PATRONAGE BEHAVIOUR OF NIGERIANS TOWARDS ISLAMIC BANKING: A DISCRIMINANT ANALYSIS APPROACH

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ABSTRACT
Islamic finance presents a new avenue as a novel alternative to the conventional financial set-up in this country. The purpose of this study is to assess the patronage behaviour of Nigerians towards Islamic banking. The objectives of this study have been met by conducting a survey to elicit the responses from retail customers of both Islamic and non-Islamic banks in the city of Kaduna, North Western Nigeria. The survey was carried out among both Muslims and non-Muslims to find out about the awareness levels, patronage, motivation and perception towards Islamic banking in Nigeria while discriminant analysis was used in studying the difference between the demographic variables of the respondents and perceptions of male and female with regard to the general perception and awareness of Islamic banking and difference between those who practice Islamic methods of finance and those who do not with regard to the general perceptions, awareness and patronage towards Islamic banking. Results indicated that Islamic banking is having low level of awareness among the respondents. However, the attitude towards adoption of Islamic Banking seems encouraging, as reflected in the study. The future directions for this research could be carried out by drawing a cluster across the rest of the country. This may help to understand and get a better and broader perspective of the need for Islamic banking and hence, its prospects in Nigeria.

Keyword: Patronage, Banking, Islamic, Behaviour, Finance, Nigeria

INTRODUCTION
Islamic banking (IB) is any banking activity of a financial institution which operates on the basis of and according to the principles of Islamic law (i.e. “Shariah”). Islamic finance is any finance activity which is carried out within
the stipulated principles of Islamic law. The earliest instances of Islamic banking can be traced back to the time when the Prophet Muhammad himself acted as a trading partner with his wife, who was already a wealthy and a rich business widow at the time of his marriage with her. He used to take her merchandise from Makkah to Syria and bring in rich profits due to his high levels of integrity and business acumen. However, the commencement of the formal Islamic banking system was with the advent of Mit Ghamr Savings Bank in Egypt as early as 1963. It was only during the mid-seventies that the first private commercial bank was established in Dubai. The establishment of regulatory bodies such as Accounting and Auditing Organization for Islamic financial institutions (AAOIFI) in the 1990s and Islamic Financial Services Board (IFSB) in 2002 to oversee the standardization of the banking practices of Islamic methods of finance has also contributed to the growth of Islamic financial institutions across the globe.

The emergence of Islamic banking (IB) in the Muslim world has remained the most inspiring and outstanding financial and economic phenomenon of the 20th century. Hence, countries like Pakistan, Iran and Sudan adopted the Islamic financial system as the mainstream for their banking and economic activities. Other countries embraced the dual banking system like the case in Malaysia, Bahrain, Saudi Arabia, Egypt and Algeria among others. Unfortunately, none of these two types is available in Nigeria in view of her huge Muslim population of over 80 million, which is almost equals the total Muslim population of Algeria, Tunisia and Morocco. This situation has continued to generate a lot of concerns in the last two decades and this situation explained the enormous efforts being made over the years to ensure the establishment and operation of IBs in Nigeria. Meanwhile, the agitations for IBs in Nigeria dates to the 1990s when the idea was first mooted. The efforts gained a better momentum with the promulgation of the Banks and Other Financial Institutions Decrees (BOFID) 24 and 25 of 1991, which replaced the Banking Act of 1969. This is in view of the landmark provisions made for the establishment of non-Interest banking in the country. Subsequently, two licenses were granted in 1992 but unfortunately, none could commence operation until the former Habib Nigeria Bank Limited (now Bank PHB) pioneered a non-interest banking window in 1999 (Umar, 2011; & Usman, 2003). Despite this giant move by the bank, the momentum for continuity could not be sustained due to lack of the required political will and
determination. In view of this ugly development, a new dawn for banking operation in Nigeria came to limelight when the Central Bank of Nigeria (CBN) recently enacted new provisions for the proper establishment and operation of Islamic banking through what it conceptualized as “Non-Interest Financial Institutions” (NIFI). The circular containing the provisions is classified as Circular Reference No. FPR/DIR/CIR/GEN/01/010, which partly reads:

“\textit{The Framework for the Regulation and Supervision of Institutions Offering Non-Interest Financial Services in Nigeria as well as the following supporting guidelines: i. Guidelines on Shariah Governance for Non-Interest Financial Institutions in Nigeria; and ii. Guidelines on Non-Interest Window and Branch Operations of Conventional Banks and Other Financial Institutions (CBN, 2011a)}”.

