing in certain commodities that are unlawful in Islam or harmful to mankind example sale for alcohol, pig poultry	Not the case
Uncertainties/Gharar/Hazard (i.e. transactions too much risk which lead to gambling)	Any contract based on a future uncertain event, with Islamic banking, is not generally allowable. e.g. hedging, dealing in derivatives, speculation	Conventional financing system allows trading in derivatives of various forms is allowable
Contractual Relationship	Contractual relationship depends upon the nature of transaction. It could be seller-buyer relationship (Murabah), Lessor-lessee (Ijarah),partnership(Musharaka)	Creditor-debtor relationship has only one form in the conventional financial institution
Participation and risk sharing	Utilizing the fund at risk on a profit-and -loss sharing basis	As creditor-investor

Source: Shanmugam and Zahari (2009)

2.3. Major Products of IFB

According to Abulrazak (2009), Chapra (1986), Hassen and Lewis (2007), Islamic Banking Handbook (First Edition April 2010), Shanmugam and Zahari (2009) , the prevailing local practices governed by the working policies and procedures adopted by Ethiopian commercial banks IFB products are clustered into three broad categories: Islamic Banking Deposit Products(Sources of Funds), Islamic Banking Financing Products (Use of Funds) and Other Services (Trade Service and Other), all with specific services. These IFB products and services was briefly presented that will add to Ethiopian literature.

1. IFB Fund Mobilization (Source of Fund)

Wadiah Deposit (Safekeeping)

It is a peculiar non-earning type of IFB deposit that operates under the contract of Wadiah-amanah (guaranteed custody). The bank accept deposit from customers looking for safe custody and convenience and request permission to make use of the customers funds for investment purpose promoting transparence. The customers may withdraw their balance at any time. Profit generated from the use of the customers fund belongs to the bank. However, the bank may at its absolute discretion reward the customers by declaring profit to them.

Demand Deposit (Amana Current Accounts)

Amana Current Account is non-earning deposits that operate based on the principle of al-Wadiah, whereby the depositors are guaranteed repayment or withdraw of their funds on

demand. At the same time, the depositor does not receive return for depositing funds in a current account, because the guaranteed fund will not be used for profit and loss venture.

Labbaik-Wadiah saving Account

It is a special saving plan intended to extend alternative for those customers who want to make Hajji and Umra. The fund is not being used in business hence not permitted by Sharia law.

Mudaraba-Investment Deposit Account (Restricted Investment Account)

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

Unrestricted Investment Deposit (Unrestricted Mudaraba)

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

2. Fund Utilization scheme (IFB Financing Products)

Islamic financing products are highly secured from risk management point of view as the financing shall directly be made to the supplier of the goods or service to manage possible fund diversion, unlike the conventional banks. Islamic mode of financing can be broadly categorized into three: trade-based financing, rental-base financing and partnership-financing.

I. Trade-Base financing: it is a means of financing in which Islamic banks provide financing through sale and purchase of tradable goods and service. An Islamic bank buys a good or service (directly or through its agent) from the market and sell it to customers on differed payment basis (installment). The agent may be an employee on Islamic bank, a third party or the customers himself as well. There are four kind of very common trade-base financing services.

Murabaha (Cost plus) Financing

Murabah means cost plus mark-up sale and it the most popular, convenient and flexible IFB financing products. Based on the contract, the bank may finance customer who wishes to acquire an asset by purchasing the said asset from the developer/supplier and subsequently sell to the customer Shanmugam and Zahari(200 p.19).

Istisna Financing

It is a mode of financing for manufactured/built asset. A Bank manufacture/built or get manufactured/built the asset on behalf of the customer at an agreed value, finance the cost and finally the customer settle the financing at an agreed installment and period.

Salam Financing

A kind of financing in which a predetermined amount of financing fund is disbursed in advance for a production of specific commodity (most of the time agriculture products) to be delivered in future.

ii. Rental-Base Financing

Ijarah Financing: - Ijara means lease or rent. Generally, the contract of Ijarah financing means selling of the benefit or use or service of an asset, for a fixed price or wage. Leasing is a contract between a lessor (bank) and a lessee for the lease of an equipment or machine which is chosen by the lessee from a supplier or manufacturer Shanmugam and Zahari (2009). Islamic bank lease or lease and sell machines or equipment to customers on deferred payment basis.

iii. Partnership-Based Financing

- **Musharakah (Partnership) :-** This mode of financing is based on pre agreed arrangement between two or more parties, each contribute capital and profit or loss is shared between the partners.
- **Mudarabah (Joint-Venture) :-** It is a joint-venture between owner of capital and an entrepreneur who provides the expertise knowledge. The ratio of profit distribution must be agreed at the time of execution of the contract.

3. Other Service (Trade Service and others)

These products include various international trade services and over the counter service with little or no distinguishing feature from the Conventional Banking:

- A. Different Guarantees
- B. All international documentary service

- C. Trading in currency
- D. Debit Card, credit card
- E. Wakala
- F. Hawala(LMTS)

2.4. Customers Satisfaction

Customer satisfaction is the feeling or attitude of a customer toward a product/service after it has been used (Metawa & Almosawi, 1998; Wells & Prensky, 1996). In the context of service, according to Naser, Jemal and Al-Khatib (1999) customer satisfaction is often related to factors such as service quality and service feature (for example, convenience, competitiveness, and location of service provider). Researchers have placed emphasis on customers satisfaction in banks and asserted that banks must focus on understanding the needs, attitude, satisfaction and behavioral pattern of the market to compete successfully in today's competitive marketplace (Cohen et al., 2006; Kaynak et al., 1992). A number of other researches also asserted increasing emphasis on increasing customer's satisfaction and customers' retention through improved quality of their service (File & Prince, 1992; Goode & Moutinho, 1996; Levesque & Mcougall, 1996; Naser et al., 1999).

Holliday (1996) stated that banking is one of the many service industries where customer satisfaction has been an increasing focus of research. The reason is that competition in the banking sectors is increasingly growing. Wilson (1995) particularly identified the importance of customer's satisfaction in Islamic banks and stated that today's Islamic Banking is no longer a business entity serving religious obligation. The customers of Islamic banking rather include a wide array of peplum cutting across various religious.

Now, what are the things to be considered while measuring customer's satisfaction? Leeds (1992) showed in a study that about 70% of the banking customer mentioned teller courtesy as a prime consideration in choosing a bank. The study also found increased use of service quality and professional behavior (such as formal greeting) improved customers satisfaction and reduce customers attrition.

Stafford (1994) found in context of USA that customers want courtesy, friendliness and convenience. The consumer also views "fair price, concerned management and institutional stability as integral components of the service "(Kennington, Hill, & Rakowaska, 1996).

A study conducted in semi-urban Pennsylvania, indicted that commercial bank manager can utilize the evaluative criteria used by bank customers in selecting a commercial bank to patronize. Commercial banks effect to attract or retain existing customers should focus on the following issues (Kaynak & Harcar, 2004): behavior of bank employees, bank service quality, extra service offered by the bank; confidence in the bank, positive bank image, and convenience.

Following a similar study conducted by Metwa and Almosawi(1998), the current study measure customers satisfaction with various product/service of Islamic banks and with four basic elements of the service delivery system of Islamic banks : behavior of staff, friendly environment of the bank, location and evening banking hour. These criteria (i.e. satisfaction with products/service and satisfaction with basic service delivery elements as well as good communication and Islamic wearing style of staff) tend to cover a broad array of factors to be considered for customers' satisfaction in a service industry like Islamic banking.

2.5. Banking Products/Services: Awareness and Usage

In any service industries, it is important to investigate customer's awareness and usage in investigating customers' behavior. The assessment of customers' awareness and usage of products/service has become more important as today Islamic banks must not rely solely on religious factors as a strategy to secure customers allegiances but they should also emphasize providing quality and efficiency product and service (Dusuki & Abdullah, 2007).

In a service business like banking perception of quality emerge from both awareness and usage of the products/service. The reason is that unlike the quality of tangible product, quality of banking products/service depends on customers experience with product/service. According to Metawa and Almosawi (1998) in context of Bahrain stated that awareness and usage is a base for shaping customers behavior.

