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ISLAMIC BANKING IN SOUTH AFRICA: AN EXPLORATORY STUDY OF PERCEPTIONS AND BANK SELECTION CRITERIA AMONG CHARTERED ACCOUNTANTS IN SOUTH AFRICA

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ABSTRACT

The growth of Islamic banking and financing as an alternative financial management model is flourishing in new regions. South Africa is one of the markets which is opening up to Islamic banking and finance as the need for financial products that comply with *Shariah* is increasing, among both Muslims and non-Muslims. It is, thus essential that the extent to which the true benefits of Islamic banking are being realised within the South African context are examined as it is important that this practice be properly understood by its constituents and that the perceptions of Islamic banking be well managed. The purpose of this research is to study the perceptions of Islamic banking in South Africa. More specifically, the study seeks to explore the current level of awareness of the culture of Islamic banking and the criteria that shape a consumer's banking choice.

A comparative, quantitative study between Muslim and non-Muslim chartered accountants was conducted using a structured questionnaire which contained specific questions relating to perceptions, awareness and bank selection criteria. The results of the study indicate that the majority of Muslim and non-Muslim chartered accountants have a low level of knowledge about Islamic banking terms. As expected there are differences in the perceptions of Islamic banking between Muslim and non-Muslim chartered accountants with religion emerging as the primary reason for Muslims engaging with an Islamic bank. However, non-Muslims may also be attracted to this form of banking if they were more aware of its principles and methods. As regards the issue of bank selection criteria, most of the respondents were engaged in conventional banking and the provision of fast and efficient services was clearly primary importance to both Muslim and non-Muslim chartered accountants.

Keywords: Islamic banking, South Africa, perceptions, awareness, bank selection criteria, Muslim, non-Muslim, chartered accountants

DECLARATION

I, Mariam Vawda, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Commerce in Accountancy at the University of the Witwatersrand, Johannesburg. The report has not been submitted before for any degree or examination in this or any other university.

Mariam Vawda

Signed at _____

On the _____ day of _____ 2013

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TABLE OF CONTENTS

ABSTRACT ..... **II**

DECLARATION ..... **III**

ACKNOWLEDGEMENTS ..... **IV**

LIST OF FIGURES ..... **VII**

LIST OF TABLES ..... **IX**

CHAPTER 1: INTRODUCTION **10**

1.1 Background and purpose of the study 10
1.2 Context of the study 14
1.3 Objectives 17
1.3.1 Question 1 18
1.3.2 Question 2 18
1.3.3 Question 3 18
1.4 Significance of the study 18
1.5 Assumptions 19
1.6 Definition of terms 20

CHAPTER 2: LITERATURE REVIEW **22**

2.1 Background to Islamic banking 22
2.2 The growth of the Islamic banking sector 32
2.3 Perceptions of Islamic banking 35
2.4 Awareness of Islamic banking 44
2.5 Criteria for the selection of a bank 47

CHAPTER 3: RESEARCH METHODOLOGY **54**

3.1 Theory of research 54
3.2 Research instrument 56
3.3 Population and sample 64
3.4 Validity and reliability 66

CHAPTER 4: RESULTS AND DISCUSSION 71

4.1 INTRODUCTION 71

4.2 DEMOGRAPHIC PROFILE OF RESPONDENTS 71

4.3 THE CULTURE OF ISLAMIC BANKING AND FINANCE 79

4.3.1 KNOWLEDGE LEVELS OF ISLAMIC BASIC AND BANKING TERMS 79

4.4. AWARENESS OF THE PRINCIPLES AND METHODS OF ISLAMIC BANKING 83

4.4.1 AWARENESS OF MUSLIMS AND NON-MUSLIMS OF THE PRINCIPLES AND METHODS OF ISLAMIC BANKING .. 84

4.5 BANK SELECTION CRITERIA 94

4.5.1 FACTOR ANALYSIS 94

4.5.2 IMPORTANCE OF BANK SELECTION CRITERIA 98

CHAPTER 5: CONCLUSION 105

5.1 INTRODUCTION 105

5.1.1 PERCEPTIONS OF THE CULTURE OF ISLAMIC BANKING AND FINANCE AND THE MEANING OF FUNDAMENTAL TERMS USED IN ISLAMIC BANKING AND FINANCE 106

5.1.2 AWARENESS OF THE PRINCIPLES AND METHODS OF ISLAMIC BANKING 107

5.1.3 BANK SELECTION CRITERIA 109

5.2 CONCLUSIONS FROM THE STUDY 110

DELIMITATIONS AND LIMITATIONS OF THE STUDY 112

FUTURE RESEARCH 113

REFERENCES 114

LIST OF APPENDICES 123

LIST OF FIGURES

Figure 4.1: Gender of the respondents 71

Figure 4.2: Religion of the respondents 72

Figure 4.3: Gender of respondents by religion 73

Figure 4.4: Age group of respondents 73

Figure 4.5: Age group of respondents by religion 74

Figure 4.6: Marital status of respondents 75

Figure 4.7: Marital status of respondents by religion 75

Figure 4.8: Type of chartered accountant respondent 76

Figure 4.9: Type of chartered accountant respondent by religion 77

Figure 4.10: Type of banking in which the respondents are engaged 78

Figure 4.11: Type of banking in which the respondents are engaged by religion 78

Figure 4.12: Distribution of respondents in terms of knowledge levels 80

Figure 4.13: Distribution of respondents in terms of knowledge levels and by religion 81

Figure 4.14: Mean level of knowledge by religion 82

Figure 4.15: Reasons which motivate people to deposit their money at an Islamic bank 84

Figure 4.16: Reasons which motivate people to deposit their money at an Islamic bank by religion 85

Figure 4.17: Reaction of customers to bank announcement of no profit distribution on investments 86

Figure 4.18: Reaction of customers to bank announcement of no profit distribution on investments by religion 87

Figure 4.19: What you would do if you unexpectedly acquired a substantial sum of money ..88

Figure 4.20: What you would do if you unexpectedly acquired a substantial sum of money by religion 89

Figure 4.21: Proportionate agreement with statements about Islamic banking.....90

Figure 4.22: Proportionate agreement with statements about Islamic banking by religion 91

Figure 4.23: Mean agreement with statements about Islamic banking by religion (I don't know excluded) 92

Figure 4.24: Mean importance factors of bank selection criteria by religion.....98

Figure 4.25: Provision of fast and efficient service.....100

Figure 4.26: Confidentiality of bank 100

Figure 4.27: Confidence in bank's management.....101

Figure 4.28: Bank's reputation and image 101

Figure 4.29: Financial strength and soundness 102

LIST OF TABLES

Table 1.1: Definitions of terms used in Islam and Islamic banking.....20

Table 2.1: Key differences between Islamic banks and conventional banks.....28

Table 4.1: Descriptive statistics of factors by religion 97

Table 4.2: Ranking of bank selection criteria by religion..... 99

CHAPTER 1: INTRODUCTION

1.1 Background and purpose of the study

Islamic banking and finance are establishing themselves as viable alternatives to conventional, interest-based banking and financing (Farook, Hassan, & Lanis, 2011; Samad, Gardner, & Cook, 2005). Islamic banking refers to a system of banking or banking activity that is consistent with *Shariah* (Islamic Law) principles and which is guided by Islamic economics (Kolakowski, 2012). Unlike conventional commercial banks, Islamic banks undertake their operations without either paying or receiving interest (Ackermann & Jacobs, 2008; A. Ahmad, Kashif-ur-Rehman, Saif, & Safwan, 2010; Karbari, Naser, & Shahin, 2004). In addition, their banking operations are based on an equity-participation system in which a predetermined rate of return is not guaranteed (Akram, Rafique, & Alam, 2011; Al-Ajmi, Hussain, & Al-Saleh, 2009; Hamid & Azmin, 2001). While Islamic banking forms part of the overall Islamic finance sector, Islamic finance itself involves structuring financial instruments and financial transactions in such a way that they are in accordance with Muslim strictures against the payment of interest and engaging in gambling (Kolakowski, 2012).

The increased prevalence of Islamic finance has led many countries to grant licences to financial institutions allowing them to operate on the basis of Islamic *Shariah* principles (Al-Ajmi et al., 2009). Taking into consideration both a country's Muslim population and per capita income, the largest markets for Islamic finance include Turkey, Indonesia, Saudi Arabia, the United States of America (USA) and France (Abedniya, Zaeim, & Hakimi, 2011; A. Gait & Worthington, 2008; A. A. Rehman, 2012; Schmith, 2005) with the mainstream financial institutions in these countries relying on the ethical qualifications of Islamic finance (Sairally, 2005). The fastest growing markets for Islamic banking are Malaysia, Bahrain, the United Arab Emirates, Indonesia and Pakistan (A. Gait & Worthington, 2008; A. H. Gait & Worthington, 2009; Muhamad, Melewar, & Alwi, 2012; Schmith, 2005). Qorchi (2005) states that the reasons behind the recent growth in Islamic finance include the following: Firstly, the strong demand from a large number of immigrant and non-immigrant Muslims for *Shariah* compliant financial services and

transactions; secondly, the growing oil wealth (P. Imam & Kpodar, 2011; Rashid & Hassan, 2009), with the demand for suitable investments soaring in the Gulf region and, finally, the competitiveness of many of the products offered by Islamic finance which is attracting both Muslim and non-Muslim investors (Anwar, 2009).

Islamic finance is not restricted to Islamic countries (Iqbal, 1997; Muhamad et al., 2012; Mumu & Guozho, 2012) and it is a misconception that it applies only to those nations that practise the Islamic faith (A. Imam & Zubairu, 2011). In fact Islamic finance is spreading wherever there is a sizable Muslim community and it is an alternative to the existing banking practice. It is a financial system which is intended to promote economic growth while maintaining the morals of the Islamic communities (A. Imam & Zubairu, 2011; Iqbal, 1997). In Abdullah, Sidek, and Adnan (2012), it is reported that Islamic banking is fast gaining ground with non-Muslims worldwide as a result of its strict lending principles. This, in turn, is a reflection of the efforts of industry to transcend religious beliefs inorder to gain a greater market share. In view of the fact that *Shariah* finance is a blend of Islamic economics and modern lending principles, its system may be sold to Muslims and non-Muslims alike. It is interesting to note that it would appear that the current trend is toward a separation between Islamic and conventional banks (Qorchi, 2005). However, while some countries have opted for a clear separation between these banks, others have allowed conventional banks to set up Islamic windows, opening the way for some of the largest multinational banks to participate (Ebrahim & Joo, 2001; A. H. Gait & Worthington, 2009; Qorchi, 2005).

M. M. Khan and Bhatti (2008) report that increasing numbers of Western financial institutions are using Islamic banking and finance as an opportunity to diversify their operations, to attract oil wealth and to gain local Muslim clientele. In turn, Islamic financial institutions are becoming partners with Western market players to promote Islamic banking and finance products and services to Western markets. For example, Islamic banking and finance are gaining momentum in the USA and Europe, especially in view of the fact that many of the conventional banks have realised that Islamic banking provides opportunities to tap into new markets (Abedniya et al., 2011; Karbari et al., 2004; M. M. Khan & Bhatti, 2008; A. A. Rehman, 2012). These institutions are now more willing than before to effect changes to their banking and tax laws in order to accommodate Islamic banking and finance practice. Financial institutions such as

Citibank, HSBC, ABN AMRO and Kleinworth Benson have promoted Islamic banking and finance in the USA and European countries, thus signalling a greater awareness of and expansion into Islamic banking and finance practice. This, in turn, has resulted in the Western market environments becoming more conducive to Islamic banking and finance (Ebrahim & Joo, 2001; Karbari et al., 2004; M. M. Khan & Bhatti, 2008; Noman, 2002). More recently the creation of the Islamic Financial Services Board (IFSB) in 2002, facilitated by the International Monetary Fund (IMF), is serving as an important indication that Islamic finance is becoming a major player in the international financial services markets and that it is about to expand its role in the financial services industry. This signifies its potential role in providing funds for international development projects, trade and commerce (Khaled, K, & Abdel, 2011).

The growth of Islamic finance as an alternative financial management model is also flourishing in Africa. With a Muslim population of approximately 495 million, the continent holds promising growth opportunities for Islamic finance (Abdiseid, 2011). Although there are already some Islamic banking activities taking place in a number of countries, mainly in the north of the continent, the appetite for financial products that comply with *Shariah* is increasing. This is occurring mainly in the sub-Saharan region as the continent awakens to the ideological and practical richness and relevance of this form of alternative banking (Abdiseid, 2011).