As a matter of fact, this newly released framework for Non-Interest Financial Institutions has added a lot of prospect and dynamism to the Islamic banking project in the country. Hence, this bold attempt and step by the CBN signalled a new and bright future for Islamic banking industry in the country. This study seeks to empirically examine the patronage, growth and prospects of Islamic Banking in Nigeria.

STATEMENT OF THE PROBLEM
The likely problems and challenges that hinder the immediate start-up of the Islamic Banking in Nigeria included general perceptions particularly on the role of the CBN, capital inadequacy, lack of Shari’ah governance institutions, shortage of adequate and qualified manpower and phobia on the part of non-Muslims among others. Similarly, based on the literature reviewed, it became evident that there have been no formal studies conducted to study the patronage behaviour of Nigeria towards Islamic banking, involving both Muslim and non-Muslim retail customers of banks in Nigeria. Therefore, this pioneering research is an effort to fill this gap and is carried out to examine the prospects of Islamic banking in Nigeria by studying the awareness levels, patronage factors, perception of the benefits and motivation towards Islamic banking.

RESEARCH QUESTIONS
This study was undertaken to address the following research questions.
What is the difference between the demographic variables of the respondents and perceptions of male and female with regard to the general perception and awareness of Islamic banking?

What is the difference between those who practice Islamic methods of finance and those who do not with regard to the general perceptions, awareness and patronage towards Islamic banking?

RESEARCH OBJECTIVES
The following objectives were framed in order to get answers to the above questions.

To examine if any difference exists between the demographic variables of the respondents and perceptions of male and female with regard to the general perception and awareness of Islamic banking.

To identify the difference between those who practice Islamic methods of finance and those who do not with regard to the general perceptions, awareness and patronage towards Islamic banking.

RESEARCH HYPOTHESES
Ho₁: There is no significant difference between the demographic variables of the respondents and perceptions of male and female with regard to the general perception and awareness of Islamic banking.

Ho₂: There is no significant difference between those who practice Islamic methods of finance and those who do not with regard to the general perceptions, awareness and patronage towards Islamic banking.

LITERATURE REVIEW
Empirical Framework
Although the concept and practice of Islamic finance has been in vogue as early as the time of Prophet Muhammad, the first formal Islamic banking transaction was conducted in Mit Ghamr in Egypt as late as in 1963 only. Islamic Banking is a banking activity carried out based on the principles laid out in Shariah, i.e. the laws of Islamic jurisprudence. Since Muslims cannot receive or pay interest, they are unable to conduct business with conventional banks. Gerrard and Cunningham (1997), Chapra and Khan (2000) highlighted the need to establish an institution that would help to set regulatory standards and a framework for supervision of Islamic financial institutions. Bagsiraj
(2003) in his project, “Islamic financial institution of India: Progress, Problems and Prospects”, stated that in India there are about 300 Islamic financial institutions but very little is known about their functioning, socio-economic performance and potential.

Vasu (2005), while discussing the future of Islamic banking and finance in India, discussed the interest free mechanism as an essential feature of the Islamic finance. Rustam et al. (2011) examined the perception of corporate customers towards Islamic banking products and services by using a random sample of 60 corporate customers of six Pakistani Islamic banks and found that the Islamic banking products and services have a good potential within the Pakistani corporate sector. In this study, which involved only Muslims as respondents, 55% indicated their willingness on introduction of Islamic banking system as a replacement to conventional banking system.

In an exploratory research among 103 expatriate workers in Saudi Arabia, of whom majority were Indian, the perception of non-Muslims towards Islamic banking, was studied by Hidayat and Al-Bawardi (2012). In the Nigerian context, a few studies have been done in this regard. A study by Amin (2012) using a non-probability sampling of 100 respondents from the state of Zamfara showed that some Muslims are not inclined towards following the principles of Shariah while investing. Another study carried out by Muniswamy et al. (2013) among 150 teachers from 10 schools in Sokoto, revealed that significant difference exists between Muslims and non-Muslims in their willingness to accept Islamic finance.