2.6. Customer Profile: An Importance Measure of Customer Behaviors

Researchers have identified demography as very important tools for market segmenting to identify target customer and their needs. Bowel and Hedges (1993) noted that the importance of various quality improvements differs among customers segment (Stafford, 1996). It is particularly important to focus first on those customers who most valuable to the bank. One possible method of determining those valuable customers is by utilizing customers' demographics. Hansman and Schutjen(1993) also support the above researcher by proposing a "

rational assumption" that age is a strong predictor of changes in attitude and behavior(Staford,1996).

In a study in Hong Kong, the following demographic variables were considered to be important ones in customers' behavior in adoption of banking: religious, gender, age, income level, education level and occupation (Wan, Luk & Chow, 2005). In a recent study, Cohen et al (2006) asserted that customers religious, age group and level of education contribute to explain respondent's propensity to stay with their current bank.

The current studies consider age, religious, income, and education as customer's demographic factors that form customer profile. "Sex" was excluding on this ground that Islamic principle on banking do not have any different in treatment between male and female customers. So far, religious principle being a very strong reason for customers adopting Islamic banking.

2.7. IFB banks Selection Criteria.

Bank selection criteria refer to the bank service or image where the customers are aware of their importance in their selection of a bank for themselves (Janian, Kamaruddin and Hoe, 2014). This focus and access on how customers perceive the banks and their competitors in comparison with various variable and attributes.

Banks are becoming highly competitive day to day due to product differentiation, easiness service availability, culture/religion base product offering and technology used. Customers are selecting banks service considering various feature of the service proportion. Thus, to attract customers banks are facing challenges more than ever. But to attract customers it is crucial to know what selection criteria customers are adopting in selecting IFB service.

The issue on how customers select their banks has been investigated by many researchers. In a study of Islamic banking in Turkey by Naser et al.,(1996) it was found that most of the Muslim customers chose the Islamic bank from religious perspective rather than feature of the bank such as location, reputation, recommendation by friends. Understanding the customers bank selection criteria help the banks in identifying the appropriate marketing strategies to attract more customers as well as retain the satisfied customers (Aregbeyen, 2011).

Hegazy, (1995) says that customers select IFB due to Islamic rules and laws but they make final decision after the comparison of service quality, reputation and behavior of bank staff.

From the study of literature about customers IFB selection criteria and also the given context of IFB in the current study, the researcher will be concentrated on additional various determinant factors that motivate customers in choosing IFB product and service. In his case the researcher focused mainly on the religious belief of customers, bank image, recommendation of friend, responsiveness of staff and convenient bank location. Moreover, there is no research undertaken in Ethiopia regarding IFB customers banking behavior so this study emphasize on examining banking behavior to IFB products and service.

2. 8. Hypothesis Development

The following 10 hypothesis was proposed based on the review of the respective literatures on “customers banking behavior on IFB”. The independent variable were categorized to personal factors, social factors as well as institutional factors and hypothesized to examine its effects on dependant variables. This alternate variable takes a value of “1”as if IFB customers’ banking behavior has influences by independent variables and null or “0” otherwise.

- H1.** Religious belief affects banking behavior to select IFB.
- H2.** Customers banking behavior is affected by previous relationship with the bank.
- H3.** Length of relationship has influence banking behavior of IFB customers.
- H4.** Awareness of Product has a positive relationship with use of IFB product and service.
- H5.** Recommendation of family and friends has influence banking behavior to select IFB.
- H6.** Convenient branch location has affect banking behavior on the selection of IFB.
- H7.** Bank reputation has positive influence banking behavior of customers to choose IFB.
- H8.** There is positive relationship between service quality and customer banking behavior.
- H9.** Responsive attitude of the bank staff has a positive effect on customers banking behavior.
- H10.** Physical facilities of the banks influence the customers banking behavior in IFB customers.

2.8.1 H1: Religion and IFB bank selection.

Religion: - it is categorized in to Muslim and Christian. Sharia principle takes a value of “1” as if it affects customers’ banking behavior on the IFB selection or “0” otherwise. In Muslim countries, several studies report that religious principles are a key factor in influencing bank selection, (Rehman and Masood 2012). Religious belief can influence people’s ethical beliefs and can reflect human daily conduct and commitment (Conroy and Emerson, 2004). Furthermore, religious belief indirectly provides significant determinant of consumer ethical beliefs and practices (Vitell and Paolillo, 2003). Further previous empirical studies found a positive influence of religious belief on banking selection criteria. Metawa and Almosawi (1998) found the religion as the main factor affect customer perception in the selection of Islamic

banking system. It consistence with previous studies on IFB banking this study hypothesizes that:

H1: Religious belief affects banking behavior to select IFB.

2.8.2 Existing bank relationship and baking behavior

Existing bank relationship is valuable strategies that promote competitiveness and provide sustainable success. It is a business imperative for the management of the bank to ensure that they establish, develop and improve relationship with their most important asset, their customers. Bank must place customer-centric at the core of their relationship and need to understand the behavior of their customers and buying habits. So the following hypothesis developed:

H2: Customers banking behavior is affected by previous relationship with the bank.

2.8.3 Impact of bank relationship on banking behavior

Creating long relationship is a strategy used by banks to strengthen loyalty of customers and provide a single point of service for a range of products and service. Banks that practice relationship banking take a consultative approach with customers, getting to know their particular situation and needs and adapting to changes in their financial lives. Thus, hypotheses develop:

H3: Length of relationship has influence banking behavior of IFB customers.

2.8.4 H4: Awareness and usage of IFB products and service.

The study of Wahyuni (2012) shows that with knowledge and awerness, the intention to use Islamic banking products is also high. This result is in line with research of Kaplan et al. (2007), the awareness and knowledge about the product category is positively related with the intense

adoption/use of the product concerned. Engel et al. (1990), as stated in the research of Tang et al. (2011) acknowledged that the relationship between product awareness and purchase (intention to use) IFB products and service. In this study the researcher was examined the awareness regarding Product and services, so the following hypotheses are proposed:

H4: Awareness of Product has a positive relationship with use of IFB product and service

2.8.5 H5: Recommendation from family and friends.

Family is the most influential group for the consumer. From parents a person acquires an orientation toward religion, politics, and economies, and a sense of personal ambition, self-worth, and love. There is an aspect of person socialization that is relevant to the study of consumer behavior, termed, consumer socialization, which is defined as the process by which children acquire the skills, knowledge, attitudes and experiences necessary to function as consumers. Many studies shows that customers decision making processes of Islamic banks users were affected by advice from mother, father as well as their innate religious belief and motivation. Taib et al. (2008) found subjective norm to be associated with the level of acceptance of diminishing partnership and in fact, the subjective norm was found to be a more influential predictor of intention to use Islamic financing. In view of the above studies, the following hypothesis is proposed:

H5. Recommendation of family and friends has influence banking behavior to select IFB.

2.8.6 H6. Convenient branch location and IFB selection

Convenience branch location means a product, process or services with easy accessibility, save resources and reduced frustration. A numbers of investigations have been carried out to

determine the relationship between convenience branch location and bank selection. Kaufman (1967) studies of the determinants factors applied in bank decisions by consumers and business firms also noted that the most influential factors are convenience locations, bank- customer relationships and the quality of services offered by the bank. Mylonakis et al (1998) conducted a study on marketing-driven factors influencing savers in the Hellenic bank market. The study concluded that the most important bank selection criteria are convenience, bank reputations, quality of a product and others factors. Their respondents showed that bank selection criteria like location convenience seem to be influencing the bank selection the most. Convenience is considered as a major factor that affects the consumer selection behavior. Convenience is indirectly affecting the bank selection, and the relationship between bank selection and convenience is assumed positive in this study. In view of the stated arguments the following hypothesis is developed:

H6. Convenient branch location has affect banking behavior on the selection of IFB.

2.8.7 Bank reputation/ image and IFB selection.

Haque, Osman, and Ismail (2009) state that bank's name and reputation are strongly affect customer selecting a bank. They investigate that reputation and image factor are demonstrated as one of the important criteria in the banking selection decision. Almosawi (2001) investigate that bank's reputation" was found to play a significant role of customers buying behavior that lead to a criterion of bank selection. .Majority of consumers is status conscious now days they only develop their relationship with those Islamic banks which has a good image and repute in the market.