Omoyibo and Ajayi (2012) report in their study that it is a known fact that rapid financial development has helped boost to growth in most of the developing countries and is currently paving the way for the emerging developing nations, in particular, Hong Kong, Singapore, Brazil, Russia, India and China. The role and functions of the banking system in a contemporary economy are of great significance to the development process and, therefore, are often considered as the heart of every prosperous economy (Omoyibo & Ajayi, 2012). South Africa, as a new democratic state, is emerging as a significant actor both on the African continent and internationally. In fact, South Africa, together with India, Brazil and China, have been identified as being among the fastest growing developing economies, and Islamic enterprises are firmly integrated in this developmental process (Badroen, 2008). Islamic banking and finance could be a vehicle for promoting a culture of entrepreneurship and for financing infrastructure projects that may contribute positively to the growth of the South African economy.

According to Zuhdi Abrahams, director in financial services at PricewaterhouseCoopers (Harding, 2011), South Africa is well-positioned to promote the development of the Islamic finance industry on the rest of the continent. South Africa's robust regulatory and legislative structures, strict risk management frameworks, as well as governance and compliance structures, make it a possible springboard for companies into the rest of the continent. Harding (2011) reports that Pravin Gordhan, South Africa's minister of finance, is also keen to position South Africa as an Islamic financial hub. Gordhan recently stated that the development of Islamic finance in South Africa is critical to the expansion of the National Treasury's strategy to position the country as a gateway into Africa. The Treasury envisages South Africa as a central hub for Islamic product development and for ensuring the rollout of such products into African markets (Harding, 2011).

The Muslim population in South Africa is a minority group with an estimated 2.5 per cent of the total population of 47 million being Muslim (Badroen, 2008; Saini, Bick, & Abdulla, 2011). However, in line with the trends in a global context, the strength of the Muslim presence is manifesting in the establishment of Islamic banking in this predominantly Western environment. The South African banking sector has offered Islamic banking since the 1980s and has witnessed significant growth in this sector (Ackermann & Jacobs, 2008). Albaraka Bank is the leading Islamic bank in South Africa (Badroen, 2008) and is well established as an institution striving to operate totally within the confines of *Shariah* compliance. Other fully fledged Islamic banks that offer products according to *Shariah* law include Habib Bank and Oasis Asset Management (Saini et al., 2011). Some of the products and services offered by these Islamic banks include current accounts, savings accounts, and motor vehicle and property financing. In addition, major conventional banks in South Africa, such as First National Bank and Absa Bank, have started incorporating Islamic windows alongside their conventional banking practices (Badroen, 2008). The concept of "Islamic windows" allows the existing conventional banks to introduce Islamic banking products and services to their customers (N. Ahmad & Haron, 2002; Iqbal, 1997). As a result, South Africa has the potential to position itself as a leading Islamic finance hub on the African continent, creating greater opportunities for foreign investment, trade and new business partnerships (Hartigh, 2012).

Gerrard and Cunningham (1997) mention that, while the amount of published information concerning Islamic banking principles and their application in Muslim countries continues

to grow, relatively little of it relates to the application of these same principles in countries with small Muslin populations. However, this gap will possibly narrow over the years as Muslim banking becomes internationalised and forms part of the financial scene in those countries in which Muslims are in the minority (Gerrard & Cunningham, 1997). It is not possible for Islamic banking in a non-Muslim country to grow on the strength of Muslims alone and it has to be made attractive to non-Muslims as well (Anwar, 2009). In order to ensure a better understanding of Islamic banking, it is important that the practice be well understood by the constituents and that perceptions of Islamic banking are well managed. There is scant research on the perceptions of Islamic banking and bank selection criteria within an African and South African context and it is envisaged that this study will help to supplement the existing dearth of knowledge on the Islamic banking industry in South Africa. The purpose of this research is the study of perceptions of Islamic banking in this country. In particular, the research seeks to explore the level of awareness of the culture of Islamic banking and finance, and the criteria that motivate South African customers to choose a specific bank (whether an Islamic bank or a conventional bank).

1.2 Context of the study

The basic principle of Islamic banking is the prohibition of *riba* (interest) – the additional amount that is payable to the supplier of funds in return for the utilisation of such funds. This prohibition of *riba* is aimed at discouraging society from conducting business in such a manner that will encourage debt and passive participation in the economy (Ackermann & Jacobs, 2008). On the other hand, the modern banking system is based entirely on the principle of interest and, hence, the practices of the modern banking system are in conflict with the principles of Islam (Hossain, 2009). To charge interest to an individual who has been forced to borrow to meet his or her essential consumption requirement is considered an exploitive practice in Islam. The charging of interest on loans for productive purposes is also prohibited because this is not an equitable form of transaction (Hossain, 2009). In view of the fact that *riba* may not be used in financial transactions, profit and loss-sharing (PLS) arrangements and risk-sharing investments are used in Islamic banking as alternative methods for financial transactions. Under PLS schemes, the rate of return to depositors is uncertain and is known only after actual

profits have been accrued from the productive use of financial assets (Akram et al., 2011; Al-Ajmi et al., 2009; Lee, 2001; Saini et al., 2011). In conventional banking, however, the major source of profit is the difference in the interest rate at which the banks pay the depositor, and the rate at which the banks lend to companies and entrepreneurs (Hassan & Kabir, 2011).

This prohibition of *riba* is based on the principles of social justice, equality and property rights. Islam encourages the earning of profits but forbids the charging of interest because profits, which are determined *ex post*, symbolise successful entrepreneurship and the creation of additional wealth, whereas interest, which is determined *ex ante*, is a cost which accrues irrespective of the outcome of the business operation and it may not create wealth if there are business losses. Social justice demands that borrowers and lenders share rewards as well as losses in an equitable fashion, and that the process of wealth accumulation and distribution in the economy be fair and representative of true productivity (Iqbal, 1997).

Riba works against the Islamic concept of caretaking in that *riba* is a means of creating an unjust situation in terms of which the poor are disadvantaged by a situation in which they will never be able to escape the chains of debt (Ackermann & Jacobs, 2008; Mirza & Halabi, 2003). It may, therefore, be argued that Islamic banking prohibits economic activities that appear to be both morally and socially injurious (Qorchi, 2005; Saini et al., 2011). This prohibition arises from the Islamic principles that advocate for the establishment of an economic system in which all forms of exploitation are eliminated. It is believed that injustice is perpetuated when the financier is assured of a positive return without doing any work or sharing in the risk, while the entrepreneur, in spite of his or her management and hard work, is not assured of a positive return. In other words, Islamic banking promotes the establishment of justice between the entrepreneur and the financier (Ebrahim & Joo, 2001; Saini et al., 2011). Hence, money must operate through some actual economic activity or service as it is a means of production through creative entrepreneurial efforts. Money never becomes the objective but remains an intermediary and an instrument for real productive effort, for asset creation, for value added, and for the expansion of physical economic activity in a manner that benefits all sectors that participate in the economy as a whole (K. Ahmad, 2000; Mirza & Halabi, 2003)

Islamic banking derives its inspiration and guidance from the edicts of Islam and must conduct its operations strictly in accordance with the directives of *Shariah* (a set of rules and laws governing the economic, social, political and cultural aspects of Islamic societies). The core of *Shariah* laws originate from the rules dictated by the Quran and the practices and explanations rendered by Prophet Muhammad Peace Be Upon Him (PBUH), Hadith, Qiyas, Ijma and Ijtihad (Abedniya et al., 2011; A. Gait & Worthington, 2008; Iqbal & Mirakhor, 1999; Mirza & Halabi, 2003; Mumu & Guozho, 2012; Noman, 2002). The Quran uses the strongest terms in condemning and prohibiting the charging of interest while challenging those who are not prepared to abandon dealing with interest to prepare for war against Allah and His Messenger, Prophet Muhammad (PBUH) as Allah has clearly declared that the earnings based on interest are totally illegal and punishable (Hossain, 2009) In other words, it is not possible for a Muslim society to exist, or prosper, while it is at war with Allah and His Messenger (K. Ahmad, 2000). This implies that, if Muslims are to hope for the blessings and bounty of Allah, dealings in all forms of interest must cease.

In countries in which Islamic banking is operating, its coverage and extent vary significantly from situations where the sector is entirely Islamic (Iran and Sudan), to others where conventional and Islamic systems coexist (Indonesia, Malaysia, Pakistan and the United Arab Emirates) and to countries where there are one or two Islamic banks only (Karbari et al., 2004; Qorchi, 2005). A number of Muslim societies (e.g. Bahrain, Bangladesh, Brunei, Iran, Malaysia, Pakistan, Saudi Arabia and Sudan) follow the *Shariah* closely in many areas of life. Although the avoidance of interest had been deemed to be of prime concern for Muslims only, the undeniable success and growth of Islamic financial services may be said to a result of its ability to attract a large number of non-Muslim consumers from all over the world (Muhamad et al., 2012; Mumu & Guozho, 2012), and is now increasingly found elsewhere, including in the developing countries. This increasing popularity is mainly due to the ethical aspect of Islamic banking (Mumu & Guozho, 2012).

There is, however, an emerging understanding and application of Islamic banking and finance by both Muslims and non-Muslims, as well as by the conventional financial institutions (A. Imam & Zubairu, 2011). The conventional financial institutions are taking an increased interest in this system not only so as to enable them to reach the niche

market, but because there is money to be made (A. Imam & Zubairu, 2011). In view of the increasing rising demand for ethical investing, non-Muslim investors have also been looking for less risky alternatives since the onset of the global credit crisis in 2011 – an event that has cast doubt on many Western risk management practices (Abdullah et al., 2012).

In Muslim countries Islamic banking and finance are gaining momentum, with Muslims generally having a better understanding of Islamic banking and finance than non-Muslims. In other countries in which Muslims are in the minority, it is less clear whether Muslims have the same thorough understanding as the Muslins in Muslin countries because the people of these countries are not generally exposed to the culture of Islam. Although prior studies conducted by Al-Ajmi et al. (2009), Dusuki and Abdullah (2007), Erol and El-Bdour (1989), A. H. Gait and Worthington (2009), M. S. Khan and Mirakhor (1990), Metawa and Almossawi (1998), Naser, Jamal, and Al-Khatib (1999) and Rustam, Bibi, Zaman, Rustam, and Zahid-ul-Haq (2011) have investigated Islamic banking and finance in Muslim countries, there have been few studies conducted which have explored the extent to which non-Muslims understand Islamic banking (Abdullah et al., 2012; N. Ahmad & Haron, 2002). There has been considerable research conducted on those attributes of banking that appeal to customers and encourage them to bank with an Islamic bank, but very little on whether Muslims and non-Muslims would rank these attributes differently (Gerrard & Cunningham, 1997; Haron, Ahmad, & Planisek, 1994; Hin, Wei, Bohari, & Adam, 2011; Loo, 2010).

1.3 Objectives

Broadly speaking this research seeks to shed light on the awareness of Islamic banking on the part of both Muslim chartered accountants and non-Muslim chartered accountants in South Africa. Accordingly, the study aims to explore the perceptions of Islamic banking of these two broad groups and to investigate whether Muslim chartered accountants and non-Muslim chartered accountants value certain banking attributes and qualities differently.

This research was adapted from an international study conducted in Singapore by Gerrard and Cunningham (1997) and which provided a comparative analysis for this

study, which is conducted from the perspective of a developing economy. The outcome of this current comparative study, which is exploratory in nature, will provide useful insights into the awareness of the principles of Islam relating to banking and finance and the general culture of Islamic banking, in addition to comparing the bank selection criteria of Muslim chartered accountants and non-Muslim chartered accountants.

In this context the following three research questions were formulated:

1.3.1 *Question 1*

Will Muslims, in contrast to non-Muslims, be more aware of the culture of Islamic banking and finance and, as a result, be more aware of the meaning of the fundamental terms used in Islamic banking and finance?

1.3.2 *Question 2*

Are Muslims, in contrast to non-Muslims, more aware of the principles and methods of Islamic banking?

1.3.3 *Question 3*

Will there be significant differences between Muslims and non-Muslims in the ranking of the certain bank selection criteria?

1.4 Significance of the study

This study will contribute to the existing literature by filling the gap with respect to the level of awareness of South Africans as regards the culture of Islamic banking, taking into account the position of Muslims as a minority group in the country. In addition, the study will make a theoretical contribution to Islamic banking in South Africa as it is one of the first studies on Islamic banking and specifically compares Muslims and non-Muslims by

- establishing the level of awareness of the culture of Islamic banking and the meaning of the fundamental terms used in Islam and Islamic banking
- establishing the level of awareness of the principles and methods of Islamic banking

- examining the bank selection criteria of South Africans in an Islamic banking context.