Khattak and Kashif-Ur-Rehman (2010) investigated the relationship between different demographic variables and the satisfaction and awareness of the customers of the Islamic banking industry by taking a sample of 156 respondents from different cities in Pakistan. Haque (2010) conducted a face-to-face interview of 473 Malaysian customers to study the attitudinal difference of Malaysian customers about Islamic banking and found Malaysian consumers have positive attitude towards Islamic banking and a significant attitudinal difference exists only between Malay & Chinese and between Chinese & Indian, while the overall attitudes of all three races were positive towards Islamic banking. Results of this study also revealed that there are attitudinal differences between males and females. Haron et al. (1994) surveyed 301 Muslim and non-Muslim commercial bank customers in Malaysia to study their bank patronage factors by collecting data through self-
administered questionnaire. Khoirunissa (2003) studied the factors motivating consumers' preference towards saving in Islamic banking by using a purposive sampling of 95 respondents from two Islamic banks in Indonesia.

Theoretical Framework
Theoretical framework for a study of this nature is necessary for the proper grasp and understanding of the relationship between the perceptions, prospects and IBs, especially that the IBs are regarded as the new financial bride in the global economic arena. The IBs parade outstanding characteristics and ideals like fairness, transparency, accountability and above all, their combination of “uncompromising religious truths with modern-day financial savvy” (Jama, 2009). Therefore, in order to better appreciate the direct and positive link between both customers perception and IBs, the Stakeholder theory and the Principal-Agent theory have been adopted for this study. In view of this, the stakeholder theory is often considered as a type of approach that deals with the way stakeholders perceive the establishment and the ongoing operations of a business. Hence, a stakeholder is described as anyone who has a stake or interest in the existence of a thing. As a matter of fact, all stakeholders are identified by their interests, which are intrinsically regarded as valuable, even though not self-evident. In this vein, Freeman (1984) defined stakeholders as: “any group or individual who can affect or is affected by the achievement of the firm’s objectives”. Also, Freeman (2004) regarded those groups who are vital to the survival of an organization as the stakeholders. Similarly, Donaldson and Preston (1995) noted that the stakeholder theory implies that every legitimate person/group participating in the activities of a firm is majorly concerned about the benefits to be derived. In the same token, the principal-agent theory also deals with the issue of interest and the desire to protect it. Hence, the theory means a situation when one person acts in the interest of another e.g. the relationship between the shareholders and managers or between the managers and employees in a corporation are good examples of principal-agent relationship. However, this relationship ranges from the simple to the complex/advanced type as the case between the customers and IBs in some countries today. According to Al-Jarhi (2006, p. 19), “banking theory studies finance as process that runs among three parties: a principal, an agent and an intermediary, where both the principal and agent jointly...
financed a project which is managed by the agent and partly financed by the principal”. Therefore, the central bank is the principal who must ensure that other banks like the commercial banks and IBs conduct their affairs in line with the rule of the game and particularly to protect the interests of the customers and the economy as a whole.

**METHODOLOGY**

For the purpose of this study, one major city from North West Nigeria was chosen. This city is Kaduna. The retail customers of both private and public-sector banks in this city formed the sample for this study. The reason why this city was chosen is two-fold. Firstly, it was because this city has a very large population of Muslims and Christians. Secondly, the headquarters of the first Islamic Bank is located in this city. The sampling technique used is convenience sampling. The sample size was determined by using the scientific method by allowing the standard error at 5% level. After determining the sample size using Krejcie & Morgan (2010), the sample size was fixed at 680. For scrutiny of the sample, incomplete and dual entry questionnaires were removed and for the analysis, 687 questionnaires were considered suitable for analysis and discussion. The data for this study were obtained through a survey questionnaire, which was designed keeping in mind the research objectives outlined earlier. The questionnaire was structured with seven sections and the responses were sought on a five-point Likert’s scale, ranging from “Highly aware” to “Not at all aware” or from “Strongly agree” to “Strongly disagree” for all the sections except the first one. The various variables for the bank selection criteria were determined from a previous study carried out by Erol and El-Bdour (1989), Erol et al. (1990). Also, while exercising the bank selection criteria for Islamic banks, the religious issue was also considered important (Haron et al., 1994; Metawa & Almossawi, 1998). Principal factor analysis was conducted on the data collected while discriminant analysis was used in studying the difference between the demographic variables of the respondents and perceptions of male and female with regard to the general perception and awareness of Islamic banking and difference between those who practice Islamic methods of finance and those who do not with regard to the general perceptions, awareness and patronage towards Islamic banking.
LIMITATIONS OF THE STUDY
This study is confined to the city of Kaduna in North Western Nigeria and so the findings of the study should be placed in proper perspective for application elsewhere. Similarly, this study is based on the current provisions in Banking and Other Financial Institutions Act (BOFIA) and a more broad-based study would be needed to determine on the line of amendments in BOFIA.

