

## **Adoption of Islamic Banking Services: Evidence from Western China**

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### **Abstract**

Islamic banking has been growing rapidly worldwide and is not only widespread in Muslim countries, but also in western countries as well. Even if Islamic banking services have been offered in Ningxia province since 2009 to serve about 23 million Muslims in the population, the development of Islamic banking in China has been almost stagnant. Notwithstanding this reality, this study seeks to examine the factors that influence Chinese Muslims' intention to adopt Islamic banking. Employing the theory of planned behaviour (TPB), the study investigates the effects of attitude, subjective norms, perceived behavioural control and religious obligation on intention to adopt Islamic banking services among the Chinese Muslims. Survey data was collected from 669 Muslim respondents across four major cities in western China namely Lanzhou, Wulumuqi, Xining and Yinchuan. The hypothesized relationships are examined by using Analysis of Moments Structures (AMOS). The results show that apart from the common determinants of TPB: attitude, subjective norms, and perceived behaviour control, religious obligation significantly influence the intention to adopt Islamic banking among Chinese Muslims in western China. This indicates that Chinese Muslims regard religious obligation as very important in deciding their choice of banking.

**Keywords:** *Islamic banking, theory of planned behaviour, intention, Chinese Muslims*

### **1. Introduction**

At present, Islamic financing is growing rapidly worldwide. The growth is not only widespread in Muslims countries but also in non-Muslims countries as well. China, as the country with the largest population in the world and the third largest Muslim minority population, has also shown great interests in promoting and participating in Islamic finance. Hong Kong has launched two

Islamic bonds (Sukuk) in 2014 and 2015. On the other hand, Ningxia Bank of China has also set up three Islamic bank windows at Shizuishan, Ningxia in 2009.

Based on China's 2010 Population Census, 23 million Muslims live in China. They are mainly concentrated in the western region of China, including Xinjiang, Gansu, Ningxia and Qinghai. Ma (2012) also estimated that China has more than thirty million Muslims, and with this large number of Muslim population, China has a huge potential to operate Islamic banking. Recently, the "One Belt One Road (OBOR)" initiative introduced by the Chinese central government has further highlighted the importance of Islamic finance to China (Bo, Adawiah and Saiti, 2016). The infrastructure projects involved the development of economic areas along the ancient Silk Road, as well as linkages with the Muslim world, which have pointed to the need for China to offer more Islamic banking and finance.

Due to the above reasons, and the fact that quantitative research of Islamic banking in China is particularly rare, this study embarks to examine the intention to use Islamic banking among Chinese Muslims from the western region of China. The study adopts the theory of planned behaviour (TPB) and postulates that attitude, subjective norm, perceived behaviour control, face gaining and religious obligation are key determinants of intention to use Islamic banking among Chinese Muslims.

As such, the main objectives of this study are the following. First, the paper examines the influences of attitude, subjective norm and perceived behaviour control on the Islamic banking adoption. Second, it scrutinizes the effects of face and religious obligation on intention to use Islamic banking. And lastly, this paper evaluates the applicability of theory of planned behaviour on Chinese Muslims and Islamic banking.

## **2. Literature Review**

The objectives of the "One Belt One Road (OBOR)" / "Belt and Road Initiative (BRI)" are to develop the infrastructure (and by implication increase trade) in Central Asia, Middle East and Southeast Asia, and to promote the development of the western region of China. The OBOR route covers a huge Muslim population area, especially the Silk Road Economic Belt, which links western China, Central Asia and the Middle East. Islamic finance plays a significant part in the implementation of the OBOR initiative. In recent years, a number of studies on Islamic finance has emerged in China, especially in the area of Islamic banking products and services, and its operations in China (Abuduli, 2010). However, analysis on the demand side of Islamic finance, i.e., the incentives to use Islamic banking among Chinese Muslims, is rare. To fill in this gap, this study adopts the theory of planned

behaviour (TPB), and inserts variables such as face gaining and religious obligation to the TPB model.