The answers to these research questions should prove invaluable to any bank that has already set up or is in the process of setting up an Islamic banking operation in a country with a small Muslim population. In addition, local banks may wish to establish and gain support for this system, particularly if non-Muslims view Islamic banking positively.

Chartered accountants registered with SAICA were requested to participate in the study. The participants represented a wide range of chartered accountants holding diverse positions in auditing firms, academia and industry and also included retired members of the profession. The criteria for the chartered accountants to be included as participants in the study (Burke & McKeen, 1995; Shafu, Salleh, Hanefah, & Jusoff, 2013; L. P. Steenkamp & Nel, 2012; Xiao, Jones, & Lymer, 2005) were that the researcher had to be able to distribute the surveys through appropriate channels to a range of Muslims and non-Muslims and that their responses would provide appropriate input into the study.

1.5 Assumptions

The study was based on the following assumptions:

- Muslims have a basic understanding of the concept of Islamic banking while non-Muslims have less understanding of the concept than do Muslims.
- The respondents will provide accurate and open feedback.
- The criteria relating to bank selection are regarded as valid as they have been used in previous studies conducted in Singapore (Gerrard & Cunningham, 1997) and in Malaysia (Erol & El-Bdour, 1989; Ranjbar & Sharif, 2008) and these studies have provided a suitably thorough account of the main banking criteria. Furthermore, by using a pilot study and holding a discussion with the head of Islamic banking and finance at ABSA, it is considered unlikely that key criteria will have been omitted from the study.
- Only key terms in Islamic banking and finance were used in the questionnaire as this is an exploratory study (see section 2 of the survey).

1.6 Definition of terms

Table 1.1: Definitions of terms used in Islam and Islamic banking

Allah	God
CE	Common Era
Gharar	Activities or transactions involving speculation such as gambling
Hadith	The narrative relating to the deeds and utterances of Prophet Muhammad (PBUH)
Halaal	Lawful or permissible in Islam
Haram	Prohibited in Islam
Ijma	The consensus among religious scholars about specific issues not envisaged in the Quran or the Sunnah
Ijtihad	Represents a jurist's independent reasoning relating to the applicability of certain *Shariah* rules to cases not mentioned in either the Quran or the Sunnah
PBUH	Peace Be Upon Him (a term added after "Prophet Muhammad" to denote respect)
PLS	Profit and loss sharing – where partners share profits and losses on the basis of their capital share and effort
Qiyas	The use of deduction by analogy to provide an opinion on a case not referred to in the Quran or the Sunnah as compared to another case referred to in the Quran and the Sunnah
Quran	The Muslims' Holy Book
Riba	A payment over and above what has been lent: interest
Shariah	The Islamic law of human conduct derived from the Quran, Hadith and Sunnah
Sukuk	Islamic bonds
Sunnah	Refers to the habitual practice and behaviour of Prophet Muhammad (PBUH) during his lifetime
SWT	Transcendent is He (a term added after "Allah" to denote respect)
Takaful	Islamic insurance
Zakaat	A compulsory Islamic tax

As explained in this chapter, the study is important from a South African perspective as very little research has been conducted into the field of Islamic banking in this country. The remainder of the report will be structured as follows:

Chapter 2: Literature review; Chapter 3: Research methodology; Chapter 4: Results and discussion and Chapter 6: Conclusion

CHAPTER 2: LITERATURE REVIEW

2.1 Background to Islamic banking

Islam is not simply one of the great monotheistic religions, signifying submission to the will of Allah (SWT), but it is an entire system encompassing all aspects of life (Memon, 2007). As such, it prescribes a complete code of conduct for everyday human life (Memon, 2007). Furthermore, it does not confine itself to a spiritual relationship between man and Allah (SWT) or describe the Almighty with a transcendental reference only, but it also regulates, in specific proportions, an interactive relationship between man and man, and between man and society with respect to moral, political and economic genesis. As a result, it is a religion which is lived in everyday life and no Muslim is in any doubt as to exactly how he should act in his or her everyday life (Memon, 2007).

The Quran sets out its notions of equity, justice, fairness, morality and the many other values which underpin the entire Islamic system. The Quran states that Allah (SWT) created and owns everything (Farook et al., 2011; Iqbal & Mirakhor, 1999; Lovells, 2004). Thus, human beings hold wealth in trust for Allah (SWT) and must carry out his or her duties as trustee in the manner prescribed by Allah (SWT). In other words, humans also have a fiduciary relationship with Allah (SWT). These duties are described in the Islamic Law (*Shariah*) (Ebrahim & Joo, 2001; Farook et al., 2011; Lovells, 2004; Zubairu, Sakariyau, & Dauda, 2012). The acceptance of Allah (SWT) in the role of caretaker to humankind encompasses higher economic and social dimensions, that is, it ensures that no one is disadvantaged in his or her enjoyment of the creation, whether in the marketplace, in the community, or at worship (Ackermann & Jacobs, 2008). Therefore, the purpose of human life in Islam is to look for the rewards and favours of Allah (SWT) and every activity, including economic activities, will be undertaken in order to attain such a purpose (Khoirunissa, 2003).

The Islamic economic system is based on *Shariah* and adherence to these rules of conduct assures an Islamic society of economic growth and development (see also section 1.2) (Bhatti, Hussain, & Akbar, 2010; Lovells, 2004). The main feature differentiating the Islamic economic system from a conventional system is that the

ultimate source of rules is not the society but “the Law Giver” – Allah (SWT) (Lovells, 2004).

The rules of the *Shariah* cover resource allocation, production and exchange, and the distribution of the resultant income and wealth. Full compliance with these rules ensures not only economic development and growth but also economic justice (Ebrahim & Joo, 2001; Iqbal & Mirakhor, 1999). Thus, all dealings, transactions, business approaches, product features, investment focus and responsibilities are derived from the *Shariah*. The foundation of the Islamic bank is based on the Islamic faith and, thus, all the actions and deeds of the Islamic bank must remain within the limits of Islamic law or the *Shariah* (Rahman, 2007). According to the *Shariah*, Islamic financial institutions and modes of financing are based strictly on the following principles:

Firstly, transactions must be free of interest (*riba*) and all debt-based financing must be eliminated while goods and services that are illegal (*haram*) from the Islamic point of view cannot be produced or consumed, for example, gambling, drugs, armaments, tobacco, alcohol and pork. Activities or transactions involving speculation (*gharar*) must be avoided and *zakaat* (the compulsory Islamic tax) must be paid In addition, there is a prohibition on monopoly and hoarding and an emphasis on risk-sharing and consideration of justice (Abedniya et al., 2011; Al-Ajmi et al., 2009; Farook, 2007; A. Gait & Worthington, 2008; Paino, Bahari, & Bakar, 2011; Qorchi, 2005; Ranjbar & Sharif, 2008; Sairally, 2005; Samad et al., 2005; Subhani, Hasan, Rafiq, Nayaz, & Osman, 2012; Thambiah, Eze, Santhapparaj, & Arumugam, 2011).

Secondly, according to Nazeer Cassim (in Hartigh, 2012), the area manager of Al Baraka Bank in Gauteng, Islamic banking has the same purpose as conventional banking, namely, to make money for the banking institution by lending out capital. However, Islam forbids simply lending out money and earning interest and, thus, Islamic rules on transactions have been formulated to address this problem. Cassim further states that Islamic banking deals in assets and this means that no credit or overdraft facilities are permitted. *Shariah* promotes profit-sharing and prohibits the payment or receiving of interest in any transaction. Islamic banks also do not invest in products and services which are considered contrary to Islamic values, for example, pork, alcohol, cigarettes, gambling and pornography (Hartigh, 2012; A. Imam & Zubairu, 2011).

Thirdly, Zantioti (2009) mentions that the Quran states “Believers! Do not consume *riba* doubling or redoubling; but fear Allah, that you may prosper. Fear the Fire, which is prepared for the disbelievers” (Ch.3, verse 130) (Akram et al., 2011; Hossain, 2009; Zaman & Movassaghi, 2001). One of the key characteristics of Islamic banking is the prohibition on *riba*. *Riba* refers to a predetermined (fixed or variable) fee for the use of a loaned real or financial asset, often translated into interest, while the charging of interest to someone who is constrained to borrow to meet his or her essential consumption requirements is considered to be an exploitive practice (Rosly & Bakar, 2003; Zaman & Movassaghi, 2001; Zubairu et al., 2012).

It is also interesting to note that Socrates, Confucius, Plato and Aristotle in the era before Christ as well as all the major medieval thinkers and theologians were also opposed to the concept of interest, and regarded it as a form of exploitation and tyranny. Interest was also prohibited and considered a punishable practice in the preliminary teachings of both Jews and Christians and is also prohibited in the Old Testament of the Holy Bible (K. Ahmad, 2000; Hossain, 2009; Loo, 2010; Memon, 2007; Zaman & Movassaghi, 2001). It is only in the last 200 years that the legitimisation of interest has taken place (K. Ahmad, 2000). The following verses from the Bible reflect the fact that interest is considered a despicable practice:

“Do not charge your brother interest, whether on money or food or anything else that may earn interest” (Deuteronomy 23:19) and “If you lend money to one of my people among you who is needy, do not be like a money lender; charge him not interest” (Exodus 22:25) (Hossain, 2009).

The Torah and Talmud also encourage the granting of loans, but without interest. According to Jewish law the charging of interest is considered as one of the worst sins and has been forbidden (Hossain, 2009).

M. M. Khan and Bhatti (2008) reported that the Islamic financial system facilitates lending, borrowing and investment functions on a risk-sharing basis. Khalili (1997) further explains that Islamic financial systems do not collect or pay any *riba* and, instead, they share in the risks and rewards facing their customers and pay their depositors and investors on the same basis. Samad et al. (2005) further explain that fairness and justice

demand that the owner (supplier) of capital has the right to be rewarded, but that this reward must be commensurate with the degree of risk associated with the project for which the funds are supplied. In his research, Memon (2007) mentions that the status of the Islamic bank is either that of partner or investor, whereas for conventional banks the relationship is more that of creditor–debtor.

In addition, the conventional financial system focuses primarily on the economic and financial aspects of transactions, while the Islamic system places equal emphasis on the ethical, moral, social and religious dimensions to enhance the equality and fairness for the good of society as a whole (Hassan & Kabir, 2011; Iqbal, 1997) (refer to section 3 of the questionnaire). An Islamic firm is believed to be exemplary in its behaviour and it may not be guided by the single objective of profit maximisation (Sairally, 2005). Thus, the equitable distribution of income and wealth and the increased participation of the Muslim community in the economy are important social and ethical motivations of Islamic banking. Nevertheless, Islam does recognise that capital is not costless and the use of capital has to be compensated in some alternative form to interest. Thus, profit and loss-sharing (PLS) arrangements are used in which the rate of return on financial assets is undetermined prior to financial transactions between depositors and banks. The actual rate of return is determined only after the actual profits and losses have been accrued from the productive use of the financial assets (K. Ahmad, 2000; A. Imam & Zubairu, 2011; Lee, 2001). Schaik (2001) states that PLS financing is an example of cooperation that takes place on the basis of equity and solidarity (refer to section 3 of the questionnaire).

2.1.1 Types of Islamic banking transaction

Islamic banking is currently practised through two channels, namely, “specialised” Islamic banks and “Islamic windows”. Specialised Islamic banks are commercial and investment banks, structured wholly on Islamic principles, and they deal with Islamic instruments only. On the other hand, Islamic windows are special facilities offered by conventional banks to provide services to Muslims who wish to engage in Islamic banking (Iqbal, 1997). The Islamic financial instruments offered by Islamic banks take the form of contracts between the providers and users of funds to manage the risk (Qorchi,

2005). In Zantioti (2009) it is noted that Islamic banks offer the following five basic categories of financial contracts:

- Non-interest-bearing demand deposits are regular cheque accounts where customers deposit money without earning interest on it.
- *Mudaraba* (Thomson Reuters, 2011) constitutes a profit–loss sharing formula. The depositors in these accounts entrust their funds to the bank which invests the money and then shares the profit according to a predetermined contract. Financial losses on funds are borne exclusively by the lender, provided they are not as a result of negligence on the part of the entrepreneur while the entrepreneur loses the value of labour, both skilled and unskilled, only (Ebrahim & Joo, 2001; Haron et al., 1994; A. Imam & Zubairu, 2011; M. S. Khan & Mirakhor, 1990; Mirza & Halabi, 2003; Mumu & Guozho, 2012; Paino et al., 2011; Qorchi, 2005; Rosly & Bakar, 2003; Samad et al., 2005).
- *Murabaha* (Thomson Reuters, 2011), cost plus financing, is an instrument in terms of which the institution buys goods on behalf of the client and then resells the goods with a mark-up to the client/borrower. Thus, it is the sale of a commodity for a cash/deferred price and is a short-term method of financing. The key characteristic is that ownership of the asset remains with the institution until all payments have been made. This is the most popular method of financing among Islamic banks (Ebrahim & Joo, 2001; Haron et al., 1994; A. Imam & Zubairu, 2011; Qorchi, 2005; Ranjbar & Sharif, 2008; Samad et al., 2005).
- *Musharaka* (Thomson Reuters, 2011) is equity financing through joint ventures and is used in long-term investment projects. It may be compared to *mudaraba* although, in this case, the bank not only supplies money but also management. In other words, the bank also shares the entrepreneurship with the borrower. The profits or losses are shared strictly in relation to their respective capital contribution (Haron et al., 1994; M. S. Khan & Mirakhor, 1990; Mumu & Guozho, 2012; Paino et al., 2011; Qorchi, 2005; Rosly & Bakar, 2003; Samad et al., 2005).
- *Ijara* (Thomson Reuters, 2011), sometimes referred to as rent-to-own, means leasing. One form of *ijara* constitutes the lessee paying the lessor instalment payments that go towards the ultimate purchase of the asset by the lessee (Ebrahim & Joo, 2001; Haron et al., 1994; Mumu & Guozho, 2012; Qorchi, 2005;

Ranjbar & Sharif, 2008). The key characteristic is that ownership of the asset remains with the lessor or is gradually transferred to the lessee as the lease payments are made (M. S. Khan & Mirakhor, 1990; Samad et al., 2005).