H7: Bank reputation has positive influence banking behavior of customers to choose IFB.

2.8.8 Service quality and banking behavior of IFB.

Based on Holstius and Kaynak (1995), nowadays the banks to identify the factors that determine the consumer decisions on choosing their providers of financial services by the similarity of services which offered by bank has become so important. Safakli (2007) found out that that the main factors determining consumers' banking behavior and bank selection in the case of Northern Cyprus are: "Service Quality and Efficiency". Based on this study, service quality was found to be a quite important reason for customer banking behavior.

H8: There is positive relationship between service quality and customer banking behavior.

2.8.9 Responsive attitude of bank staff and banking behavior.

Kaynak and Harcar (2004) found that in a bank the managing service quality is very important because most are depends on how well the bank's staff respond to the needs and expectations of the customers. In the most of the cases, bank customers are evaluate the bank on the bank's staff dimension when they set a critical emphasis on the positive of staff's attitude, staff's knowledgeable, friendliness of the bank personnel, staff's professionalism and timely staff responses to customers. The attitude of bank staff towards their customers is greatly important. Staff must understand the needed of their customers and use a simple language to help customers solve their problems. Thus, bank customers can feel friendlier with the bank's staff when in their interactions. Furthermore, a staff have change better attitude, the public will regard the bank as having change its attitude towards its customers and the public. Caring and responsible staff are influence the consumer in making decision of selecting Islamic banks. The staff should be able to

communicate the public in properly and effective way about the operation of Islamic banking which would help in developing banking customer relationship in future. In view of the stated arguments the following hypothesis is developed:

H9. Responsive attitude of the bank staff has a positive effect on customers banking behavior.

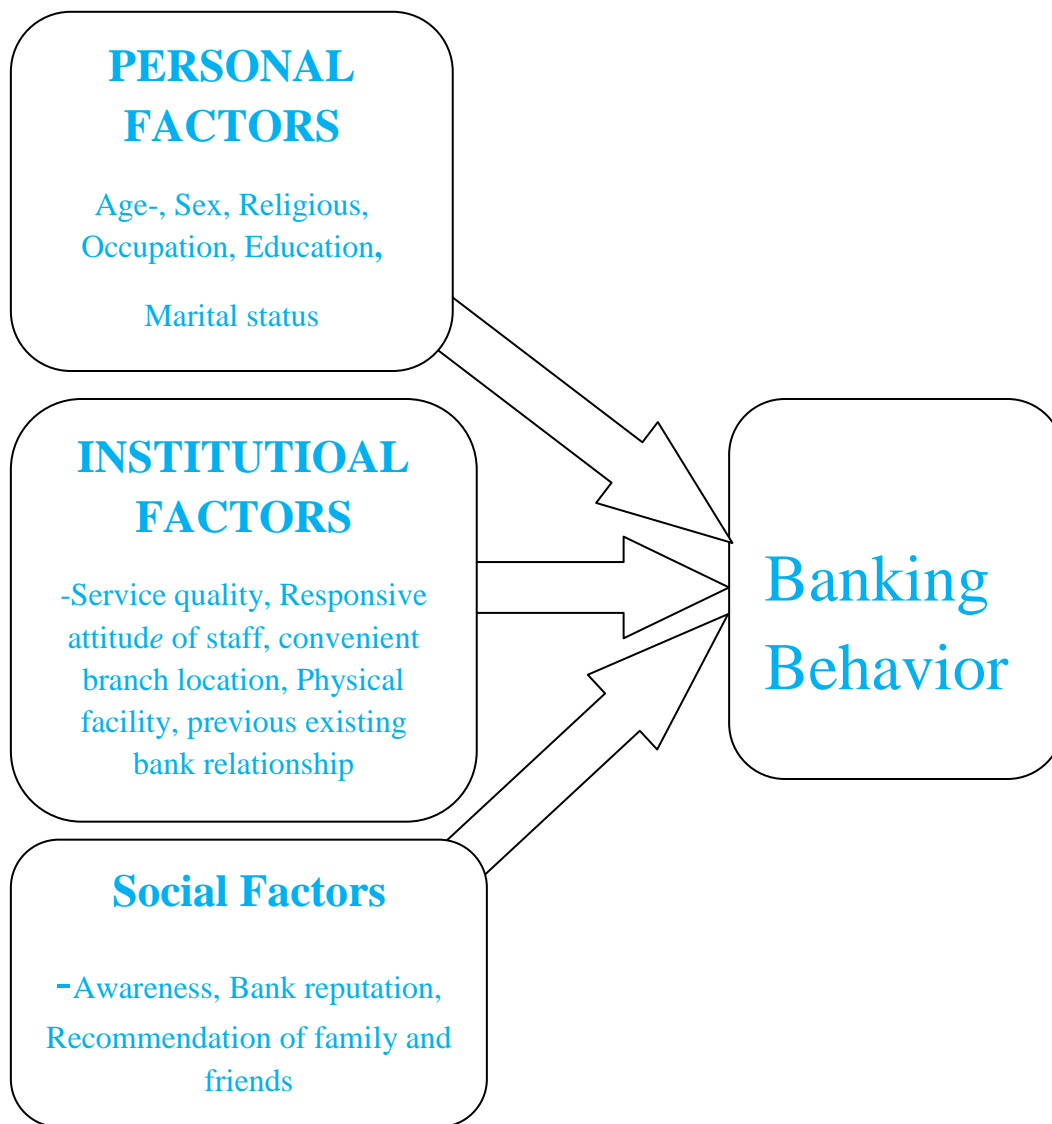
2.8.10 Physical facility and banking behavior

Physical environment is one of the major influences of employees as well as consumer behavior in the bank industry. Bitner (2012) stated that the dimension of the physical environment includes all of the objective physical factors that can be controlled by the firms to enhance employees and customer's action. Bank physical facilities include, the equipment used in order to perform a service, personal and visible communication materials. Customers expect to feel comfortable the bank service delivery and pay attention to the physical layout of equipment and other furnishing (Mohammed, 2003). Thus, banks' physical facility influence customer banking behavior and satisfaction on service. Based the stated above on service delivery elements the following hypothesis developed:

H.10. Physical facilities of the banks influence the customers banking behavior in IFB customers.

2.9. Conceptual Frame Work of the study

Based on the reviewed literatures like, Theory of Planned Behavior (Source: Adopted from Pavlou,P.A. 2002) and the findings of previous researchers, the following conceptual framework was developed for Banking Behaviors Of Interest Free Banking Customers.



Customers Banking Behavior=f (P, I, S)

Source: Self extracted

CHAPTER THREE

Chapter Overview

Research Methodolog

This chapter deals with research design, sampling design and methodology which includes source and type of data, data collection method, research instrument used, method of data analysis and ethical consideration employed in the study.

3. Research Approach

In general research approach for data analysis can be – deductive and inductive. Deductive approach tests the validity of assumptions or hypotheses in hand, whereas inductive approach contributes to the emergence of new theories and generalizations (Dudovskiy, 2016; Walliman and Baiche, 2001). On the other hand, depending on the philosophical stance, strategies of inquiry and specific methods, a research approach can be categorized as quantitative research approach, qualitative research approach and mixed research approach. Quantitative research is grounded in the post-positivism knowledge claim that primarily reflects the scientific method of the natural sciences. This paradigm adopts a deductive approach to the research process. The researcher gathers data from the real world setting and then analyses the data statistically to support or reject the hypotheses Blanche and Durrhein, (1999). In line with this, the overall objective of quantitative research is to test or verify a theory, rather than to develop one. Quantitative techniques as an attempt to test a hypothesis by incorporating it into the research design and responding to it by measuring its strength and weaknesses that give numerical

measurements to the data collected. The well planned and implemented quantitative approach has the merit of being able to make generalizations, for a broader population, based on findings from the sample.

The choice among research approaches is guided by mainly the research problem apart from the underlying philosophy of each research method Mc Kerchar (2008). That is, whether the research problem is based on a framework developed deductively through a review of the literature and prefigured information to be collected in advance of the study or to allow it to emerge from participants in the inquiry process. Also the type of data may be numeric information to be gathered on instruments or more textual information, recording and reporting the voice of the participants. In light of the research objective and hypotheses, along with the research problems this study, adopts deductive research approach.