The theory of reasoned action (TRA) has been popularized by Ajzen in 1975 and since then has been used extensively to study the intention to act or behave in a certain way, particularly in adopting a product or service. Due to the fundamental disadvantages of TRA, however, Ajzen (1985) introduced the perceived behaviour control (PBC) variable to the TRA model, resulting into an extended theory of TRA, known as the theory of planned behaviour (TPB). According to TPB, the behaviour intention of an individual is jointly influenced by his attitude, subjective norm and perceived behaviour control (Ajzen, 1985). According to some research, TPB has been able to successfully predict and interpret human behaviour across a variety of studies (Ajzen, 1991, 2002). TPB has also been employed to study the intention of individuals to exercise (Rhodes and Courneya, 2003; Ravis and Sheeran, 2003), to purchase halal products (Hanzaee and Ramezani, 2011; Shah Alam and Mohamed Sayuti, 2011), to deal in online trading (Gopi and Ramayah, 2007; Ramayah et al., 2009), to choose online grocery shopping (Hansen, Jansen and Solgaard, 2004), and to adopt Internet banking (Al-Ajam and Md Nor, 2013). On the other hand, the TPB model has been widely used by researchers of Islamic finance, including Islamic banking services (Echchabi and Aziz, 2012), Islamic unit trust (Ali, Zani and Kasim, 2014), Islamic credit cards (Ali, Raza and Puah, 2017; Amin, 2012; Amin, 2013), and Islamic home financing (Alam et al., 2012; Amin, Abdul-Rahman and Abdul-Razak, 2009). Therefore, this study adopts the TPB model to explore influencing factors that affect Chinese Muslim intention to use Islamic banking.

Noting that TPB alone does not completely interpret the relationship between intention and behaviour (Conner and Armitage, 1998), Ajzen (2011) also recommended to add additional variables to expand the predictive power of the model in different contexts. Thus, this study adds two more additional factors, which are face gaining and religious obligation. The reason to add and examine religious obligation is due to the fact that this study is conducted among Chinese Muslims who are strongly influenced by their Islamic religion. On the other hand, face has significant influence in Chinese culture (Yau, 1988). Therefore, this study examines five factors, namely attitude, subjective norm, perceived behaviour control, face gaining and religious obligation to explain the rationality of Chinese Muslims in choosing Islamic banking.

### **3. Hypotheses Development**

#### ***3.1. Attitude***

Attitude is a significant element of a person's predisposition to respond and has been shown to have a significant relation to behaviours (Allport, 1935).

Fishbein and Ajzen (1975) defined attitude as the evaluative effect of positive or negative perception about the individual in conducting certain behaviour. A great number of studies have been conducted on attitude and behaviour intention, and these studies found that attitude and intention have a positive relationship. For instance, in the area of Islamic banking products, Taib, Ramayah and Razak (2008) examined factors that influence intention to adopt diminishing partnership home finance in Malaysia and found that attitude have a positive relationship with intention. A similar result was reported by Gopi and Ramayah (2007) and Ramayah et al. (2009) in their studies about the factors that influence intention to use online trading in Malaysia. This positive relationship between attitude and intention was also found among the customers of Islamic banking services in Morocco (Echchabi and Aziz, 2012) and Indonesia (Wahyuni, 2012). In this empirical study, attitude is proposed to have a positive relationship with the intention to adopt Islamic banking. The greater the attitude on Islamic banking, then the greater the intention to use Islamic banking among Chinese Muslims in western China. Thus,

*H1: Attitude has a positive effect on the intention to use Islamic banking.*

### **3.2. Subjective Norm**

Subjective norm has been defined as an individual's perception that most people who are important to her or him should or should not carry out the target behaviour (Fishbein and Ajzen, 1975). The subjective norm shows that the influence of important people relate to an individual's behaviour decisions. In brief, when most important people such as parents, spouse and friends encourage a certain behaviour decision, a person is more likely to follow out and intent to take action.