While the main types of Islamic financial instruments are conceptually simple, they may become complicated in practice as some banks combine aspects of two or more types of instruments to suit customer requirements (Qorchi, 2005). Furthermore, being in competition with the mainstream financial institutions, the Islamic financial institutions are also keeping pace with new financial developments, with Islamic alternatives to hedge funds, securitisation and market indices being recent additions to the industry (Sairally, 2005). Islamic products and services are also increasingly manifesting themselves as mutual funds underpinned by investments in *Shariah*-compliant equity or property, *sukuk*, *takaful* or *ijara* which are constructed with Islamic principles in mind (A. Gait & Worthington, 2008; M. M. Khan & Bhatti, 2008). Under the Islamic law, the freedom of contracts provides the parties with a flexibility that makes possible a virtually open-ended variety of forms of financial transactions and instruments (M. S. Khan & Mirakhor, 1990).

The following table (Table 2.1) summarises the key differences between Islamic banks and conventional banks (Al-Jarhi & Iqbal, 2012; Rahman, 2007; Saini et al., 2011):

Table 2.1: Key differences between Islamic banks and conventional banks

Islamic banks	**Conventional banks**
Principal stakeholder is Allah (SWT). The clients are partners and the decisions made are in the interests of society	Principal stakeholders are the shareholders
Shariah law places restrictions on business activities. The law further prohibits trade in alcohol, tobacco, products that contain pork, defence and weapon production, gambling and pornography.	Support the arms industry and industries that pollute the environment and exploit children.
Pay out *zakaat.* This has have become one of the service-oriented functions of the Islamic banks in terms of the bank being a *zakaat* collection centre.	They do not deal with *zakaat*.
Guarantee deposits for deposit accounts only, thus the depositors are guaranteed the repayment of their funds.	Have to guarantee all their deposits
Status of Islamic bank in relation to its clients is that of partner, investor and trader, buyer and seller.	Status of conventional banks in relation to their clients is that of creditor and debtors.
The real asset is a product and money is merely a medium of exchange.	Money is a product besides being a medium of exchange and having store value.
Profit on the exchange of goods and services is the basis for earning profit.	Time value is the basis for charging interest on capital.
If a project were to fail, the management of the organisation could be taken over in order to hand the project over to better management.	If projects fail the loan is written off as it becomes a non-performing loan.
Islamic banks share profits and losses.	Investments reward companies even if they act irresponsibly.
Islamic banks place greater emphasis on the viability of the projects.	They place greater emphasis on the creditworthiness of clients.

2.1.2 Responsibility of the *Shariah* board

Corporate social responsibility (CSR) is an important and critical component of the broader notion of corporate citizenship. Responsible corporate citizenship implies an ethical relationship of responsibility between the company and the society in which it operates with the company protecting, enhancing and investing in the wellbeing of the economy, society, and the natural environment. Corporate responsibility refers to the responsibility of the company as regards the impact of its decisions and activities on society and the environment through transparent and ethical behaviour that takes into account the legitimate interests and expectations of stakeholders and contributes to sustainable development (IOD, 2012). CSR is constantly evolving and it incorporates different approaches depending on circumstances and needs (Dusuki, 2008). In comparison, Islamic corporate social responsibility is derived from the core principles found n the Holy Quran (Dusuki, 2008; Farook, 2007) and adopts a holistic approach. The three major foundational principles for Islamic CSR are the vice-regency of mankind on earth, divine accountability and the duty of humankind to enjoin good and forbid evil (Farook, 2007). In other words, mankind is ultimately responsible to Allah for themselves as well as for the resources they are utilising and managing. This responsibility to Allah is. in fact, a function of the intrinsic quality of the Muslims' lives as a trust from Allah (Dusuki, 2008).

The building blocks of *Shariah* compliance, as a set of workable principles for running an entity such as a banking/financial institution, appear to be based upon the following: Firstly, social awareness and responsible, values-based management practices and products (A. Gait & Worthington, 2008; Iqbal, 1997; Noman, 2002); secondly, ethical lending of money via the prohibition on making money from money (A. Gait & Worthington, 2008; Iqbal, 1997; Noman, 2002); thirdly, the pursuit of socially responsible financial activities that seek to protect the interests of all the stakeholders involved in a market transaction (A. Gait & Worthington, 2008; Iqbal, 1997; Noman, 2002) and, lastly, the facilitating of moral principles and practices that do not contravene societal values (A. Gait & Worthington, 2008; Iqbal, 1997; Noman, 2002).

It is interesting to note that these *Shariah* principles do not appear to be at odds with the various conceptualisations of CSR that have evolved over the years in Western societies (Khaled et al., 2011). The notion of community social responsibility and justice has been the foundation of an Islamic society since its advent in the seventh century (Khaled et al., 2011). The Holy Prophet Muhammad (PBUH) exemplified the principles of social responsibility and justice embedded in the Holy Quran through his practices (*sunnah*), which were aimed at establishing a social system that was both just and harmonious. These principles, which permeate every aspect of Muslim life, also govern Islamic business and commercial practices and have operated for the last fourteen centuries (Khaled et al., 2011).

It has been noted in a study conducted by Dusuki and Abdullah (2007) that there have been significant developments in the field of CSR and ethical investment, not least within the financial sector. The growth of the ethical investment industry is another current indication of the emphasis being placed on the social and ethical behaviour of companies. There is a competitive advantage that companies believe they will reap by being ethical and socially responsible and this, in turn, will lead to a better performance in terms of profitability, competitiveness and risk management. The increasing concern for green and sustainable or ethical investment, particularly in European and Western countries, has also sparked further interest in Islamic financial services globally, as the criteria used in screening these investments overlap significantly with the principles of Islamic finance (Muhamad et al., 2012). Dusuki (2008) found that CSR activity is strongest in the developed countries, especially amongst many of the United States and European corporations of all sizes across business sectors (Dusuki, 2008). The government of the following countries require companies to include in their management reports their role in CSR, including reporting on sustainability performance: Sweden, the United Kingdom, Germany, Norway and Denmark (IOD, 2012).

Dusuki and Abdullah (2007) further report that the Islamic banking system encompasses a built-in dimension that promotes ethics and social responsibility as it resides within a financial trajectory which is underpinned by forces of religious injunctions. These religious injunctions permeate Islamic financial transactions with a genuine concern for ethical and socially responsible activities and simultaneously prohibit involvement in either illegal activities or those which are detrimental to social and environmental

wellbeing. The ethical principles governing Islam social behaviour represent such principles with Islam taking care of a person's entire wellbeing. "Every soul will be in pledge of its deeds" (Quran 74:38). Thus, every human being has a right to be socially respected (Akram et al., 2011).

Farook et al. (2011) also state that corporate and *Shariah* governance is considered as one of the most significant topics in Islamic finance. Sound corporate governance, especially within an Islamic paradigm, is imperative as it tends to encourage honesty, integrity, transparency, accountability and responsibility amongst all stakeholders within an organisation. As regards the Islamic banking organisational structure and corporate governance ethos there is an Islamic (religious) board to ensure that the banking practices are in line with the *Shariah* principles, are within the ambit of Islamic norms, and incorporate a strong social solidarity division (Schaik, 2001; Zubairu et al., 2012). From the perspective of corporate governance, the establishment of the *Shariah* board is important in terms of instilling public confidence in the purity of the Islamic banking institutions' operations (Paino et al., 2011). The board is made up of senior officers and religious scholars. The greater the number of members of the board, the greater the amount of monitoring, thus implying a greater level of compliance with Islamic laws and principles. The board is then able to allocate its functions to a larger group of members, allowing it to review more aspects of the bank's activities and, hence, ensure greater compliance (Farook et al., 2011).

The *Shariah* board approves the products and services of the Islamic bank by ensuring that they are *Shariah* compliant (Akram et al., 2011; Al-Ajmi et al., 2009; Karbari et al., 2004). This advisory board acts as Islamic legal counsel in certifying the compliance of activities with Islamic principles while it also administers the *zakaat* fund (Schaik, 2001). These restrictions are not unlike the notion of socially responsible investments that are now available among the Western conventional institutions (A. Imam & Zubairu, 2011). The *Shariah* board is required to confirm the discharge of its functions by providing a *Shariah* report. This report provides the bank's stakeholders with an assurance on whether or not the bank has complied with the *Shariah* in all its dealings and, in instances of non-compliance, discloses where the non-compliance occurred, why it occurred and what steps have been taken to ensure that such non-compliance will not happen again (Zubairu et al., 2012).

2.2 The growth of the Islamic banking sector

The trend towards globalisation has introduced many changes in the economic and business environment throughout the world (H. U. Rehman & Ahmed, 2008). The Islamic banking system has evolved as a competitive component of the overall financial system, complementing the conventional banking system as a driver of economic growth and development (Doraisamy, Shanmugam, & Raman, 2011). Consequently, Islamic banking and finance is emerging as a rapidly growing part of the financial sector in the Islamic world (Abedniya et al., 2011; Iqbal, 1997) and it is one of the most rapidly growing segments of the global finance industry (A. Gait & Worthington, 2008). Schmith (2005) writes that, by 2005, Islamic finance had grown by 15 to 20 per cent with an estimated USD270 billion in assets, controlled by approximately 300 Islamic banks in more than 25 countries (Abedniya et al., 2011; M. M. Khan & Bhatti, 2008; Lee, 2001; Memon, 2007; Mumu & Guozho, 2012; Saleh Salman & Zeitun, 2006). This means that it is the fastest growing sector in the financial markets in the contemporary world and, in fact, it has spread to all corners of the globe and has received wide acceptance by both Muslims and non-Muslims alike (Abedniya et al., 2011; Mumu & Guozho, 2012; Thambiah et al., 2011). According to banking statistics, the growth of Islamic banking has outpaced that of traditional banking during the past decade (Saini et al., 2011), with the growth rate of the industry in the market being approximately 15 to 20 per cent per annum (Farook et al., 2011; Hamid & Azmin, 2001; Khattak & Kashif-Ur-Rehman, 2010; Qorchi, 2005; Rustam et al., 2011; Thambiah et al., 2011).

An article in an international magazine, *Iran International Magazine* (P. Imam & Kpodar, 2011), reported that the results of tests conducted on the diffusion of Islamic banking around the world, using a sample of 117 countries during the period 1992 to 2006, revealed that Islamic banks spread more rapidly in countries with established banking systems. In addition, Islamic banks offer products not offered by the conventional banks and, thus, they complement, rather than substitute for, conventional banks.

In articles in international magazines such as *The Economic Times* (The Economic Times, 2011), Reuters Africa (Tattersall, 2011) and Islamic Bank and Finance (Abdiseid, 2011), it is stated that the assets in respect of Islamic finance are approaching USD1.2 trillion while the ratings agency, Moody's, forecasts that the industry could hit USD5

trillion over time. It is, thus, no longer possible to ignore the growth of Islamic financing. Interestingly, Islamic banking and finance has outperformed its peers in conventional finance by 15 to 20 per cent in growth. In the USA Islamic finance has also grown rapidly. There are an estimated 6 million Muslims in the USA while approximately one-third of the 1.8 million Muslim households prefer Islamic financing, especially for home mortgages. Banks in the USA generated nearly $300 million in revenue from Islamic financing in 2004, and approximately $450 million in 2005 (Schmith, 2005).