3.1. Research Design

According to R. Kothari (2004), a research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, research design is the conceptual structure within which research is conducted. It constitutes of a blueprint for the collection, measurement and data analysis. In this study, the researcher attempted to explore the customers banking behavior on Interest Free Banking. Therefore, this research conducted in an explanatory designing approach. Explanatory research can be conducted in order to assess impacts of specific changes on existing norms, or various processes. It focuses on an analysis of a situation or specific problems to explain the patterns of relationships on variables. The study adopted quantitative research in order to collect

quantifiable data or information. Quantitative research was used to identify the relationship between independent variables and dependent variable.

3.2. Targeted Population and Sampling Design

Population is a large number of objects and more precisely it is a universe from which the researcher is collecting information. In research, the word population refers to the abstract idea of a large group of many cases from which a researcher draws a sample and to which results from a sample are generalized (Nueman, 2011, P.241).

The study was conducted in selected bank in Addis Ababa .Those selected bank CBE, CBO, OIB and Awash bank have total of 579 branches in Addis AbabaCity branches. Out of which 8 branches (two from each banks) will be select using purposive sampling techniques among the type of non-probability sampling. that is, from Commercial Bank of Ethiopia Lafto & Anwar Mesjid Branch, from Cooperative Bank of Oromia Bethel & Kara Branch, from Oromia International Bank Alem Bank & Atena Tera Branch and finally from Awash bank Finfinne & Merkato branch. Hence, those selected branch has delivers IFB products and service with a large number of customers and generate relatively high amount of deposit.

Based on the banks IFB department as of June 30, 2018 there were a total of 215,620 IFB customers in all the four districts. The target populations for this research were 2,907 IFB customers in all the selected branch.

3.3. Branch Sample Size Determination

A method developed by Carvalho (1984) was used to determine the branch sample size. This sampling technique has been used by (Debebe, 2015; Kerima, 2016) while determining sample size of bank's branch. The researcher was used district's report of June 30, 2018, so the total branches were 579.

Table 3.3 Branch Sample size determination

N	50-90	91-150	151-250	281-500	500-1200	1201-3200	3201-10000	10001-35000	35001-150000
Small	5	8	13	20	32	50	80	125	200
Medium	13	20	32	50	80	125	200	315	500
Large	20	32	50	80	125	200	315	500	800

Source: Carvalho (1984)

Based on this sample size determination method the researcher selected a large sample size which is 125 branches of Commercial banks in Addis Ababa city out of total bank branches (579) to increase the accuracy of the data. However, the decision about branch sample size is influenced by many factors that need to be taken into account. Therefore, using purposive sampling techniques, 8 branches (two from each bank) were selected, because they were delivering IFB products and service with a large number of customers and generate relatively high amount of deposit.

3.4 Sample Size

To calculate sample size Yamane (1967:886) simplified formula proportion is used. A 95% confidence level, $P = 0.5$ and $e = +5\%$ are assumed.

$$n = \frac{N}{1+N(e)^2}$$

Where n is the sample size, N is the population size, and “ e ” is the level of precision. The populations of the study include IFB account holders at all branches which is 215,620.

Table 3.4 Sample size of branches and customers

No	Name of the Bank	No of Branch in AA	Number of customers	Sample branch	Name of Branch selected	No of a/c opened	Proportion of sample	No of sample
1	CBE	251	125390	44	Lafto	687	23%	92
					Anwar Mesjid	1252	43%	171
2	CBO	65	16250	20	Bethel	172	6%	24
					kara	94	4%	16
3	OIB	99	29700	29	Alem Bank	214	7%	28
					Atena Tera	112	4%	16
4	AWASH	164	44280	32	Finfinne	181	6%	24
					Merkato	195	7%	28
Total		579	215,620	125	8	2907	100%	399

Source: - personal survey data as of June.2018.

Using Yamane (1967:886) simplified formula proportion we can get a sample size of 399.

$$n = \frac{215,620}{1+215620(0.05)^2} = 399$$

3.5. Source and Type of Data

The study was conducted using quantitative type of data from both primary and secondary data sources. Thus, the primary data was collected from IFB customers of purposely selected branches in Addis Ababa. Secondary data was obtained from selected branch, district and various published and unpublished materials.

3.6. Data Collection Method and Instruments

Data required for fulfilling the objective of the study was collected from IFB customers' (account holder) at the counters of the selected branch. The survey instrument for collecting the data was closed-ended questionnaire. The questionnaire was used to obtain information on usage of IFB products and over all awareness of IFB products and services and factors that influence customers to choose IFB products and services and assess correlation between banking behavior and those determinant variables. The questionnaire was distributed and collected by customer service officer and/or the researcher at IFB windows counters at banking hours. The respondents were politely approached, and the purpose of the study was explained. Then they were asked if they were volunteers to fill in the questionnaire. Once they agreed to participate, the researcher and/or customer service officer of respective branches handed over the questionnaire to the participating respondents to be answered.

3.7 Method of data analysis

The collected data was sorted and screened for any errors and then organized to prepare table for making suitable analysis. Data collected by questionnaire was analyzed using descriptive analysis tools (Mean, Standard .Deviation, Frequency) Moreover, logistic regression model were used for interpreting the findings of the research. Linearity and multi-collinearity assumption testing was used to test hypothesis developed. Statistical packing for Social Science (SPSS), Version 20.0 was used to analysis the raw data.

3.7.1 Logistic Regression Analysis

Logistic Regression analysis examines the influence of various factors and estimating the probability of the event's occurrence. It does this by examining the relationship between variables. The use of the log odds ratio in logistic regression provides a more simplistic description of the probabilistic relationship of the variables and the outcome in comparison and more rich information can be drawn (Shakesha, 2001).

Logistic regression is used to identify variables likely to influence whether or not a customer is satisfied, likely to assess bank selection, or likely to recommend their bank. In order to investigate whether or not bank customers are satisfied, the probability of switching banks, and the probability of recommending a bank to other people, logistic regression is used. Logistic regression ease of interpretation, and diagnostics (Hair et al. 2010).

The justification for using logit is its simplicity of calculation and that its probability lays between 0 and 1. Moreover, its probability approaches zero at a slower rate as the value of explanatory variable gets smaller and smaller, and the probability approaches 1 at a slower and slower rate as the value of the explanatory variable gets larger and large (Gujarati, 1995)

The cumulative logistic model is econometrically specified as follows:

$$\begin{aligned} (\text{Banking Behavior/BB}) = & \beta_0 + \text{GEN}_i + \text{AGE}_i + \text{RELi} + \text{EDU} + \text{MART}_i + \text{INCO}_i + \text{BANKRELi} \\ & + \text{LENRELi} + \text{AWARPRO}_i + \text{FAMFR}_i + \text{CONLOC} + \text{BNREPi} + \text{SERQUAL}_i + \text{RESPST}_i + \\ & \text{PHYSFA}_i + \varepsilon \end{aligned}$$

Where for observation i

Dependent Variable: - Banking Behavior/BB

Independent Variables:-

BANKRELi = Existing bank relation

LENRELi = time relation with banks

AWARPRO_i = Awareness of products and service

NFAMFR_i = family or friends recommendation for Bank selection component

CONLOC_i = convenient branch location for Bank selection component

BNREPi = banks reputation to select banks

SERQUAL_i = service quality

RESPST_i = responsive attitude of staffs

PHYSFA_i = physical facilities of the bank

Control variable

GEN_i = Gender

AGE_i = Age

REL_i = Religion

EDU = Education

MART_i = Martial status, INCO_i = income

ε = Error term

The above model is obtained from:-

$$\log(P/(1-P)) = a + bx$$

$$P/(1-P) = \text{EXP}(a + bx) \dots\dots\dots$$

$$\text{Logit}(p) = a + b_1x_1 + b_2x_2 + b_3x_3 + \dots$$

Where:

p = the probability that a case is in a particular category,

exp = the base of natural logarithms (approx 2.72),

a = the constant of the equation and,

b = the coefficient of the predictor variables.