RESULTS AND DISCUSSION
Discriminant analysis is used to distinguish among the various religions on the basis of the perceptions about and prospects of Islamic banking in Nigeria. The general perceptions on Islamic banking, awareness of the terminologies of Islamic banking and the awareness of terminologies on Islamic methods of finance are categorized to assess the prospects of Islamic banking in the sample area. Similarly, for the purpose of banking selection criteria, 10 factors are assessed and the level of importance for each considered by the respondents while exercising the choice of bank is measured. The tests of equality of group means measure each independent variable’s potential before the model is created. Wilks’ lambda, F statistic and its significance level are presented in Table 1.

It has been observed that the dimensions such as: perceptions on Islamic banking, awareness of terminologies of Islamic banking, awareness of terminologies of Islamic methods of finance, awareness, religious reasons, products and services, vicinity/ease of access, attractiveness, reputation, cost/benefit, perception, motivation and bottlenecks for implementation have higher impact on prospects of Islamic banking in Nigeria at 0.05 significance levels. Arrived value of Wilks’ lambda is significant to test the discriminant model, and if the F-test shows significance at 0.05 confidence levels, then the individual independent variables are assessed to see which differ significantly in mean by group and these are used to classify the dependent variable.

The ranks and natural logarithms of determinants printed are those of the group covariance matrices. In ANOVA, an assumption is that the variances were equivalent for each group but in discriminant analysis the basic assumption is that the variance co-variance matrices are equivalent. Box’s M tests the null hypothesis that the covariance matrices do not differ between groups formed by the dependent variable.
The log determinant is not significant so that the null hypothesis that the groups do not differ can be retained. The log determinants appear similar and Box’s M is 601.185 with F = 3.041 which is significant at p < 0.000 (Table 2). The canonical correlation is the multiple correlation between the predictors and the discriminant function. With only one function it provides an index of overall model fit which is interpreted as being the proportion of variance explained (R2). Arrived canonical correlation of 0.596 and 0.130 suggests the model explains variation in the grouping variable. Wilks’ lambda indicates the significance of the discriminant function. The above indicates the first test function, a highly significant function (p < 0.000) and provides the proportion of total variability not explained, i.e. it is the converse of the squared canonical correlation. So, we have 63.4% unexplained. It also indicates the second test function, not significant function (p > 0.000) and provides the proportion of total variability explained, it is the converse of the squared canonical correlation. So, we have 98.3% explained or accounted for by this model.
The interpretation of the discriminant coefficients (or weights) is like that in multiple regression. Table 4 provides an index of the importance of each predictor like the standardized regression coefficients (beta’s) did in multiple regression.

### Table 4. Wilks’ lambda

<table>
<thead>
<tr>
<th>Test of function(s)</th>
<th>Wilks’ lambda</th>
<th>Chi-square</th>
<th>Df</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 through 2</td>
<td>0.634</td>
<td>308.510</td>
<td>26.0</td>
<td>0.000</td>
</tr>
<tr>
<td>2</td>
<td>0.583</td>
<td>11.534</td>
<td>12.0</td>
<td>0.484</td>
</tr>
</tbody>
</table>

### Table 5. Standardized canonical discriminant function coefficients

<table>
<thead>
<tr>
<th>Classification different dimensions</th>
<th>Function 1</th>
<th>Function 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceptions on Islamic banking</td>
<td>0.127</td>
<td>-0.042</td>
</tr>
</tbody>
</table>

Function 1

The sign indicates the direction of the relationship. The following dimensions score was the strongest predictor while high prospects of Islamic banking in Nigeria is important as a predictor.