The increasing world Muslim population and the growing global interest in Islamic finance services provide a golden opportunity for the industry to progress further. The world's Muslim population is expected to grow from 1.73 billion (25.34% of the world population) in 2009 to 1.90 billion (26.16% of the world population) in 2015 (Muhamad et al., 2012). In addition, the improvement in the education system globally has seen a larger population gaining access to education than before and this, in turn, has resulted in a greater number of educated Muslims worldwide, further increasing the demand for Islamic financial services (Muhamad et al., 2012).

In an article in an international magazine, *Iran International Magazine* (P. Imam & Kpodar, 2011), it is reported that Islamic banking is likely to continue to grow because many of the world's 1.6 billion Muslims are under banked. An understanding of the way in which Islamic banking spreads will help to guide the formulation of policy recommendations in this regard. Anwar (2009) reports that the reach of banking activity in many of the non-Muslim countries, like that in Muslim countries, is extremely poor while a vast majority of the population is not bankable. It is estimated that not more than 15 per cent of Indians in India have any bank accounts. This is a precarious situation for any country because, usually, when a person becomes bankable he/she also brings his savings into the mainstream of the economy (Anwar, 2009).

Factors that have accounted for the growth of Islamic banking include the introduction of broad macroeconomic and structural reforms into the financial system, the liberalisation of capital movements, privatisation, the global integration of financial markets and the introduction of new and innovative Islamic products (Iqbal, 1997; Rustam et al., 2011). The rapid expansion of Islamic banks as a viable, alternative form of financial intermediation reflects their ability to meet the changing patterns of demand of both

consumers and businesses (Rustam et al., 2011). These banks also help to stimulate savings and they allocate resources efficiently (P. Imam & Kpodar, 2011).

In the State of Kuwait, *Shariah*-compliant financial services have shown growth during recent years. Creativity and innovation have helped in the growth of the Islamic finance industry and this has enabled the industry to bring out competitive products which are appealing to the Muslim population. However, more innovation is needed in order to meet the demand for complicated, as well as profitable, Islamic financial instruments – a demand which is driven by the exponential growth in the Islamic finance industry globally (Singh, 2009). Saleh Salman and Zeitun (2006) note that Islamic banks in Jordon have significant potential to grow positively in the coming years as they are focused on numerous strategies which are designed to attract more Muslim and non-Muslim customers and which are aimed both at enhancing their marketing activities to increase the awareness of the banking services and at strengthening their relationship with their customers. Islamic banks in Jordon are trying to build an enduring relationship between Islamic banking products and customers.

Razi Fakih (Khalili, 1997), head of structured finance and syndication at Bahrain's Islamic Investment Co. of the Gulf, states that, although the number of Islamic financial institutions and their share of total banking assets are small, their growing sophistication is leading to an increasing number of Muslims investing money in them (Khalili, 1997). Despite the fact that the Islamic banking sector is still small, even though it is a relatively young sector, it has performed well as it now operates in countries such as the USA, the United Kingdom and Switzerland (Schaik, 2001). Furthermore, an understanding of what is driving the development of Islamic banking will help developing countries in Africa, Asia and the Middle East to catch up in this area (P. Imam & Kpodar, 2011). Moreover, while Islamic banking is regarded as the financial newcomer in the global economic arena, it also exhibits outstanding characteristics and ideals such as fairness, transparency and accountability and, above all, it encompasses the blending of the uncompromising religious truths of Islamic banking together with modern day financial savvy (Omoyibo & Ajayi, 2012).

M. M. Khan and Bhatti (2008), Qorchi (2005), Tattersall (2011) and Zantioti (2009) are all in agreement on the increase in the profitability of the Islamic banking sector and they

link this growth to the high oil prices which have increased the wealth in the Middle East where the largest proportion of Islamic banking exists. Anwar (2009) notes that the introduction of Islamic banking into any country will serve as a “drain” through which the petrodollar will flow. As the economy of the members of the Gulf Corporation Council (GCC) countries in particular, and other members of the Organisation of Petrol Exporting Countries (OPEC) in general, is rentier-based (as opposed to a production-based economy), the funds saved in these countries are invested primarily outside of their own respective countries. If Islamic banking opens up in non-Muslim countries such funds will be attracted to these in non-Muslim countries and this will ultimately give a boost both to the economy and the overall welfare of these states (Anwar, 2009).

The oil price is also a determinate of the profitability of Islamic banking in North Africa and South Asia. It has been reported in an article in an international magazine, Iran International Magazine (2011), that the rising oil prices since 2000 have been a catalyst for the massive transfer of resources to the large oil-producing countries, which have been more inclined to adopt Islamic banking. Two-thirds of Islamic banks are in the Middle East and North Africa, with the rest mainly in Southeast Asia and sub-Saharan Africa. Nigeria wishes to establish itself as the African hub of Islamic banking as it is home to the largest Muslim population in sub-Saharan Africa. It is also home to one of Africa’s fastest growing consumer and corporate banking sectors. Furthermore, the country is playing an active role in the IFSB and it is studying various regulatory regimes around the world (Tattersall, 2011).

2.3 Perceptions of Islamic banking

Attitude is an important aspect of understanding or predicting the behaviours of customers (Haque, 2010). In fact, attitude may be regarded as the driver of consumer utility or attributes. Carlson and O'Cass (2010) report that an attitude refers to a learnt predisposition to respond to an object or stimulus in a consistently favourable or unfavourable way, and that it may refer to the consumer’s positive, neutral or negative learnt disposition (often as a result of past evaluative experiences) with respect to the good, service or brand under consideration. Agarwal, Rastogi, and Mehrotra (2009) describe attitude as an individual’s positive or negative behaviour towards innovation

adaption. It is also suggested that attitude is based on the salient beliefs that a person holds about the consequences of a given behaviour and his or her evaluation of those consequences. What is also suggested is that customer attitude is composed of an individual's belief about the object concerned and the perceived importance (weight) of that attribute in making the decision to select it. In understanding the determinants of consumer attitude, it is argued that this attitude has a strong, direct and positive effect on consumer intentions to actually use a new system (Agarwal et al., 2009) (refer to section 3 of the questionnaire).

Similarly, the customer's attitude and perception and the overall customer behaviour will have a significant impact on the survival of Islamic banks (Hassan & Kabir, 2011). Accordingly, either reinforcing or modifying the customer's perceptions or image (Mosad, 1996) would be fundamental to understanding the customer's thinking or attitudinal behaviour regarding the way which they perceive Islamic banking (Haque, 2010). Some of the products and services offered by Islamic banks are very similar to those of conventional banks (Doraisamy et al., 2011; Hassan & Kabir, 2011) and this may negatively affect the customer's attitude because most of the customers of Islamic banks are Muslims (Hassan & Kabir, 2011). Research studies in predominantly Muslim countries where Islamic banking is prevalent have shown that non-Muslims perceive conventional banking as superior to Islamic banking and, despite the aggressive campaigns in the last decade attempting to convince the public that Islamic banking is for everyone, non-Muslims generally view Islamic banking as being for Muslims alone (Loo, 2010).

General attitudes are relatively good predictors of general behavioural likelihoods and, thus, it would seem of particular importance to understand the customers' thinking or attitudinal behaviour as it relates to their perceptions of Islamic banking. Consequently, it is vital for the Islamic banking service providers to be aware of the psychological and/or behavioural attitudes of both the potential Muslim and non-Muslim customers toward the Islamic banking services that are currently available (Haque, 2010).

In their study in Bahrain, Metawa and Almossawi (1998) concluded that the most important factor in determining the attitudes of Islamic bank customers was religion and then profitability. They found that most Bahraini bank customers were satisfied with the

quality of the Islamic bank services. Based on the study conducted in Jordan, Naser et al. (1999) concluded that bank reputation and religious beliefs were the most important factors that motivate the use of Islamic bank services. Their findings, however, also indicate that some of the respondents were totally ignorant about some of the specific terms used in Islamic banking. In Singapore, Gerrard and Cunningham (1997) conducted their study in the context of a banking system where no Islamic banks were yet present. They found that non-Muslims were completely unaware of the Islamic methods of finance, while Muslims fared little better. This implies that Islamic banks operating in both Muslim and non-Muslim countries need to educate their Muslim clients about Islamic banking (Naser et al., 1999). According to Karbari et al. (2004), it may be plausible to suggest that most of the potential customers of Islamic banks in the UK either tend to be oblivious to Islamic banking or they try to avoid it. This may be observed not only in the non-Muslim markets, but also in the Muslim markets. There are two main reasons for such reactions or attitudes. Firstly, the notion of Islamic banking is relatively new and many people are unaware of it and, secondly, most people (Muslims and non-Muslims) are accustomed to the conventional banking system and they are not prepared to take risks with their hard-earned income (Karbari et al., 2004).

As one of the most important players in the service industry today, Islamic banking is no longer regarded as a business entity striving only to fulfil the religious obligations of the Muslim community but, more significantly, it is regarded as a business that is committed to winning over customers whilst retaining the old ones (Dusuki & Abdullah, 2007). Hassan and Kabir (2011) and Thambiah et al. (2011) also report that, as competition intensifies in the banking industry today, Islamic banking is regarded as an innovation in this industry that ought to be as competitive as conventional banking. This requires that Islamic financial institutions understand the real needs of their customers in respect of Islamic banking services (Thambiah et al., 2011) and the perceptions of their customers towards them in terms of service quality and the other patronage factors that play a role in securing customer allegiance (Dusuki & Abdullah, 2007). In other words, if the service delivered is evaluated as being of higher quality, then more favourable attributes would emerge for the branded bank. The service experience influences the development of brand attitudes (Carlson & O'Cass, 2010). In their study into different ethnic groups in Malaysia, Mokhlis, Mat, and Salleh (2010) highlighted the fact that bank marketers

should focus on salient attributes to attract and retain the members of different ethnic segments. Banks that are able to effectively identify the selection factor where ethnic differences occur would be able to adapt their marketing strategies to capitalise on these differences (Mokhlis et al., 2010). Muslims may rightly be considered as the first clientele base of an Islamic bank in a new marketplace. However, its benefits, once obvious, will then entice other communities to participate. This is evident in the large numbers of Christian, Buddhist and Chinese businessmen in Malaysia who are dealing with the Islamic banks (Anwar, 2009). This is also particularly relevant in the South African context, with the various demographic profiles of the citizens of the country, and it is envisaged that this study will add relevance to the understanding of the various banking choices that Muslims and non-Muslims make. Loo (2010) further adds that, in view of the highly competitive environment, it is essential that Islamic banks study customer perceptions to help them market their products effectively. (Rustam et al., 2011)) describe perception as the act of discerning, realising and becoming aware of something through the senses.

It should be noted that very little is known about customer perceptions and awareness in non-Muslim countries (Gerrard & Cunningham, 1997). In a country such as South Africa, with a majority non-Muslim population, Islamic banks have to compete with the long-established, conventional banks in a dual banking system and, thus, the positive perceptions of customers are deemed to be of vital importance to the Islamic banks. In this regard, the ability of the Islamic banking industry to capture a significant market share in a rapidly evolving and challenging financial environment, particularly in a dual-banking system like that of South Africa, is dependent on the strategic positioning of the Islamic banking players to maintain their competitive edge and to offer services and products that satisfy the needs of their customers (Dusuki & Abdullah, 2007).

Bick, Brown, and Abratt (2004) examined the perceptions and expectations of banking customers regarding the value being delivered by retail banks in South Africa. The findings show that customers were not satisfied with the service, products and level of customer intimacy delivered to them by their banks. Thus, the customers did not believe that they were getting the value they expected. However, in Malaysia, customers had positive perceptions of Islamic banking, despite the Islamic banks having to compete with long established banks in a dual banking system (Ranjbar & Sharif, 2008).

Emerging markets offer significant commercial opportunities to banks. However, if they are to be successful these banks need to gain a better understanding of the consumers' perceptions (Agarwal et al., 2009). Customer perception is often identified by the level of satisfaction with particular products or services. Furthermore, awareness or knowledge about a given product has also been identified as one of the factors that lead the customer either to select or reject a given new product (Echchabi & Aziz, 2012) and it is, therefore, of the utmost importance for the success of new products and services (Agarwal et al., 2009). As the Islamic banking and finance industry strives to grow in South Africa, specific studies are required to help investigate the opinions of South African banking customers about Islamic banking and finance services. Such studies will reveal the perceptions of the consumers in South Africa towards Islamic banking and finance products and services and provide a framework for approaching prospective customers (Thambiah et al., 2011). In addition, there are opportunities for new entrants, especially among foreign banks, to enter the Islamic banking market in South Africa. However, this would require that the banks have a thorough understanding of the factors that may affect the demand for Islamic banking in South Africa (Echchabi & Olaniyi, 2012).