3.8 Validity and Reliability

Reliability and validity are essential criteria for assessing the accuracy and precision of the quantitative aspects of this research. They are also essential criteria for measuring the research quality.

3.8.1 Validity

According to R.Kothari (2012), validity is the most critical criteria and indicates the degree to which an instrument measures what it is supposed to measure. Content validity of the survey questionnaire would be validated by banks professionals like the selected banks manager and the advisor.

3.8.2 Reliability

The research used Cronbach's alpha to measure the reliability for a set of two or more constructs where the alpha coefficient value ranging from 0 and 1 with high value indicating higher reliability among the indicator. A measure instrument is reliable if it provides consistent results, (R. Kothari, 2012). Moreover, a reliable measuring instrument does contribute for validity. The reliability of the questionnaires was tested by using Cronbach's Alpha. Accordingly, the SPSS result indicated in Table 3.8.2 shows that the questionnaire reliability was 0.933 Cronbach's Alpha. The alpha value of the items varies from 0.931 to 0.939 which its reliability was acceptable.

Table 3.8.2 Reliability Cronbach's Alpha

Items/variables	No of items	Cronbach's Alpha Value
Personal Factors	3	0.935
Religion		
Respondents Relationship with conventional banking before IFB banks?		
Length of relationship with IFB banks?		
Awareness and usage of IFB products	3	0.932
Types of IFB products and services using		
Respondents overall awareness level		
Are awareness of IFB has influence your banking behavior to choose IFB products/service?		
Factors that Influence Banking Behavior on selection of IFB(Social factors)	4	0.936
I prefer IFB because they follow Islamic principles.		
I chose IFB because my family members and/or my friends recommended me		
I chose the IFB for its convenient branch location.		
Banks reputation affects your decision in selection of IFB		
Service delivery elements and its impact on banking behavior(institutional factors)	3	0.937
Service Quality		
Responsive attitudes of employees		
Physical facility of banks		
Overall	10	0.933

Source: Survey Result (2019)

3.9. Ethical consideration

The researcher treat all the information given by respondents' kept confidentially without disclosing the respondents' identity and respect the banks competitive advantage among them. Furthermore, the questionnaires would distribute only to voluntary participants. Lastly, all secondary quoted to keep the right of ownership of all materials.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

Chapter Overview

This chapter presents the results of the data analysis according to the research methodology discussed in chapter three. Thus, in this chapter, the collected data from the IFB customers was analyzed in order to realize the objective of this study. Accordingly, descriptive analysis of respondents' profile and their IFB product knowledge and awareness, descriptive analysis of IFB service delivery and customers' bank selection was analysis by using descriptive statistics such as mean, standard deviation, frequency, and percentage value through (SPSS) version 20.0. Logistic regression was being used to determine the correlation of independent variables and dependant variable. Furthermore, assumption testing for regression analysis like multicolliearity test and linearity test were applied. The sample size of this study was 399, however, 369 questionnaires, which are 92%f the sample size, found to be valid for further statistical analysis.

4.1 Analysis of Respondents demographic profile

The demographic profile of respondents: - such as sex, age, religion, level of education, marital status and income. Also bank relationship and awareness of respondents' were included here as sub-part.

Table.4.1 Distribution of respondents by Gender, Age, Religious, Level of Education, Marital status, Income

Questions	Respondents Alternative	Frequency	Percentage
Gender of Respondents	Male	232	63
	Female	137	37
	Total	369	100
Age of Respondents	18-20	14	4
	31-40	258	70
	41-50	62	17
	Above 50	35	9
	Total	369	100
Religion	Muslim	343	93
	Christian	6	7
Level of Education of Respondents	Less than Grade 10	29	7
	Certificate/Diploma	239	65
	Bachelors Degree	56	17
	Master Degree	36	9
	PhD	9	2
	Total	369	100
Marital Status	Married	115	31
	Single	254	69
	Total	369	100
Income of Respondents	Below 2,000	147	40
	2,000-5,000	173	47
	5,000-10,000	33	9
	Above 10,000	16	4

	Total	369	100
Banking Relationship			
Did you have any relationship with conventional banks before IFB banks?	Yes	276	74.5
	No	93	25.5
	Total	369	100
Length of relationship with IFB banks?	Less than 2 years	107	29
	2-4 Years	221	60
	More than 5 Years	41	11
	Total	369	100

Source: Survey Result (2019)

As result of Table 4.1 shows, out of these 369 respondent, there are 232 (63 percent) of them are male and 137 (37 percent) are females.

Furthermore, there are 14 respondents age between 18 - 20 years old, 258 (70 percent) respondents age between 31 - 40 years old, 62 (17 percent) respondents age between 41 - 50 years old and 35 respondent (9 percent) age above 55 years old.

As result indicated in Table 4.1, the majority of the respondents were Muslim that is nearly 93%. On the other hand, 7% respondents of IFB customers found to be followers of Christians religion. The implication of the result is dominant of customers who are users of IFB are followers of Muslim religion. This is due to interest is not allowed for Muslim dogma.

Regarding level of education attained, the survey result show that 7% of the respondents were less than grade 10 and the highest frequency 59% observed were certified respondents. Respondents with Bachelor degree and Master degree are 17 % and 9% respectively. PhD holders has lowest frequency; only 9 respondents (2%).

As far as the marital status of respondents is concerned, the descriptive statistics results in the Table 4.1. Shows that, the dominant of respondents are single with 69% and 31% are found married.

Concerning monthly income, 147 (40 percent) respondents have salary less than 2000 per month. There are 173 (47 percent) respondents with salary between 2,000 and 5,000. Respondents with salary between 5,000 and 10,000 are 9 %. Finally, only 16 respondents (4 percent) are having salary above 10,000 per month.

Regarding bank relationship indicated in Table 4.1, the findings reveal that about 74.5 % of the customers had previous relationship with conventional banks. So, before Islamic banks came in and caught on, people did need to rely on other types of banks to meet their banking needs. Besides, lengths of relationship with IFB majority of the respondents are categorized under 2-4 years relationship. These results reasonably interpreted as IFB have shown good progress in seizing customers from the conventional banks as well as the relationship signifies the ability of customer retention by the banks as well as the customers' loyalty to the banks' products/services.

4.2. Descriptive Statistics on Awareness and Usage of IFB Service/products

Table. 4.2. Descriptive Statistics on Awareness and Usage of IFB Service/products

What type of Product/Service you are using?		Frequency	Percentage	Mean
Wadi-Amana/Safe Keeping Deposit		243	66.1	2.53
Qard/Current-Deposit Account		122	33.3	
Mudaraba(PLS)-Saving Account		4	0.6	
Labbaik-Wadiah-Saving Account		-	-	
Other		-	-	
	Total	369	100	2.53
How do you rate overall awareness level about IFB Product/Service	Good	212	57.6	2.58
	Medium	117	31.8	
	Low	40	10.6	
	Total	369	100	
Are awareness of IFB has influence your banking behavior to choose IFB products and service?	Yes	204	55.5	2.33
	No	35	9	
	I don't know	130	35.5	
	Total	369	100	

Source: Own Survey Result (2019)

As it can be seen from the table.4.2, out of listed IFB products/service type Wadia/Amana Safe Keeping has scored the highest percent (66.1). Moreover, the Qard/Current Deposit Account would be used by IFB customers next to Amana-Safe Keeping Account, hence it score (33.3) this it may be due to both (Amana & Qard) account were directly replaced for conventional saving and current demand account without interest and further agreement. On the other hand, lowest score 0.6 observe on the usage of IFB products of Mudaraba (PLS) Saving Account.

As far as awareness level of IFB products/service concerned, 57.6 % of the respondents confirm that they well know IFB products and service.

Regarding the influence of awareness of products/service on customers banking behavior the results reveals that majority of respondents 55.5% response yes. That means knowledge and awareness of IFB products/service should influence and shape customers banking behavior. While 35.5% of them were does not response its effect on behavior.