Taylor and Todd (1995) discovered that subjective norm significantly influences consumers' intention to use innovative products. Similarly, Gopi and Ramayah (2007) and Ramayah et al. (2009) discovered that subjective norm has a significant positive effect on intention to adopt Internet stock trading in Malaysia. On the other hand, subjective norm was also found to be significant predictors in other different areas of studies, such as, halal goods (Lada, Tanakinjal and Amin, 2009). They examined the factors that influence the intention to use halal products among 485 respondents in Malaysia, and the study revealed that the subjective norm is the most important factor among Malaysian customers. Meanwhile, Echchabi and Aziz (2012) also found that the subjective norm significantly affect intention to adopt Islamic banking among Moroccans.

This study conducts the role of subjective norm on the intention to use Islamic banking among Chinese Muslims in western China. The subjective

norm is proposed to have a positive relationship with the intention to use Islamic banking. The greater the subjective norm on Islamic banking, then the greater the intention to use Islamic banking among Chinese Muslims. As such the study surmises the following hypothesis:

*H2: Subjective norm has a positive effect on the intention to use Islamic banking.*

### **3.3. Perceived Behaviour Control**

In the theory of planned behaviour (TPB), not only attitude and subjective norm significantly influence intention, but also perceived behaviour control as well. Ajzen (1991) defined perceived behavioural control as an individual's behaviour is determined by one's ability to manage own decision, and he also concluded that the role of perceived behavioural control in the TPB model should not be neglected. In Islamic banking studies, a study conducted by Echchabi and Aziz (2012) found perceived behavioural control significantly influences intention to use Islamic banking services in Morocco. On the other hand, Alam et al. (2012) and Ali, Raza, Puah and Karim (2017) also found that perceived behaviour control has a positive relationship with Islamic banking products' adoption.

This study proposes that perceived behaviour control have a positive relationship with the intention to use Islamic banking services. The greater the perceived behaviour control, then the greater the intention to use Islamic banking services among Chinese Muslims in western China. Based on the extant research, the hypothesis is postulated as follows:

*H3: Perceived behaviour control has a positive effect on the intention to adopt Islamic banking.*

### **3.4. Religious Obligation**

Religious obligation is the role of religion in effecting an individual's choices and activities (Amin et al., 2011). Omer (1992) examined Muslims in the UK and found that the fundamental motivation to engage with Islamic banking is religious belief. Metawa and Almossawi (1998) also revealed that the Islamic religion is the utmost factor influencing the use of Islamic banks in Bahrain. Ali, Raza and Puah (2017) who studied bank customers' attitude toward Islamic banks in Pakistan arrived at the same conclusion. On the other hand, studies by Haron, Ahmad and Planisek (1994) and Amin et al. (2011) on Malaysian respondents, concluded differently that religion was not an influencing factor for customers to use Islamic banking products.

On the basis of previous studies, the following hypothesis is proposed in this study:

*H4: Religious obligation has a positive effect on the intention to adopt Islamic banking.*

### **3.5. Face**

“Face” is one of the important Confucius culture; it is universal among Chinese people and influence their interpersonal relationships (Yau, 1988). According to Goffman (1955), face is pride, dignity and positive social value of a person as a result of his or her social accomplishment and fulfilment of it during a particular contact. Lee (1990) conducted a study and found a causal relationship between face and intention.

Another relevant study by Chung and Dawn (2000) revealed that face significantly influence intention to purchase domestic products among Korean people. Huang, Davison and Gu (2008) investigated factors that affect knowledge sharing intention in China; they found that face significantly affected intention to sharing knowledge. Jin and Kang (2010) discovered that face significantly influence Chinese student’s intention to buy foreign brand jeans.