2.3.1 Service quality and customer satisfaction

Satisfaction is used as a common marketing benchmark of an organisation's performance (Bennett & Rundle-Thiele, 2004). Customer satisfaction is usually measured in terms of the service quality and service features offered by an institution (Rustam et al., 2011). According to Abedniya et al. (2011), service quality is defined as the customers' perception of how well a service meets or exceeds their expectations. As such, service quality is judged by the customers and not by the organisations or companies that offer the service (Abedniya et al., 2011). Roig, Garcia, Tena, and Monzonis (2006) add that it is only the customer who is able to perceive whether or not a product or service offers value while the quality of service is a fundamental element in the perception of perceived value. It is, thus, extremely difficult for competitors to imitate the quality of service although it is the basis on which differentiation and competitive advantage are sustained (Roig et al., 2006). Accordingly, the selection of a service provider is an extremely important and challenging issue in service marketing. Exploring

such information would help service providers to identify appropriate marketing strategies to attract new customers.

To understand the service customer is to understand the unique challenges which customers face as they attempt to make decisions about and evaluate their service purchases (Kugyte & Sliburyte, 2005). This is particularly relevant because, in today's global and borderless market, service quality is becoming increasingly important as regards the successful survival of banks. Wong and Sohal (2003) report that, as the current marketplace becomes more competitive, consumers tend to become more and more demanding (Doraisamy et al., 2011). In the event of challenges such as the intensifying global competition, the continuous increase in customer expectations and customers' subsequent demands as the quality of service improves, service firms that are unable to cater effectively for the needs and wants of customers risk not only losing dissatisfied customers to their competitors, but they also face the ultimate erosion of profits and, consequently, failure (Wong & Sohal, 2003). These challenges are forcing organisations to break free from the traditional customer satisfaction paradigm to adopt proactive strategies which will assist them in building and sustaining a competitive edge (Wong & Sohal, 2003).

Every bank is striving to realise greater profits by delivering quality services according to customers' expectations (Abedniya et al., 2011; A. Ahmad, Kashif-ur-Rehman, Saif, et al., 2010; Shabbir, Aslam, Capusneanu, Barbu, & Tanveer, 2012). It is therefore vital that they develop their service quality dimension either to meet or even to exceed their customers' expectations as, with the increase in communication devices such as the internet, customers' expectations and demands have changed (Abedniya et al., 2011). In this age of globalisation the provision of effective and quality services to business customers is becoming a key determinant of the growth and prosperity of the banking sector (H. U. Rehman & Ahmed, 2008). In addition, in the Islamic banking sector, marketers are faced with the cultural and religious differences among people that reinforce the importance of incorporating additional dimensions into service quality (Abedniya et al., 2011).

In an effort to compete with the conventional banks Islamic banks are striving to capture the maximum number of customers by providing a large number of products as an

alternative to interest-based products (A. Ahmad, Kashif-ur-Rehman, Saif, et al., 2010). Roig et al. (2006) report that, as a result of this change in customer demands, technological changes and the entry of new competitors, an increasingly open and competitive framework has developed in terms of which many financial entities are beginning to formulate defensive strategies in order to avoid the indiscriminate loss of customers. It is, thus, essential that the management of Islamic banks focus on quality in order to meet customer expectations and needs, while remaining economically viable (Abedniya et al., 2011). Islamic banks may also find it profitable to offer their products to the non-Muslim clients. If they target the Muslim population only, they will not be able to achieve widespread acceptance in certain countries such as Malaysia and Nigeria, where non-Muslims constitute approximately 30 to 40 per cent of the population. This, in turn, may lead to the loss of potential business with a high proportion of the population. Accordingly, financial organisations outside of the Muslim world should target the entire population in order to achieve a critical mass in the host country so as to compete with the local institutions. After all, everybody seeks any better business deals which are available around the world (Noman, 2002) (refer to section 1 of the questionnaire).

Banking and financial services are an integral part of the services industry and their contribution is increasing with the passage of time. As a result, banks have found themselves facing more aggressive competition, uncertainty and limited opportunities. No bank is able to offer all the products and services and be the best or leading bank for all its customers (Mosad, 1996). Bank managers should therefore be made more aware of the importance of quality improvement gaining a competitive position in the market (A. Ahmad, Kashif-ur-Rehman, Saif, et al., 2010; Mosad, 1996; Thambiah et al., 2011).

Roig et al. (2006) report that firms have become aware of the necessity of coordinating their internal activities in order to create the synergies required for the continued creation and distribution of value to customers. Business organisations must become providers of value and they must do this in a different way from their competitors, as this skill will enable them to differentiate themselves, improve their results and increase their future possibilities of survival (Roig et al., 2006).

As the competition in the banking industry intensifies and banks start to offer more or less similar products and services, it is the customer satisfaction that may influence the

performance of an Islamic bank and determine its competitiveness and success (Haque, Osman, & Ismail, 2009). A. A. Rehman (2012) agrees with this point of view and states that, during the last three decades, Islamic banking has been growing globally and, consequent to the growth of this industry, customer satisfaction is becoming important. This, in turn, requires that Islamic financial institutions understand the real needs of their customers as regards Islamic banking services (Thambiah et al., 2011).

According to Echchabi and Olaniyi (2012), in order to ensure customer satisfaction and loyalty, it is important for the banks to know their customers, their needs, their interests, their concerns, their styles and so forth in order to be able to influence customers to choose a specific bank. Customer loyalty has been described as occurring when customers repeatedly purchase goods or a service over time and hold favourable attitudes towards such goods or services, or towards the company supplying the goods or services (Wong & Sohal, 2003). The survival strategy, therefore, lies in establishing the consumers' priorities and then devising a means of satisfying the consumers. In addition, banks need to protect their customer base and also compete for new business (Agarwal et al., 2009). Carlson and O'Cass (2010) report that satisfying customers has become a marketing imperative, with many organisations realising the value of satisfied customers in terms of positive brand attitudes, repeat purchases and brand loyalty.

In addition, it would appear that various quality attributes have a significant, positive impact on consumer satisfaction. In other words, the way in which a service is delivered plays a critical role in driving consumer satisfaction. Consequently, positive (or negative) consumer perceptions of the quality of the various products will result in either satisfaction or dissatisfaction with the services provided. A. Ahmad, Kashif-ur-Rehman, and Saif (2010) report that Islamic banks have to face multiple challenges as a result of the strong reaction on the part of conventional banks because these conventional banks are deeply rooted and popular among the public. The increasing number of conventional and Islamic banks is creating healthy competition in terms of the provision of quality service in order to retain satisfied customers for long-term benefits.

In their study, Naser et al. (1999) state that it is customer satisfaction that may influence the performance of an Islamic bank and determine both its competitiveness and its success. It is, hence, of paramount importance to assess the degree of customer

satisfaction with Islamic banks. Better quality services result in greater customer satisfaction and reduced customer erosion with service quality in the banking sector contributing substantially to gaining a competitive advantage in order to maintain long-term relationships with customers (A. Ahmad, Kashif-ur-Rehman, Saif, et al., 2010; Shabbir et al., 2012).

Khattak and Kashif-Ur-Rehman (2010) also report that, in a predominantly Muslim country such as Pakistan, customer satisfaction is one of the essential components of any organisation's strategies, as the customer is the primary source of income. Whenever Islamic banks or conventional banks offer any new product or service, then the success of such a product or service depends upon the customer satisfaction level with that product or service. In this competition between the Islamic banks and conventional banks, it is essential that Islamic banks accord a high level of consideration to primary customers in order both to attract and to satisfy them. In addition, they must also produce a high level of services and products for their customers.

Similarly, A. A. Rehman (2012) reports that, in order to sustain a strong position in the market, Islamic banks need to improve their service quality by offering high quality products and services that retain the loyalty of their customers and also attract more customers. In Pakistan, A. Ahmad, Kashif-ur-Rehman, and Saif (2010) suggest that the relationship between service quality and customer satisfaction is becoming crucial with increasing levels of awareness about service quality among bank customers. Islamic banks have shown remarkable progress and have captured a reasonable market share, with an excellent growth rate of 114 per cent per annum, in Pakistan. The increasing number and size of Islamic banks is also a positive sign of their development and success. Haque et al. (2009) state that understanding customer motivations, expectations and desires gives service providers a foundation for providing the best service possible to the customer. This may even provide information in terms of which improvements may be made in the nature of business relating to what does and what does not work. A. Ahmad, Kashif-ur-Rehman, and Saif (2010) observed that bankers may attract more customers by launching effective marketing campaigns to enhance the awareness of the quality of their services. This, in turn, would help to improve the understanding of bank customers about service quality as it relates to both Islamic and conventional banks. Accordingly, bank managers should take quality initiatives to

improve their products by considering the demographic characteristics of their customers (refer to section 1 of the questionnaire). The results of a study conducted by Echchabi and Olaniyi (2012) suggest that Islamic banks should provide high quality services as this forms part of the Islamic teachings that Islamic banks should follow.

In essence, understanding consumer choices and meeting consumer expectations would result in maximising revenue generation for Islamic banks and, thus, increasing their overall share of the banking industry (Subhani et al., 2012). The question then arises as to whether Muslims in South Africa are more aware than non-Muslims of the principles and methods of Islamic banking and the related fundamental terms used in Islamic banking.

2.4 Awareness of Islamic banking

Consumers go through “a process of knowledge, persuasion, decision and confirmation” before they are ready to adopt a product or service with the adoption or rejection of an innovation beginning when “the consumer becomes aware of the product” (Agarwal et al., 2009:343). An important characteristic of any adoption of an innovative service or product is the creation of awareness among consumers about that service or product (Agarwal et al., 2009). Marketing leads to outcomes other than satisfaction, including awareness, image perceptions and loyalty. There are also other factors that influence purchasing and where satisfaction does not always play a role, for example, a lack of perceived differentiated competitors, such as in the banking industry (Bennett & Rundle-Thiele, 2004).

In their study, which they conducted among retail customers in Libya, A. H. Gait and Worthington (2009) found that, as Islamic products and services enter the financial markets, important consideration must be given to the attitudes, perceptions and knowledge of the market participants relating to these new methods of finance. For individual consumers and business firms, these factors determine the extent to which they will choose to patronise these alternative products and services. The study concluded that, while Islamic finance is not yet formally practised in Libya, most retail consumers do have some knowledge about the existence of Islamic banks that apply Islamic methods of finance. The study also suggests that most of the respondents were

potential users of Islamic methods of finance. This refers to research questions 1 and 2 in Section 1.3.

Hamid and Azmin (2001) focused on the level of awareness of Malaysian consumers about Islamic banking within the context of the wider promotion of Islamic education. They found that most Malaysians did not differentiate between Islamic and conventional bank products and services, although the majority had sufficient knowledge of the existence of and services offered by the Malaysian Islamic banks. Moreover, even though half the respondents were dealing with Islamic banks, they still required a greater understanding of Islamic bank products.

The study conducted in Bahrain by Almossawi (2001) on the bank selection criteria employed by college students, found that a significant proportion of potential young customers lacked awareness of the various products and services offered by commercial banks. Thus, it is clear that banks would have to work harder to increase their awareness through the appropriate communication channels (Almossawi, 2001). Khoirunissa (2003) suggests that efforts may be made through interpersonal communications, particularly by Muslim scholars. It is essential that Muslim scholars be clearer or more explicit in communicating to society that Islamic banking is obligatory, as interest in conventional banking is forbidden in Islam. Such communications could take the form of religious activities such as the recitation of the Quran, seminars on Islamic banking and non-curricular lectures on Islamic economics to students (Khoirunissa, 2003). The study by Bhatti et al. (2010) revealed that most of the respondents were aware of the products offered by the various Islamic banks, but they were only using facilities such as leasing, housing finance, automobile finance and so on. The reason given for this was that these banks are offering limited facilities to consumers, with the result that Islamic banking customers are also dealing with the conventional banks (Bhatti et al., 2010).

Haron et al. (1994), who pioneered the research on bank patronage in Malaysia, found that almost 100 per cent of Muslims and 75 per cent of non-Muslims were aware of the existence of Islamic banks. Moreover, most of them would want to have a relationship with these banks if they had a complete understanding of the Islamic banking system. The study by Abdullah et al. (2012) also confirmed a level of acceptance of Islamic banking services on the part of non-Muslims. The results also indicated that the majority

of study respondents had both Islamic and conventional bank accounts. This finding is in line with the worldwide support for Islamic banking and is consistent with the findings of a study by Haron et al. (1994), which indicated that non-Muslim respondents would consider establishing a banking relationship with an Islamic bank if they had sufficient information on its banking operations (refer to sections 1 and 2 of the questionnaire).