4.3. Descriptive Statistics on IFB Selection Criteria and banking behavior.

Table 4.3, descriptive Statistics on IFB Selection Criteria and banking behavior

Items on factors that Influence Banking Behavior on selection of IFB	N	Mean	Standard Deviation	Rank on base of mean score
I prefer IFB because they follow Islamic principles.	369	2.82	0.82	1
I chose IFB because my family members and/or my friends recommended me	369	2.56	0.64	2
I chose the IFB for its convenient branch location.	369	1.79	0.51	4
Banks reputation affects your decision in selection of IFB	369	2.24	0.98	3
Bank selection overall mean		2.35	0.73	

Source: Own Survey Result (2019)

Regarding to examine the determinant factors that Influence Banking Behavior on selection of IFB, the descriptive statistical analysis result of the above Table 4.3 reveals that religious score highest mean (2.82) which taken as the most influential to choose IFB among the other factors. This indicates that customers banking behavior primarily shaped by religion so that the banks should strictly follow Islamic principle. Next to religion, study found that family and/or friend were mean score of (2.56) which means it's the second important determinant for preferring IFB. This implies that social factors have vital impacts on banking behavior that lead customers as IFB selection criteria. Generally, from the above table a researcher conclude that majority of respondents agreed on religion, social and banks reputation which impacts on their banking behavior.

4.4. Descriptive Statistics on service delivery elements and level of satisfaction.

Table 4.4 Descriptive Statistics on service delivery elements and level of satisfaction

Items on Service delivery elements	N	Mean	Standard Deviation	Rank on base of mean score
Service Quality	369	1.42	0.74	3
Responsive attitudes of employees	369	2.11	1.55	2
Physical facility of banks	369	2.46	1.45	1
Overall mean score service delivery elements		1.99	1.25	

Source: Own Survey Result (2019)

According to mean score result of table 4.4, physical facilities has score highest mean (2.46). This result implies that IFB customers have satisfied only to physical facility out of the service

delivery elements. While service quality and employees attitude have score low mean which entails that the customers have claim on the applicability of IFB service delivery. Thus, it may be the service delivery problem and/or in responsive employees observed in those banks like mix-the service with conventional banks.

4.5. ASSUMPTION TESTING

4.5.1 Multicollinearity Test

Multi-collinearity refers to a situation where a number of independent variables are closely correlated to one another. Multicollinearity test is done using Variance Inflation Factors (VIF). The VIF indicate whether a predictor has a strong linear relationship with other predictors.

According to Landau and Everitt (2004), Variance Inflation Factors (VIFs) above 10 or Tolerances below 0.1 are seen as a cause of concern. In this study Variance Inflation Factors (VIFs) are below 10 and Tolerances are greater than 0.1. That is, all hypothesized independent variables were found to have no collinearity problem retained in the model.

Table.4.5.1 Multicollinearity test assumption.

Model		Collinearity Statistics	
		Tolerance	VIF
PART I	Personal factors	0.75	3.12
PART II	Social factors	0.46	1.43
PART III	Institution factors	0.55	2.41

Source: Own Survey Result (2019); Dependent Variable: Banking Behavior.

4.5.2 Interpreting and coefficients test for Linearity relationship

In nonlinear relationships, the path coefficient is given by the first derivative of the nonlinear function that describes the relationship. In the calculation of P values, a one-tailed test is generally recommended if the coefficient is assumed to have a sign (positive or negative), which should be reflected in the hypothesis that refers to the corresponding association (Kock, 2014d). This hypothesis Testing is based on standardized coefficients beta and P-value to test significance of variables whether the hypothesis is rejected or not. Thus, as illustrated in conceptual framework, 10 hypothesis which categorize in to personal, institutional and social factors were hypothetically testing its effects on dependant variables (banking behavior, BB).

Table 4.5.2.Coefficient Regression weight

variables	Hypothesis	effectuated	β	Std.Error	t	P-value
RELIGION	H1	BB	2.021	0.649	1.350	***
BANKREL	H2	BB	0.723	0.260	1.000	***
LENGREL	H3	BB	0.211	0.044	0.227	***
AWARPRO	H4	BB	0.230	0.667	2.331	***
INFFAMFR	H5	BB	2.300	0.883	2.604	***
CONLOC	H6	BB	0.571	0.697	1.523	**
BANREPU	H7	BB	0.786	0.124	1.454	**
SERVQUAL	H8	BB	1.500	0.234	1.411	***
RESPSTFF	H9	BB	1.304	0.328	1.540	**
PHYSFACIL	H10	BB	2.021	2.112	1.001	**

Source: Own Survey Result (2019)

*** $p < 0.01$, i.e., below 1%.

** $P < 0.005$, i.e., below 5%.

Table 4.5.2 describes the names of the explanatory variables, their (Beta) estimate (β), the standard errors of the estimates (S.E.), and the T- statistic of each coefficient, which is simply the ratio of estimate divided by its standard error, and the p value, or the exact level of significance of the t statistic. For each estimate, the null hypothesis is that the population value of that estimate is zero, that is, the particular regressor has no influence on the regressand, after holding the other regressor values constant. Moreover, the smaller the p value, the greater the evidence against the null hypothesis. Let's test each the estimate independent variables of the hypotheses one by one.

Hypothesis1 (H1) - proposed that Religious Belief has a positive influence on the customers banking behavior to select IFB.

By confirming this statement, the above table shows that these two variables (RELIGION and BB) have β estimate value of 2.021 and t-statistics 1.350 with a p value less than 0.01. Therefore, the alternative hypothesis (H1) is not rejected while the underlying null hypothesis i.e., Religious Belief does not have a positive influence on the banking behavior IFB customers is rejected.

Hypothesis2 (H2) - Existing bank relationship has positive effects on banking behavior of IFB customers. Accordingly, table 4.5.2 results show that estimated beta of 0.723 and 1.000 t-test and p-value $p < 0.01$, i.e., below 1%. This indicated that; alternate hypothesis which estimated was accepted.

Hypothesis4 (H4) - Awareness of Product has a positive relationship with use of IFB product and service. By concurring with this statement these two variables (AWARPRO and BB) have β estimate value of 0.230 and t-statistics 2.331 with a p value of less than 0.05. Thus the alternative hypothesis (H9) is not rejected. In contrary, the null hypothesis is rejected.

Hypothesis6 (H6) - Convenient branch location has affects banking behavior of customers on IFB selection. As the of regression test presented in table 4.5.2 illustrate there is positive and significant relationship between convenient branch location and banking behavior to select IFB with beta value of 0.571 and p-value below 5%. From this the researcher concludes that the null hypothesis, convenient branch location has no effects banking behavior of customers on IFB selection is rejected.

Hypothesis (H7) - bank reputation/ image influence banking behavior of customers to choose IFB. The results of linear regression as presented in table 4.5.2 illustrate there is a strong positive and significance relationship between banks reputation and banking behavior of customers on the selection of IFB at beta value of 0.786 and $p < 0.01$, i.e., below 1%. From this the researcher conclude that the alternate hypothesis that bank reputation will have significant and positive effects on banking behavior of customers is supported by data set and null hypothesis is rejected or not supported by data set.

Hypothesis8 (H8) - hypothesized that there is positive relationship between services quality and customers banking behavior. By confirming this statement, the above table shows that these two variables (SERVQUAL and BB) have β estimate value of 1.500 and t-statistics 1.411 with a p value less than 0.01. Thus, the alternative hypothesis (H12) is not rejected. In contrary, the underlying null hypothesis i.e., Quality of services delivery has no effect on customers banking behavior of IFB is rejected.

Hypothesis9 (H9) - proposed that response/behavior of the bank staff effects on banking behavior of customers in IFB. By validating this hypothesis, (RESPSTFF and BB) have β

estimate value of 1.304 and t-statistics 1.540 with a p value of less than 0.05. As a result, the alternate hypothesis (H4) is not rejected, while the respective null hypothesis is rejected.

Hypothesis10 (H10) - Proposed that physical facility of the banks influence the customers banking behavior in IFB. By concurring with this hypothesis β estimate showed a positive value of 2.021 and t-statistics 1.001 with p-value less than 0.01. Accordingly, the researcher concludes that alternate hypothesis has failed to reject and the null hypothesis is rejected.