However, face is proposed to have a positive relationship with intention to use Islamic banking in this study. The greater the face then the greater the intention to use Islamic banking among Chinese Muslims in western China. Based on the discussion, we make the following hypothesis in this study:

*H5. There will be a positive relationship between face and intention to adopt Islamic banking.*

## **4. Methodology**

### **4.1. Sample**

The target population of this study are Chinese Muslims in the western region of China who are living in four cities in the Lanzhou Gansu province, Urumqi Xinjiang province, Xining Qinghai province and Yinchuan Ninxia province. Purposive sampling technique is used since it is impossible to list all samples and the difficulty to reach the exact population of study (Neuman, 2005). A total of 1000 questionnaires were sent out and 669 usable questionnaires were received, thus attaining a net response rate of 66.9 percent. The study was carried out between June to December 2015.

The demographic profile of the respondents is as shown in Table 1. The distribution of the respondents is 25.1% for Lanzhou Gansu province, 25.6%

**Table 1** Demographic Profile of Respondents (n=669)

Demographic	Category	Number	Percentage
Gender	Male	363	54.3
	Female	306	45.7
Marital Status	Single	216	32.3
	Married	453	45.3
Age	Below 20	65	9.7
	21 to 30	192	28.7
	31 to 40	198	29.6
	41 to 50	135	20.2
	51 to 60	63	9.4
	61 above	16	2.4
Education Level	Below High School	265	39.6
	Diploma	192	28.7
	Degree	200	29.9
	Master/PhD	12	1.8
Employment Status	Student	138	20.6
	Government Employee	156	23.3
	Private Sector Employee	287	42.9
	Self Employed	88	13.0
Income per Month	Below 2000	138	20.6
	2001 to 3000	115	17.2
	3001 to 4000	233	34.8
	4001 to 5000	119	17.8
	5001 above	64	9.6
City of Residence	Lanzhou	168	25.1
	Wulumuqi	171	25.6
	Xining	179	26.8
	Yinchuan	151	22.6

for Wulumuqi Xinjiang province, 26.8% for Xining Qinghai province and 22.6% for Yinchuan Ningxia province.

#### ***4.2. Development of Questionnaire***

All questionnaire items were adopted from previous studies and modified accordingly to reflect the context of this study. The constructs of attitude, subjective norm, perceived behaviour control and intention were adopted from Amin et al. (2009) and Gopi and Ramayah (2007). The questionnaire items for religious obligation construct were adapted from Amin et al. (2011) while

face construct were adapted from Huang et al. (2008) and all constructs were measured using seven-point scales, ranging from “strongly disagree (1) to strongly agree (7)” left to right which is consistent with the ideal seven-point Likert scale proposed by Bollen (1989) for structural equation modelling. At first, the questionnaire items were developed in English, then interpreted into Mandarin to accommodate the non-English speakers. This study applied the back translation technique, as recommended by former researchers and widely used in cross-cultural studies (Brislin, Lonner and Thorndike, 1973; Chapman and Carter, 1979).

## **5. Results of the Study**

Based on Anderson and Gerbing (1988), the two-step approach was suggested for structural equation modelling (SEM) which are the measurement model and structural model. This study began with the measurement model by executing confirmatory factor analysis (CFA), and then continued with the structural model. AMOS 22.0 version was adopted in this study.

### ***5.1. Measurement Model***

This study conducted measurement model analysis which examines the convergent validity and discriminant validity. Meantime, the study assessed the reliabilities of the items to reduce biasness and error. According to Nunnally and Bernstein (1978) this can be reached when the value of the Cronbach alpha is more than 0.70. In this study all the values for the variables were higher than 0.8, thus the model was considered to reach adequate internal reliability. Furthermore, CFA was adopted to examine the convergent validity and discriminant validity. This study applied the three criteria suggested by Fornell and Larcker (1981) which are factor loading, average variance extraction (AVE) and composite reliability (CR). Table 2 displays the results of the convergent validity.