Naser et al. (1999) explored the extent to which Muslims living in Jordan were aware of the basic financial terms of Islamic banking. The study concluded that a large number of respondents were aware of the specific features of Islamic banking but they were not using those features. In addition, the findings indicated that some of the respondents were totally ignorant about certain of the specific terms used in Islamic banking. According to Naser et al. (1999), it is essential that Islamic banks operating in both Muslim and non-Muslim countries educate their Muslim clients about the Islamic terminology of banking (refer to section 2 of the questionnaire).

In Adelaide, Australia, a city with a majority, non-Muslim population, Rammal and Zurbruegg (2007) found that the majority of respondents surveyed were interested in and prepared to use Islamic methods of finance but they did not know how they functioned. In other words, despite the fact that they were aware of the availability of Islamic financial products, they were still unaware of basic Islamic banking principles and methods.

In expanding on the study of Haron et al. (1994), Gerrard and Cunningham (1997) found that, in common with their Malaysian counterparts, Singaporean Muslims were more aware of the existence of Islamic banking than non-Muslims. They reported that Muslim respondents (living in a non-Muslim country), although aware of the fundamental terms used in Islam, were almost exclusively unaware of the meaning of specific Islamic financial terms such as *mudaraba*, *musharaka* and *ijara.*

In a study conducted in the United Kingdom, Yusoff and Shamsuddin (2003) concluded that the attitudes of Muslims living in Loughborough towards Islamic finance products were positive. These researchers found that, despite limited knowledge of these products or of the Islamic financial system as a whole, Muslims in this city were willing to engage in the Islamic financial system and its products. Accordingly, new Islamic products should be developed that will be acceptable not only to Muslims but also to non-Muslim

customers. In this context, Karbari et al. (2004) note that it is important for Islamic banks to educate people about what they offer and also that the Islamic banks need to be heavily involved in marketing their products and services (Saleh Salman & Zeitun, 2006). In addition, customers need to be educated and made aware of the difference between the Islamic and the conventional banking systems (Karbari et al., 2004).

In a country such as South Africa with a majority of non-Muslims it is important to ascertain whether the Muslims and non-Muslims would have different attitudes towards Islamic banking as a result of the non Islamic environment. Accordingly, in the light of the preceding discussion, the following questions are asked in terms of this research:

Firstly, will Muslims, in contrast to non-Muslims, be more aware of the culture of Islamic banking and finance and, as a consequence, be more aware of the meaning of the fundamental terms used in Islamic banking and finance?

Secondly, are Muslims, in contrast to non-Muslims, more aware of the principles and methods of Islamic banking and finance?

2.5 Criteria for the selection of a bank

Marketing has traditionally been a neglected area of research in the service industries and this lack has become fairly evident in the market for commercial services. Banking has, historically, not engaged in marketing and it is only in recent decades that the commercial banking industry has begun to learn and implement the marketing techniques that other industries applied decades ago (W. Thomas Anderson Jr, Eli P. Cox III, & Fulcher, 1976). In addition, as a result of both the competition between retail banks and the more sophisticated customer demand, it has become essential for banks to determine the factors that are relevant to a customer's choice.

A bank's performance is a function of a number of determinants. One of these determinants is the client base. Consumers from any religion will have a common perception when weighing the factors involved in selecting a bank. Nevertheless, it is essential that, Islamic banks not dwell on religion as a motivating factor as the only basis for attracting more customers (Subhani et al., 2012). Islamic banks need to increase their client base and also retain all the clients they have won. Banks operating in a competitive

environment should be aware of the criteria used by consumers to choose their bank (Al-Ajmi et al., 2009) while the intense competition in the banking services industry presents a significant challenge to the profitability of retail banking institutions (Hedayatnia & Eshghi, 2011) (refer to section 4 of the questionnaire). In the context of the growing international and global challenges, the banking sector, in common with other sectors of the economy, has been transformed into an intensely competitive environment. This, in turn, requires the financial institution to implement certain unique measures and strategies in order to attract more customers successfully and to gain a larger market share and more revenue (Echchabi & Olaniyi, 2012).

It is, however, essential to bear in mind that the conventional banking system has been operating for decades longer than Islamic banking and that, for centuries, it has been fixed in the minds of the entire banking community globally. Accordingly, it will be no easy task to divert people's banking habits to a new banking system unless the value created by Islamic banking products and services surpasses that of conventional banking. In addition, the value created by Islamic banking has to be brought to the attention of banking customers in order to divert their demand (Shabbir et al., 2012; Thambiah et al., 2011). It is, therefore, extremely important to instil a "culture of Islamic banking" so that everyone becomes familiar with Islamic banking, irrespective of geographical boundaries, religious differences and racial diversity (Thambiah et al., 2011). According to Saini et al. (2011), in today's competitive environment, it is imperative that bank managers develop the ability to determine the critical bank selection factors for the segments of the market they wish to attract and serve. Denton and Chan (1991) mention that bank competition continues to be intense and banks are differentiating themselves by developing innovative products and services. These include new product combinations, modifications of traditional services, the creation of product identification and the personalisation of banking services. Retail bank promotional activity is also intense and includes a wide variety of sales promotion activities in addition to intensive advertising (Denton & Chan, 1991). Carlson and O'Cass (2010) found that controlled brand communications (e.g. advertising and promotions) from the service provider have a significant positive influence on the formation of positive brand attitudes. Khoirunissa (2003) concurs with this in stating that the role of electronic and printed

media is also important for the development of Islamic banking and includes Islamic banking advertisements on television and in newspapers.

Kugyte and Sliburyte (2005) report that findings from previous research studies demonstrate that bank selection and choice criteria have evolved from bank location in the 1980s to convenience in terms of ATM locations and electronic services. However, financial issues such as the fees charged and interest rates paid are also important because they are the essence of any financial product. These differences may be explained by the various market segments which may be analysed in terms of age (students to mature customers), service usage (beginners or advanced), income level and other demographical variables (Kugyte & Sliburyte, 2005). In the study conducted by W. M. W. Ahmad, Rahman, Ali, and Seman (2008), it was found that, for working customers, the determinants of the bank selection criteria that were important included services, electronic services/payments and transport facility. This is as a result of the fact that working customers prefer dealing with banks that offer efficient services and technology-based transactions as they are working during banking business hours and have limited time to spend on banking business.

Both Muslim and non-Muslim customers of Islamic banks are seriously concerned about whether the banks comply with Islamic *Shariah* rules in all stages of their banking activities (N. Ahmad & Haron, 2002; Haron et al., 1994; Metawa & Almossawi, 1998; Naser et al., 1999). The variables deemed important under religious constructs include compliance with *Shariah* rules, the offer of *Shariah* compliant services, the offer of interest-free loans, etc. Findings from previous studies conducted by Echchabi and Aziz (2012), Metawa and Almossawi (1998) and Naser et al. (1999) support the claim that it would appear that religion constitutes the primary reason for choosing Islamic banking. In contrast, other empirical studies have shown that Islamic belief is neither the only reason, nor the primary reason, for choosing Islamic banking and, in some instances, is not even part of the selection criteria (N. Ahmad & Haron, 2002; Erol & El-Bdour, 1989; Haron et al., 1994; Rashid & Hassan, 2009), despite the popular claim that Islamic banks are true reflections of Muslim lifestyles and practices, and that clients respect and believe in the principles espoused by the Islamic banks (Dusuki & Abdullah, 2007). Based on the results of their study conducted with Muslims and non-Muslims in Malaysia, Haron et al. (1994) concur with these findings. They report that Islamic banks should neither

overemphasise nor should they rely on the religious factor as a strategy in their effort to attract more customers as there was no significant difference between the selection criteria of the Muslims and non-Muslims who patronise commercial banks.

In their study conducted in Malaysia, Erol and El-Bdour (1989) found that profitability motivation supersedes religious motivation in the selection of banks when comparing Islamic and conventional banking customers. This was attributed to the fact that customers may have been used to the profit-oriented conventional banking environment. However, this finding contradicts the general perception prevailing in most Muslim countries and which emphasises religious motives as the major factor in the promotion of the Islamic banking movement (Erol & El-Bdour, 1989). Similarly, Subhani et al. (2012) concluded from their study that high profit and low service charges mattered the most for those consumers in Karachi, Pakistan who had selected an Islamic bank. In contrast to the findings of Erol and El-Bdour (1989), Subhani et al. (2012) found that religious motives were the second most influential construct when consumers decided to select Islamic banking. Rosly and Bakar (2003) also found that the religious factor is not sufficiently advantageous in persuading Muslims to use Islamic banking facilities.

As may be inferred by the abovementioned studies, the Islamic aspect or the conformity of Islamic banks with the *Shariah* law is not the only factor that motivates customers to adopt the Islamic banking services and it may, in fact, not be the main reason for their choice of banks (Echchabi & Olaniyi, 2012). Consequently, Islamic bankers can no longer depend on a marketing strategy that attracts pious and religious customers who may be concerned only about the Islamicity of the financial products. The rating of profit motives as a primary factor in selecting Islamic banks suggests that these banks should place more emphasis on a fair return on the funds deposited (Erol & El-Bdour, 1989) and that their focus should also be more on the provision of quality, efficient services and product and services innovations (Doraisamy et al., 2011). There is also a need for Islamic banks to intensify public education on and promote an awareness of the distinctive characteristics of Islamic banks and how they may profitably suit the interests of customers in their financial dealings (Dusuki & Abdullah, 2007). If Islamic banking is to be accepted and used by the target market, the banks will have to understand their customers and ensure that their products and services are easily available (Saini et al., 2011). Islamic banks will, therefore, need to mount marketing campaigns and live up to

the image they portray in order to attract and retain customers (Gerrard & Cunningham, 2001).

Together with the importance of religious background, customers want a good use of their investments. They also want the best cost-benefit trade-off, branches and ATMs in convenient locations, faster transaction processing, caring bank employees and sound financial advice from managers etc (W. M. W. Ahmad et al., 2008; Echchabi & Aziz, 2012; Gerrard & Cunningham, 1997; Haron et al., 1994; Metawa & Almossawi, 1998; Naser et al., 1999; Rosly & Bakar, 2003; Saini et al., 2011). W. M. W. Ahmad et al. (2008) concur with these findings. However, they found in addition that the variety of services offered and no interest charged on services were also influential factors in bank selection. Interestingly, items with an Islamic slant were important but ranked lower than the other factors. In their study which they conducted in Malaysia, Ranjbar and Sharif (2008) and also Marimuthu, Jing, Gie, Mun, and Ping (2010) concluded that these factors were also important for non-Muslims, except that religion was not a motivating factor for depositing money with Islamic financial institutions.

Other bank selection criteria and which are discussed in several studies on Islamic banking and finance include influence of friends and relatives, mass media advertising, size and reputation of institution as playing an important role in the reasons why customers choose to bank with specific banks (Gerrard & Cunningham, 1997; Hin et al., 2011; Khoirunissa, 2003; Marimuthu et al., 2010; Metawa & Almossawi, 1998). In their study in Malaysia, Echchabi and Olaniyi (2012) found that the most important criterion in selecting a bank is the reputation of the Islamic bank. This was followed by the quality of services offered, the Islamic working environment and appearance of the bank, and the competence and knowledge of the bank personnel (Echchabi & Olaniyi, 2012). However, the findings of the study conducted by Ranjbar and Sharif (2008) suggest that the relative importance of all these factors varies from one country to another depending on the age, gender, income, marital status, occupation and cultural background of customers, as well as the type of bank (Islamic or conventional bank) (Abdullah et al., 2012). In addition, the availability of a comprehensive profile on customers provides the bank management with a solid basis for making plausible and effective decisions regarding the marketing of their products and services (Metawa & Almossawi, 1998) (refer to sections 1 and 4 of the questionnaire).

Almossawi (2001) conducted a study in Bahrain among college students and found that, for young people, the “variety of services offered” scored high. A further finding was that banks should realise that young people enjoy dealing with advanced technical devices such as ATMs, not only for their speed and convenience, but also because young people enjoy being involved in computer-based activities such as the Internet, e-mail and so on. A study in Iran by Hedayatnia and Eshghi (2011) found that bank customers attach importance to innovation in banking services. This group of customers likes new technologies and uses them in their daily activities. Accordingly, banks should set up hi-tech services, such as Internet banking, SMS banking, e-mail banking and telephone banking, in order both to attract new customers and to retain existing ones.

In addition, it is essential that banks understand customer needs and wants and try to increase the satisfaction level of customers by providing tailor made services. In today’s era bank customers require personalised and value-added services such as e-banking because they do not want to spend their valuable time in banks.