- Perceptions on Islamic banking
- Awareness of terminologies of Islamic banking
- Awareness
- Religious reasons
• Attractiveness
• Reputation
• Perception
• Motivation
• Bottlenecks for implementation

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Func</th>
<th>Reca</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awareness of terminologies of Islamic banking</td>
<td>0.863(*)</td>
<td>0.179</td>
</tr>
<tr>
<td>Motivation</td>
<td>0.572(*)</td>
<td>-0.443</td>
</tr>
<tr>
<td>General perceptions on Islamic banking</td>
<td>0.567(*)</td>
<td>0.024</td>
</tr>
<tr>
<td>Perception</td>
<td>0.532(*)</td>
<td>-0.215</td>
</tr>
<tr>
<td>Religious reasons</td>
<td>0.517(*)</td>
<td>0.114</td>
</tr>
<tr>
<td>Bottlenecks for implementation</td>
<td>0.495(*)</td>
<td>-0.119</td>
</tr>
<tr>
<td>Awareness</td>
<td>0.439(*)</td>
<td>0.140</td>
</tr>
<tr>
<td>Reputation</td>
<td>0.335(*)</td>
<td>-0.024</td>
</tr>
<tr>
<td>Cost/Benefit</td>
<td>0.327(*)</td>
<td>-0.052</td>
</tr>
<tr>
<td>Products and services</td>
<td>0.315(*)</td>
<td>0.198</td>
</tr>
<tr>
<td>Awareness of terminologies of Islamic methods of finance</td>
<td>0.312(*)</td>
<td>0.240</td>
</tr>
<tr>
<td>Vicinity/Ease of access</td>
<td>0.175(*)</td>
<td>-0.026</td>
</tr>
<tr>
<td>Attractiveness</td>
<td>0.245</td>
<td>-0.302(*)</td>
</tr>
</tbody>
</table>

The above variables with large coefficients stand out as those that strongly predict allocation to the prospects of Islamic banking in Nigeria.

Function 2
The sign indicates the direction of the relationship. The following dimensions score was the strongest predictor, while high prospects of Islamic banking in Nigeria importance as a predictor.

• Awareness of terminologies of Islamic banking
• Awareness of terminologies of Islamic methods of finance
• Awareness
• Religious reasons
• Products and services
• Vicinity/ease of access
• Reputation
The above variables with large coefficients stand out as those that strongly predict allocation to the prospects of Islamic banking in Nigeria.

Function 1
\[ D = (0.022) \text{ general perceptions on Islamic banking} + (0.172) \text{ awareness of terminologies of Islamic banking} + (-0.008) \text{ awareness of terminologies of Islamic methods of finance} + (0.027) \text{ awareness} + (0.052) \text{ religious reasons} + (-0.006) \text{ products and services} + (-0.017) \text{ vicinity/ease of access} + (0.054) \text{ attractiveness} + (0.003) \text{ reputation} + (-0.001) \text{ cost/benefit} + (0.003) \text{ perception} + (0.033) \text{ motivation} + (0.003) \text{ bottlenecks for implementation} - (-5.031) \]

Function 2
\[ D = (-0.007) \text{ general perceptions on Islamic banking} + (0.033) \text{ awareness of terminologies of Islamic banking} + (0.029) \text{ awareness of terminologies of Islamic methods of finance} + (0.044) \text{ awareness} + (0.079) \text{ religious reasons} + (0.131) \text{ products and services} + (0.003) \text{ vicinity/ease of access} + (-0.153) \text{ attractiveness} + (0.081) \text{ reputation} + (-0.017) \text{ cost/benefit} + (-0.018) \text{ perception} + (-0.156) \text{ motivation} + (-0.029) \text{ bottlenecks for implementation} - (0.061) \]
Group centroids table inferred that, the respondents belonging to Muslim religion have a mean of 0.480 and 0.006, while Christian and Traditionalist have a mean of –0.936, –0.506, –1.183 and 0.102, respectively. Cases with scores near to a centroid are predicted as belonging to the Muslim religion group (see Table 7).