As shown in Table 2, the results of factor loading ranged from 0.627 to 0.812, which exceeded the recommended factor loading by Chin, Gopal and Salisbury (1997). The results of the AVE ranged from 0.562 to 0.601 which are consistent with the suggestion by Bagozzi and Yi (1988). The values of the CR were all above 0.8 which indicate convergence reliability among the variables (Gefen, Straub and Boudreau, 2000). Therefore, the results of factor loading, AVE and CR have reached the achievement of convergent validity. To assess discriminant validity, this study adopted the Fornell-Larcker (1981) criterion. Table 3 showed that the results of square root of AVE were higher than the correlations between the latent variable. Thus, the requirement of

discriminant validity was realized. In summary, the measurement model demonstrated satisfactory internal reliability, convergent validity, and discriminant validity.

**Table 2** Confirmatory Factor Analysis

Construct	Items	Factor Loading	AVE	CR	Cronbach Alpha
Attitude	1	0.773	0.601	0.883	0.882
	2	0.759			
	3	0.746			
	4	0.806			
	5	0.792			
SN	1	0.784	0.569	0.868	0.867
	2	0.786			
	3	0.715			
	4	0.747			
	5	0.736			
PBC	1	0.812	0.562	0.864	0.860
	2	0.802			
	3	0.627			
	4	0.794			
	5	0.696			
RO	1	0.724	0.584	0.875	0.875
	2	0.745			
	3	0.770			
	4	0.799			
	5	0.780			
Face	3	0.790	0.601	0.858	0.857
	4	0.754			
	5	0.772			
	6	0.785			
Intention	1	0.759	0.582	0.848	0.846
	2	0.766			
	3	0.755			
	4	0.772			

Note: SN – subjective norm, PBC – perceived behaviour control, RO – religious obligation, AVE – average variance extracted, CR – composite reliability.

**Table 3** Latent Variable Correlation Matrix

	Att	SN	PNC	RO	Face	Intention
Att	<b>0.775</b>					
SN	0.429**	<b>0.754</b>				
PBC	0.390**	0.408**	<b>0.750</b>			
RO	0.405**	0.400**	0.323**	<b>0.764</b>		
Face	0.084*	0.097*	0.071	0.003	<b>0.775</b>	
Intention	0.639**	0.600**	0.511**	0.530**	0.094*	<b>0.763</b>

Notes: Att – Attitude, SN – subjective norm, RO – religious obligation. Diagonal items (in bold) are the square roots of average variance extracted.

This study applied the most commonly used model fitting indicators to inspect the results of the study. These indicators were ChiSq/df (chi-square/degree of freedom), GFI (goodness of fit index), CFI (comparative fit index), and RMSEA (root mean square error of approximation). The results of the measurement model for all constructs are shown in Table 4. The values of ChiSq/df ratio were all below 5.0 which were within the value suggested by Bagozzi, Yi and Phillips (1991). All values of GFI were over 0.90 which indicated the acceptable model fit (Baumgartner and Homburg, 1996). Also, all results of CFI exceeded 0.90 which achieved the recommended value (Hu and Bentler, 1999). All results of RMSEA were under 0.08 which showed an absolute fit (Browne et al., 1993). Thus, this study achieved a reasonable overall fit between the measurement models and the measured data.

**Table 4** Goodness-of-Fit Model for all Variables

	GFI	CFI	RMSEA	ChiSq/df
Attitude	0.993	0.996	0.044	2.307
SN	0.996	0.999	0.021	1.306
PBC	0.997	1.000	0.007	1.028
Face	0.994	0.995	0.066	3.936
RO	0.990	0.992	0.062	3.549
Intention	0.997	0.998	0.041	2.114

Note: SN – subjective norm, PBC – perceived behaviour control, RO – religious obligation.