As the results of linear regression as presented in table 4.5.2 above illustrate, proposed hypothesis have positive beta value and significant p-value that not deviate from $p < 0.01$ and $p < 0.05$. This shows that these variables have a significant effect on banking behavior of IFB customers. Therefore, the proposed alternate hypothesis of H1, H2, H4, H5, H6, H7 H8, H9 and H10 is not rejected whereas the respective null hypothesis is rejected.

4.5.3 Homoscedasticity

If the error term has constant variance, it is called Homoscedastic (equal variance). Otherwise, it is called Heteroscedastic. In order to check Homoscedasticity, one could check the output of the variance of the variables. According to Field (2009), the variance of any of the measured variables should not exceed more than 10 times of the variance of any other variable. The variance of the variables of this study is Homoscedastic acceptable.

Table 4.5.3 Test for Homoscedasticity

variables	N	Hypothesis	Variance
RELIGION	369	H1	1.093
BANKREL	369	H2	0.746
LENGREL	369	H3	1.021
AWARPRO	369	H4	0.677
INFFAMFR	369	H5	0.489
CONLOC	369	H6	1.001
BANREPU	369	H7	0.522
SERVQUAL	369	H8	0.764
RESPSTFF	369	H9	0.907
PHYSFACIL	369	H10	0.534

Source: Own Survey Result (2019)

4.6. RESULTS AND DISCUSSION OF REGRESSION ANALYSIS

4.6.1 Logistic Regression Analysis

Logistic regression model was performed to understand the extent to which the identified independent variables of this study influence customers banking behavior and to analysis which of this independent variables are significant in shaping banking behavior on customers of IFB.

Tale 4.6.2 Analysis Result using Logistic Model (N=369)

variables	β (Coefficient)	SE	Wald	SIg	Odds-ratio EXP(B) factors
GENDER	- 0.675	0.737	.034	0.423**	2.211
AGE	- 0.139	0.723	.044	0.35**	0.851
RELIGION	1.110	0.549	.040	0.040*	1.631
EDUCATION	- 0.670	0.441	2.31	0.118***	0.233
MARSTA	-1.102	0.706	2.43	0.118***	0.332
BANKREL	0.724	0.226	.035	0.210**	0.314
LENGREL	0.210	0.524	.895	0.211	0.047
AWARPRO	0.670	0.476	1.977	0.160*	1.975
INFFAMFR	1.475	0.720	1.088	0.043***	4.291
CONLOC	0.082	0.651	.016	0.013*	1.954
BANREPU	1.120	0.524	1.130	0.412**	2.133
SERVQUAL	2.883	2.503	.100	0.199***	2.284
RESPSTFF	2.475	2.430	.005	0.334**	2.363
INCOME	-.511	.425	.959	.327**	.698
PHYSFACIL	2.140	0.128	249	0.661**	1.398

Source: Own Survey Result (2019)

*significant at 1% level significance

** Significant at 5% level significance

***Significant at 10% level significance

Exp (B): shows the predicted changes in odds for a unit increase in the predictor

The result of logistic statistical analysis model shown in Tale 4.6.2 shows that, 10 independent variables were found to have positively significant correlation with overall customers banking behavior on interest free banking such as religion, existing bank relation, length stay in banks, awareness, Influence of family/friend, Convenient branch location, reputation/image, Quality of service, and responsiveness attitude of staff. On the other side, 5 variables were found to have negatively significant relationship with IFB customers banking behavior such as sex, age, education, , Age, Marital status, , and Income of the respondents.

RELIGION

As expected, religion had a positive and significant relationship with customer banking behavior ($p < 0.1$). The odd ratio of 1.631 for religion implies that other things being kept constant, the odds-ratio in favor of banking behavior increases by a factor of 1.631 as engagement in religion principle increases by one unit. This result is supported by pervious study by Asyraf and Nurdianawati, 2006 which pointed out that religion is important factors that influence customers of Islamic Banking.

Existing Bank Relation (BANKREL)

As anticipated, the existing bank relation had a positive and significant relationship at ($p < 0.05$). The odds-ratio of 0.314 for existing bank relation implies that, the odds-ratio in favor of customers banking behavior increases by a factor of 0.314 as a existing bank relation increases by one unit. This implies that customers who have existing relationship with banks are more to join IFB than new customers. This may be due to customers who have longer years of experience with conventional banks develop the confidence decesion to join IFB.

Awareness of Products (AWARPRO)

The result of table 4.6.2 shows that awareness of customers on IFB products and service and banking behavior has positive correlation with significant at 1 % level significance. The odds ratio favoring customers` banking behavior to use Interest free banking has being influenced and increase by a factor of 1.975 as awareness increases by one unit. This result was hypothesized and is supported in prior literature (Dusuki and Abdullah, 2007), awareness, skills and knowledge gaining by customers and employees of the bank will ultimately can influence and attract more customers and be able to make the IFB system being competitive and more attractive to the customers.

Recommendation of family/ friends (INFFAMFR)

Recommendation of family/ friends was found to be an important influenced factor that affects customers` behavior in selecting IFB. According to the regression result displayed in Table 4.6.2, the analysis result in relation to this variable is positively coefficient significance at ($p < 0.1$). The odds ratio favoring customer banking behavior being influenced increase by a factor of 4.291 as if recommendation from family and/or friend increase by one unit. The study made by Metawa and Almosawi (1998) and Naser et.al. (1999) also agrees with the result of this study that indicates, friends and family influences is equally important factors for customers when making decision on their choice of IFB.

Convenient branch location (CONLOC)

The result of Logit model shows that convenient branch location was found to be significant and to have positive influence on customer banking behavior at ($p < 0.01$). Table 4.6.2 a show that, The coefficient value convenient branch location ($\beta = 0.082$) was positive that means positive relationship between customer banking behavior and convenient branch location.

The odds ratio in favor of banking behavior being influenced by a factor of 1.954 as convenient branch location increases by one unit. This implies that customers who have near to branch are more influenced to join IFB than those who have far to branch.

The result found to be consistent with the prior expectation. The finding of this study is consistent with previous studies made by; Asyraf and Nurdianawati 2006. A study made by Haron et al. (1994) and Ahmad and Haron (2002), also agrees with the result of his study conducted their research based on a sample taken from Malaysian customers.

Reputation/image of banks (BANREPU)

The result of the logistic model displayed in the Table 4.6.2 reveals that, this particular independent variable influences customers banking behavior in selecting Interest free banking positively at 5 percent level of significance. The value of the coefficient ($\beta = 1.120$) indicated that banks reputation/image has significant impact on customer behavior.

The result implies that the odds ratio favoring customer behavior about interest free banking is being influenced by a factor of 2.133 as of banks reputation/image increases by one unit. Banks reputation/image found to be a factor that influences customer behavior in selecting IFB. It's an expected result. The study is also supported by Asyraf and Nurdianawati, 2006 that banks reputation/image is criterion for the selection of IFB.

Service Quality (SERVQUAL)

The results of the logistics model displayed in the Table 4.6.2 shows that, Quality of service delivery influences customer banking behavior positively at 10 percent level of significance. The coefficient value ($\beta = 2.883$) was positive that mean positive relationship between customers banking behavior and Quality of services. The odd ratio of 2.284 service quality implies that

other things being kept constant, the odds-ratio in favor of banking ` behavior of Interest free banking customers being influenced increase by a factor of 2.284 as banks service quality provided increases by one unit. The implication is that an increase in Quality of service leads to increase customers under study to be influence their banking behavior on IFB. This is estimate expectation. This study is also consistent with Erol and El-Bdour (1989) they isolated in their own study that, the most important factor that influence customers or criteria considered by customers is quality of services which include fast and efficient services.

Responsive Attitude of Staff (RESPASTFF)

The regression result corresponding to Responsive Attitude of Staff indicates that it is found to be significant influence on customer banking behavior on IFB. This particular explanatory variable affects customers' banking behavior positively at 5 percent level of significance. The coefficient value $\beta = 2.475$) was positive that means positive relationship between customer banking behavior and Responsive Attitude of Staff. The result implies that customer banking behavior about Interest free banking is being influenced significantly by Responsive Attitude of Staff. The odds ratio show as responsive attitude of Staff increased by one unit, the probability of banking behavior of Interest free banking customer influenced increases by a factor of 2.363 . The study is consistent with the prior expectation. A study made by Asyraf and Nurdianawati, 2006 also agrees with the result of this study that indicates as among other factors that influence customers in selecting IFB Quality of staff as either equally is criteria in selecting a particular Interest free banking service.