The classification results reveal that 68.9% of respondents were classified correctly into predicted group membership. This overall predictive accuracy of the discriminant function is called the “hit ratio”. Muslim religion respondents were classified with slightly better accuracy (77.4%) than Traditionalist and Christian (49.1% and 46.2%, respectively) (see Table 17).

Table 7: Functions at group centroids

<table>
<thead>
<tr>
<th>Religion</th>
<th>Function 1</th>
<th>Function 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Muslim</td>
<td>0.480</td>
<td>0.006</td>
</tr>
<tr>
<td>Christian</td>
<td>–0.936</td>
<td>–0.506</td>
</tr>
<tr>
<td>Traditionalist</td>
<td>–1.183</td>
<td>0.102</td>
</tr>
</tbody>
</table>

Table 8. Classification of different dimensions with respect to religion

<table>
<thead>
<tr>
<th>Classification of different dimensions with respect to religion</th>
<th>Religion</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Muslim</td>
</tr>
<tr>
<td>General perceptions on Islamic banking</td>
<td>0.133</td>
</tr>
<tr>
<td>Awareness of terminologies of Islamic banking</td>
<td>0.353</td>
</tr>
<tr>
<td>Awareness of terminologies of Islamic methods of finance</td>
<td>0.059</td>
</tr>
<tr>
<td>Awareness</td>
<td>0.618</td>
</tr>
<tr>
<td>Religious reasons</td>
<td>0.223</td>
</tr>
<tr>
<td>Products and services</td>
<td>0.082</td>
</tr>
<tr>
<td>Practical ease of access</td>
<td>0.073</td>
</tr>
<tr>
<td>Attractiveness</td>
<td>0.318</td>
</tr>
<tr>
<td>Reputation</td>
<td>0.082</td>
</tr>
<tr>
<td>Cost/benefit</td>
<td>0.174</td>
</tr>
<tr>
<td>Perception</td>
<td>–0.102</td>
</tr>
<tr>
<td>Motivation</td>
<td>0.310</td>
</tr>
<tr>
<td>Bottlenecks for implementation</td>
<td>0.062</td>
</tr>
<tr>
<td>Constant</td>
<td>–25.321</td>
</tr>
</tbody>
</table>

13 | P a g e
CONCLUSION AND SUGGESTIONS

Although Islamic banks can offer many benefits, it has to be tangibly felt by at least a few so that others could adopt the same. In order for this to happen, a lot of promotional activities need to be undertaken to create awareness among the masses. In order to attract potential customers to its fold, it needs to have in place the state-of-the-art IT infrastructure not only to reach out to the customers but also to give the customers the comfort of doing banking operations without commuting to the banking premises. Islamic banks are regulated by both the Central bank and “Shariah” Board. The present regulatory framework in Nigeria does not permit the functioning of a full-fledged Islamic bank in all state of the federation.

Islamic banking presents a window of opportunity to a country like Nigeria, where a significant percentage of the population is still unbanked due to the religious prohibitions of the conventional banking systems. Therefore, Islamic banking, if implemented, will not only result in the financial inclusion of the marginalized sections of the society but also bring about socio-economic empowerment of the nation by way of poverty reduction. While such a scenario presents an opportunity, it also has its challenges. Lack of trained and skilled manpower to manage and administer the new set up and the lack of awareness of the benefits of the system among the masses might delay the early onset of this sunrise industry. Once the challenges are overcome, Nigeria will surely stand to gain, as it can attract a lot of foreign remittances and thereby fulfil its dream of becoming an African financial hub.

SCOPE FOR FURTHER RESEARCH

The future directions for this research could be carried out by drawing similar clusters across the rest of the country. This may help to get a better and broader perspective of the need for Islamic banking vis-a-vis its prospects in...
Nigeria. The results of the present study are reflective of what would be found in another sample area which does not have any established Islamic banking entity. Also, now that there are efforts being made towards the establishment of such institutions by the various Muslim bodies of this country, it would be interesting to find out about the attitudes of Muslims in particular, and others in general, if such Islamic finance options are made available to them.

REFERENCES