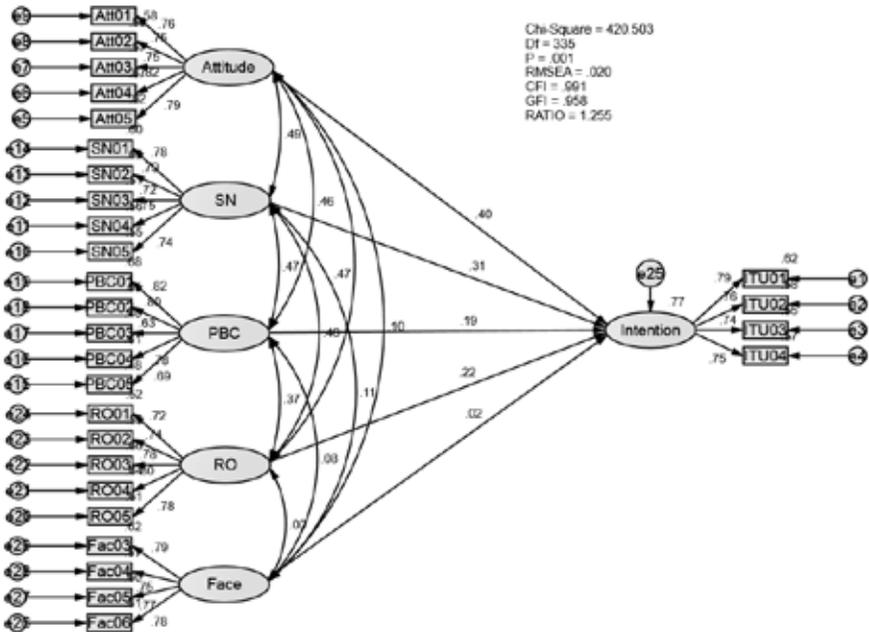
5.2. Structure Model

After conducting the measurement model, the study continued with an assessment of the structural model. Figure 1 is the structural equation model after running the AMOS software. As appeared in the figure, the value of Chi-Sq/df ratio is equal to 1.255 which is within the recommendation of Bagozzi et al. (1991). The GFI is 0.958, which illustrates an acceptable model fit (Baumgartner and Homburg, 1996), while the result of CFI is 0.958, thus achieving the recommended value (Hu and Bentler, 1999). The value of RMSEA is 0.020, below the recommended value of 0.08 which shows that there is an absolute fit (Browne et al., 1993). Thus, the proposed structural model demonstrated a good model fit.

In the TPB model, attitude, subjective norm and perceived behaviour control are the exogenous variables, while intention is the endogenous variable. This study introduces a new exogenous variable namely religious obligation and face. The values of correlation between the five exogenous variables are all below 0.8, indicating that all variables achieved discriminant validity and not redundant, as displayed in the AMOS graphic in Figure 1.

AMOS yielded the regression path coefficients for the structural model as shown in Table 5. All critical ratio (CR) values of variables are greater

Figure 1 AMOS Structural Model Results



Note: \*p<0.01

**Table 5** Results of Regression

Construct		Construct	SE	CR	P-Value
Intention	←	Attitude	.038	10.004	***
Intention	←	SN	.036	7.792	***
Intention	←	PBC	.042	5.307	***
Intention	←	RO	.033	6.098	***
Intention	←	Face	.026	.620	.535

Notes: Significant level: \*\* $p < 0.01$ , \*\*\* $p < 0.001$ . SN – subjective norm, PBC – perceived behaviour control, RO – religious obligation.