Physical Facility of the Banks (PHYSFACIL)

Regarding the physical facility of the banks the results implies that there is positive correlation between customers banking behavior. Thus, the physical facility of the banks should affect the

customers banking behavior at coefficient of ($\beta = 2.140$) and Significant at 5% level significance. The odds ratio in favor of customers' banking behavior of Interest free banking being influenced increase by a factor of 1.398, as per unit increase in physical facility of the banks.

CHAPTER FIVE

SUMMARY OF MAJOR FINDINGS, CONCLUSION AND RECOMMENDATION

Chapter Overview

This chapter presents the final part of the study based on the result obtained in the study and summarize the findings and drawn conclusion from the analyses. Furthermore, some recommendations were suggested for banks and any concerned organs are Contribution of this study.

5.1 Summary of major findings

The major findings of the study are summarized as follows:

- ❖ The major demographic results revealed that 63% of the respondents were Male, 70% of respondent categorized between 31 & 40, 93% of the respondents were Muslim. Regarding level of education 65% were certified/diploma holders and majority of respondents' were income range between 2,000 and 5,000.
- ❖ In regarding to bank relationship 74.5% respondents have existing relationship with conventional banks before joining IFB and most of customers have 2-4 years of banking relationship with IFB.
- ❖ Among the IFB products and services delivered 66.1 percent of the respondents used Wadi - Amana/safe Keeping Deposit Account followed by by Qard (current account) nearly 33.3% were the most used products. However, Mudarabah (PLS) saving account and Labbaik-Wadiah Saving Account are unpopular products which need attention by the banks.

- ❖ Descriptive analysis on customers' product/service awareness shows that a good understanding on IFB product/service by respondents (mean score 2.58) and above average mean score (2.33) of the respondents were agreed that product/service awareness has influence their banking behavior.
- ❖ The results of logistic regression concerning factors that influence banking behavior on the selection of IFB reveals that majority of respondents select IFB because it follow Islamic principles. Moreover, recommendation of family/friend (beta value of 1.475) and banks reputation/image ($B=1.120$) have statistically significant effect on shaping customers banking behavior on the selection of IFB.
- ❖ Looking into the service delivery elements that is service quality and responsive attitude of staff respondents were respond below average satisfaction with beta value less average 2.883 and 2.475 respectively.

5.2. Conclusion

- ❖ This study showed demographic factor, social factor and institutional factors such as Religion, Awareness of respondent, existing bank relationship, Influence of family and friends bank reputation, convenient branch location, and quality of service, responsive attitude of staff, and physical facility of the banks were found to have significant relationship with IFB customers banking behavior. However, Sex, Age, Level of education, Income level, and marital status, were found to have no significant relationship with customers banking behavior.

- ❖ High customer awareness and usage exist for Amanah-safe keeping account and qard/current saving account and there is relationship between customers' awareness of IFB products/services and customers' length of relationship with banks.
- ❖ On the criteria of selecting Interest free banking products and services, the main reason found in the study is strictly religion. But reasons like family/friend recommendation, convenient branch location and banks reputation or image contribute a lot in selecting IFB.
- ❖ Except physical facility of the banks customers have below average satisfaction with various service delivery elements of IFB. Such a poor level of customer satisfaction would draw serious concern for banks.

5.3. RECOMMENDATIONS

Based on the analysis and findings of this study, the following recommendations are forwarded:

- ❖ The banks should do enough in educating customers and marketing and advertising Interest free banking products and services widely since various customers have no idea concerning IFB it is offered by the banks and again some products such as Wadiah Amanah (safe keeping Deposit Account), and Qard (current account) were most used products. On the other hand, Mudarabah (PLS) saving account and Labbaik- Wadia saving account were unpopular to the respondents.
- ❖ Besides service delivery elements interest free banks should pay an urgent attention to improve satisfaction of their existing customers. One step towards this would be to find out ways for improving service quality with customers and improving satisfaction with the products/services that did not receive above average satisfaction from customers.

- ❖ Religious principles remain at the heart of customer's preference for IFB banks selection. This indicates that the banks should remain highly dedicated to Islamic principles. Therefore, any attempts to introduce any products/service should be thoroughly explained on the basis of Islamic principles and should be checked for customers' acceptance.
- ❖ Generally, the researcher is strictly recommending that the bank should be work on customers banking behavior hence behavior is the vital platform that shape the customers perception and attitude on the selection of Interest Free banking.

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APPENDIX: I
QUESTIONNAIRE
ADDIS ABABA UNIVERSITY
COLLAGE OF BUSSINESS AND ECONOMICS

Dear Respondents:

This questionnaire is designed to collect information on the research title **“Customers Banking Behaviors in Interest Free Banking Service.** Moreover, the research will contribute towards the fulfillment of the researcher’s Master’s Degree in Business Administration (MBA). Your valuable support in responding to the questions raised is paramount important to the successfulness of this study. Hence, I kindly ask you in all regard to fill the questionnaire carefully at your best knowledge. The accuracy of information you provide determine the ultimate reliability of the study.

Note: Your answer will be strictly confidential and will only be used for academic purpose.

Contact Address:

If you have any query, please don’t hesitate to contact me. I am available as per your convenience at – Tele-+251911008125 or E-mail- kebadwoo2015@gmail.com.

Thank you in advance for your cooperation and timely response!

Important aspects of the questionnaire

1. Date-----
2. Name of Branch-----
 - No need to write your name

PART ONE A -Demographic Information

Please tick (✓) mark or Circle under the choices

1. **Gender:** Male Female
2. **Age:** 18-20 {20-30} [31-40] [41-50] above 50
3. **Religious:** Muslim Christian

4. Level of Education

Less than Grade 10 Certificate/Diploma Bachelors Masters PhD

5. **Marital status:** Married Single

6. **Income:** blow 2,000 2,000-5,000 5,000-10,000 above 10,000

7. Bank Relationship:

7.1 Did you have any relationship with conventional banks before IFB banks?

Yes No

7.2 What is the length of your relationship with IFB Banks?

Less than 2 years 2-4 years More than 5 years

B. Awareness and Usage of IFB Products

1. Which types of IFB products and service you are using

a. Wadia Amana(Safe Keeping Deposit Account)

b. Qard(Current) Deposit Account

c. Mudaraba (PLS) Saving Account

d. Labbaik-Wadiah saving Account

2. How do you rate your overall awareness level about IFB Products/Service?

a. Good b. Medium c. Low

3. Are awareness of IFB has influence you banking behavior to choose IFB products and service?

a. Yes b. No c. I don't know

Part Two: IFB Selection Criteria

1. Do you agree with the following factors that influence your banking behavior on choice of IFB?? Please circle one number per statement by using the following scale?

5- Strongly agree
4- Agree
3- Neither agree nor disagree
2- Disagree
1-Strongly disagree

I prefer IFB because they follow Islamic Principle	1	2	3	4	5
I chose IFB because my family members and/or my friends recommended me	1	2	3	4	5
I chose IFB for its convenient Branch location	1	2	3	4	5
Banks reputation affects your decision in selection of IFB	1	2	3	4	5

PARET THREE: Service Delivery elements of IFB (to measure level of satisfied on the applicability of IFB and its impact on Banking behavior)

3.1 How satisfied are you with the following service quality of IFB? Is this Service Delivery element of IFB affecting your Banking Behavior? Please circle one number per product by using the following scale and response **Yes or NO** as if correlation with banking behavior.

5-Highly Satisfied
4-Satisfied
3-Neutral
2-Disatisfied
1-Highly dissatisfied

		Affect your banking behavior	
Service quality	1 2 3 4 5	YES <input type="checkbox"/>	NO <input type="checkbox"/>
Responsive attitude of employees like good communication, Muslim wearing style	1 2 3 4 5	YES <input type="checkbox"/>	NO <input type="checkbox"/>
Physical facility of banks	1 2 3 4 5	YES <input type="checkbox"/>	NO <input type="checkbox"/>