**Table 6** Results of Structural Model

Construct		Construct	Hypothesis	Decision
Intention	←	Attitude	H1	Supported
Intention	←	SN	H2	Supported
Intention	←	PBC	H3	Supported
Intention	←	RO	H4	Supported
Intention	←	Face	H5	Not supported

Note: SN – subjective norm, PBC – perceived behaviour control, RO – religious obligation.

than 1.96, except for the variable face (CR=0.62); the rule of thumb is that if the CR value is  $> \pm 1.96$ , then the estimate is fitting (Chau, 1997). On the other hand, the model indicated that attitude has a significant relationship with intention ( $\beta=0.40$ ,  $P < 0.001$ ) at the 1 per cent significance level. The subjective norm has a significant relationship with intention ( $\beta=0.31$ ,  $P < 0.001$ ), while perceived behaviour control and intention has a significant relationship ( $\beta=0.19$ ,  $P < 0.001$ ) at the 1 per cent significant level. This indicates that three exogenous variables significantly affect intention to adopt Islamic banking. Therefore, hypotheses H1, H2 and H3 are supported, as illustrated in Table 6. Similarly, assessment of religious obligation on intention has a significant relationship ( $\beta=0.22$ ,  $P < 0.001$ ) at the 1 per cent significant level, thus H4 is also supported. On the other hand, it is observed that the path coefficient from face to intention is found to be insignificant ( $\beta=0.02$ , ns), hence H5 is not supported.

## 6. Discussion and Conclusion

This study empirically examines the factors that influence intention to adopt Islamic banking among Chinese Muslims in western China. To the best of

our knowledge, this is a pioneer study in using the TPB model as well as integrating religious obligation and face factors in the study to access Chinese Muslim's behaviour in Islamic banking settings. The empirical outcome demonstrates that attitude, subjective norm and perceived behaviour control have direct effect on Islamic banking adoption. The results of the study show that attitude is a significant predictor of the intention to use Islamic banking which is consistent with studies by Echchabi and Aziz (2012) and Wahyuni (2012). The study finds that subjective norm directly affects intention to adopt Islamic banking which is consistent with studies by Amin, Abdul-Rahman and Abdul-Razak (2013) and Taib et al. (2008). The results also illustrate that perceived behaviour control has a positive influence on intention to use the Islamic banking. This is consistent with the findings of Echchabi and Aziz (2012) and Ali et al. (2014). The outcome of this result verifies the original TPB. In addition, the current study illustrates that religious obligation also has a positive effect on intention to use Islamic banking among Chinese Muslims which is consistent with the findings of Ali, Raza, Puah and Karim (2017). On the other hand, one of the important Chinese Confucian factor "face" did not influence intention to use Islamic banking among Chinese Muslims which remains an interesting question for further study.

The main objective of this study is to examine the factors influencing intention to use Islamic banking among Chinese Muslims in western China. However, the study has proven the validity of a composite method by merging the TPB model, and found that attitude, subjective norm, perceived behaviour control and religious obligation directly influence intention to use Islamic banking. It is noticed that all exogenous variables examined are of utmost importance for Islamic banking adoption among Chinese Muslims except the Confucian face factor. Also, the present study can be a guideline for policy makers and bankers in understanding Chinese Muslims acceptance of Islamic banking services in China. Since the study has observed that attitude is the most important factor among all exogenous variables, it will be essential for bank managers to take certain actions that promote a good image of to gain potential customer attitude before promoting Islamic banking in western China. This study has observed that subjective norm is the second influential factor which affects intention to use Islamic banking. This illustrates that the individual's behaviour intention would be influenced by their family, friends and relatives; as such, bank managers should improve the influence of the subjective norm by building a social network through word-of-mouth, whereby Chinese Muslims will use Islamic banking based on their relatives introduction. Similarly, bank managers should consider the perceived behaviour control which is another important influential factor. This requires banks to create some awareness program for potential customers so that they can make better decisions towards Islamic banking services.

Most importantly, the study found that one of the important influential factor is religious obligation. Therefore, bankers should build the Islamic banking brand in western China and follow the principles of Islamic banking which is based on Islamic law (Shariah). Bankers ought to abide with the most important ideology of Islamic finance, complying with Islamic law, prohibiting interest, and sharing the profit and loss. Through building the Islamic banking brand, people will be aware about it and gradually adopt Islamic banking in the future.

## Note

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