In their study of Singapore’s undergraduates, Gerrard and Cunningham (2001) found that the most important criterion from the undergraduates’ point of view is their desire to feel secure (Mokhlis et al., 2010). However, this may have come about as a result of certain events that have taken place and that have had an impact on the local financial services scene. The actions of the trader who brought about the downfall of Barings Bank in Singapore will be remembered in this regard. The second most important criterion was the strong desire for the availability of electronic services such as ATMs and electronic funds transfers. The speed at which services are provided and the range of services that are available from banks were also regarded as important (Gerrard & Cunningham, 2001). Studies by Almossawi (2001) and Hedayatnia and Eshghi (2011) made similar findings.

In view of the fact that the economic environment is changing rapidly and customers are becoming more demanding and sophisticated, it has become important for financial institutions to determine the factors that are pertinent to the customers’ selection process. Thus, it is essential to determine the basis on which customers, both depositors and borrowers, make their selection when looking for a bank (H. U. Rehman & Ahmed,

2008). This may be a valuable insight as it may encourage local banks to embark on finding wider markets for their Islamic financial products.

A review of the relevant literature indicates that the studies have been conducted in the developed countries may not be applicable to the developing countries owing to varying cultural, ethical, political and economic set-ups (Denton & Chan, 1991). In other words, factors that play an important role in bank selection in one country may prove to be unimportant in another (Almossawi, 2001). Islamic banks should, however, take into account people's lack of knowledge of the Islamic banking and finance system, especially when promoting Islamic financial services. Thus, they need to revamp their marketing activities accordingly, while bearing in mind that ethnic background and religion do not really have a significant impact on the selection of Islamic banking (Marimuthu et al., 2010). Accordingly, promotional strategies may be devised that differentiate a particular bank from other banks and campaigns may be designed that are more narrowly focused on the needs of specific groups of customers, for example, younger individuals versus older bank users (Denton & Chan, 1991).

CONCLUSION

Much of the research in this area has been conducted in both Muslim and developing countries. However, there has been scant research on Islamic banking and finance in terms of the way it may address the needs of customers in a developing country conducted in South Africa. Moreover, very little research has attempted to assess the extent to which South African customers understand and use Islamic banking and finance, and their behaviour, attitudes and perceptions in this regard. This, in turn, leads to the question as to whether Muslims and non-Muslims have different attitudinal drivers in respect of their bank selection and also to the expectation that the factors discussed in this review will rank differently for Muslims and non-Muslims.

In the following chapters (chapters 3 and 4), the methodology of the study and the results of the questionnaire are presented and discussed.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Theory of research

Theory refers to a set of systematically related statements that may be tested empirically (Coetsee, 2011) and which may be used continually to explain or predict a phenomenon (Blumberg, Cooper, & Schindler, 2011). Thus, a specific theory is a proposed explanation for some event. Theories are sometimes confirmed by past research while, at other times, they are merely proposed theories with either limited or no validation. Theory may serve several purposes, for example, it narrows the range of facts which need to be studied; it suggests which research approaches are likely to yield the greatest meaning; and it summarises what is known about an object of study and may be used to predict any further facts that may be discovered (Blumberg et al., 2011). As such theories provide key inputs into the research process and researchers develop theory based on the accumulated body of previous research (Joseph F. Hair Jr, Barry Babin, Arthur H. Money, & Samouel, 2003).

Coetsee (2011) identified three research frameworks in accounting and finance research, namely, mainstream, interpretative and critical accounting research. Mainstream accounting research is primarily concerned with the functioning of accounting and is based on a positivistic research epistemology. The positivistic framework focuses on describing the underlying phenomenon and, thus, the aim is to record an objective reality that exists independently of human behaviour (Coetsee, 2011). Positivism seeks to reduce everything to abstract and universal principles, and it tends to fragment human experience rather than treat it as a complex whole. This approach to research is supposed to ensure that the research is kept free of the values, passions, politics and ideology of the researcher (A. B. Ryan, 2006). It is believed that an objective social reality may be unambiguously verified by objectively observing and measuring the phenomena under study (Coetsee, 2011).

The validity of positivistic research depends on the research question. Other aspects of the research process are, however, also important. A valid research instrument and valid research data must also be chosen and this must be followed by the correct application

of statistical analysis to verify the outcome (Coetsee, 2011). Positivism is thus a research framework that objectively observes and measures phenomena, without incorporating human feelings. The research attempts to be value-free to the extent possible, while the researcher remains independent, taking the role of an objective analyst (Blumberg et al., 2011; Coetsee, 2011). A. B. Ryan (2006) adds that positivist research places faith in quantification and on the notion that using the correct techniques will provide the correct answers. This type of research is also concerned, to some extent, with prediction and with control (A. B. Ryan, 2006). Accordingly, positivistic research is normally quantitative in nature (Bisman, 2010; Blumberg et al., 2011; Coetsee, 2011; Creswell, 2009).

Quantitative research involves investigating either amounts, or quantities, of one or more variables of interest. Quantitative research tries to measure variables in some way, perhaps by using commonly accepted measures of the physical world (e.g. rulers, thermometers, oscilloscopes) or carefully designed measures of psychological characteristics or behaviours (e.g. tests, questionnaires, rating scales). In addition, quantitative research seeks explanations and predictions that will generalise to other persons and places and, thus, it calls for large sample sizes to ensure that the findings based on the sample investigated represent the whole population (Blumberg et al., 2011). The aim of quantitative research is to establish, confirm, or validate relationships and to develop generalisations that contribute to existing theories (Bisman, 2010; Leedy & Ormrod, 2010). For the purposes of this research study, a comparative study of a quantitative nature was conducted within the framework of descriptive research study. The methodology employed for this study was adapted from the Gerrard and Cunningham (1997) study, which was conducted in Singapore, for use in a South African context.

The interpretative framework is based on the premise that social actors construct the truth that is relevant in any given timeframe (Coetsee, 2011; B. Ryan, Scapens, & Theobald, 2002). The belief is that social practices are not natural phenomena but that they are socially constructed and, thus, they may be changed by the social actors themselves. This means that we should not be looking for universal laws and generalisations, but for the rules, both explicit and implicit, which structure social behaviour. These rules are, however, themselves the outcome of social behaviour (B.

Ryan et al., 2002). Truth in the social environment is seen not as fixed, but as subject to change over time. Interpretative research, therefore, moves away from the objective, physical realism of positivistic research towards a social realism in which human actors play a significant role (Coetsee, 2011). In other words, such research assesses the human influences and the reasons for the phenomena in question.

Critical theorists explore and amplify the conditions of social life (B. Ryan et al., 2002) and it may therefore be said that the critical research framework is based on the premise that social actors are able to change the world and that they do not need to accept what is presented as “truth”. Truth is relative and open to criticism. The essence of critical research is change in the social order in which the current practice operates (Bisman, 2010; Coetsee, 2011). Critical research is, thus, tends to be interdisciplinary, since no discipline is totally isolated from other disciplines. No descriptive layout is provided for critical research and the research process must be created through an appropriate research design. An explanation of the conceptual frame in which the critical research is performed is crucial and must be explained in critical research. Thus, critical research incorporates the views of the researcher and tends to be, in many instances, theoretical in nature (Coetsee, 2011), as there is a marked emphasis on detailed historical explanations (Bisman, 2010).

The application of the appropriate research framework is determined by the research question and the nature of the research issue that is to be resolved (Coetsee, 2011).

3.2 Research instrument

For the purposes of this study and in view of the fact that the study was exploratory in nature, the data were collected using a structured questionnaire. The questions were simple, concise and precise in order to facilitate the respondents’ answering the questions (Abdullah et al., 2012; Creswell, 2009). The simple, concise and precise nature of the questionnaire was also confirmed by the comments received from the respondents in the pilot study that was conducted prior to sending out the final questionnaire. Creswell (2009) further states that ensuring that the questionnaire is as brief as possible will assist in soliciting only information that is essential to the research project in question. In addition, requesting lengthy answers may be mentally exhausting

and time-consuming for the respondents (Creswell, 2009). Complex questions may lead to confusion and, hence, may result in the respondents not being able to answer them accurately or else they may avoid answering them altogether (Abdullah et al., 2012).

The use of questionnaires involves no attempt either to control conditions or to manipulate variables (Kelley, Clark, Brown, & Sitzia, 2003). The questionnaire for this study was piloted during June 2012 with a sample of 25 academic staff members from the School of Accountancy at the University of the Witwatersrand, Johannesburg. A pilot study must draw its participants from the target population and simulate the procedures and protocols that have been designed for the data collection (Blumberg et al., 2011).

The participants who were selected for the pilot testing for this study represented the target population of chartered accountants registered with the South African Institute of Chartered Accountants (SAICA). On receiving the survey via e-mail, they were requested to inspect the questionnaire and to comment on the appropriateness of its wording. The objective of the pilot study was to assess the reliability of the measurement variable and to rectify any inadequacies prior to the full-scale study. The pilot study also enabled the researcher to establish whether the respondents had understood the questions and instructions and whether all the respondents had interpreted the questions in the same way (Kelley et al., 2003).

The final version of the questionnaire was amended to take into account the comments of the respondents in the pilot sample. On 1 August 2012, the final version of the questionnaire was sent to a random sample comprising 300 chartered accountants registered with SAICA. A purposeful selection technique was used to extract the sample from the population of chartered accountants registered with SAICA. Purposeful selection ensures that knowledgeable participants only are engaged, given the design of the data collection instrument (Creswell, 2009). The survey was set up and administered by an independent programmer using a web-hosted website, Surveymonkey. A list of the participants was sent to the programmer who then emailed the covering letter and the link to the questionnaire to the respondents (see Appendix H). The respondents were given 30 days in which to complete the survey, with reminders to complete the survey being sent after 15 days. On completion of the survey, the responses were returned to the website administrator. The website administrator provided weekly updates to both the

researcher and the statistician regarding the number of responses received as well as a brief summary of the responses to the questionnaire.

Kelley et al. (2003) list some of the advantages of using surveys in research. Firstly, the research will produce data which is based on real-world observations. Secondly, the breadth of coverage of many people means that this approach is more likely than some other approaches to obtain data which is based on a representative sample and which, therefore, may be generalised to a population (Treadwell, 2011). Finally, surveys may produce a large amount of data in a short time at a fairly low cost (Kelley et al., 2003; Treadwell, 2011). Leedy and Ormrod (2010) also mention that, by using questionnaires for the purposes of survey research, the participants are able to respond to the questions in the assurance that their responses will be anonymous and, thus, they may be more truthful than they would be in a personal interview, especially when sensitive or confidential issues are being addressed. Other advantages of surveys include the fact that the respondents are able to answer large numbers of questions rapidly. This is because surveys typically rely on formatted questions such as multiple-choice and those in a Likert format (Treadwell, 2011). Another advantage is that several people may be surveyed rapidly as the Internet allows for the distribution of surveys to large numbers of people (Treadwell, 2011).

Kelley et al. (2003) list some of the disadvantages of using surveys for research. Firstly, the significance of the data may become neglected if the researcher focuses too much on the range of coverage to the exclusion of an adequate account of the implications of the data in respect of relevant issues, problems or theories. Secondly, the data that are produced may lack details or depth as regards the topic being investigated. Finally, securing a high response rate to a survey may be difficult to control (Leedy & Ormrod, 2010), particularly when the survey is carried out either by post, face-to-face or telephonically. Other disadvantages mentioned by (Treadwell, 2011) are that the questions with limited response options, such as yes and no, will give numbers but no understanding of the “why” behind those numbers. However, this was not relevant to this study as the research was exploratory in nature and, thus, key issues only were included in the questionnaire while a Likert scale was used for three of the four sections in the questionnaire. Another disadvantage of survey research is the increasing unwillingness of consumers to participate in surveys either by telephone or mail (Blumberg et al., 2011;

Treadwell, 2011). However, in view of the fact that this study involved an electronic survey, this disadvantage was not applicable. A further disadvantage of surveys is the problem of having to decide whether the responses received are valid or not, that is, do the respondents' answers really match their behaviour (Treadwell, 2011). One of the assumptions in this research was that, based on the sample of chartered accountants, the respondents would give accurate and open feedback.

The questionnaire comprised four sections and was designed in such a way that it was would be easy and quick to complete in order to maximise response rates and accuracy. The questions were numbered and clearly grouped by subject. Headings were also included to ensure that the questionnaire was easy to follow (Kelley et al., 2003).

The first section of the survey instrument (Appendix A Section 1) was designed to gather information about the participants' socio-demographic status. This was in line with previous studies that have highlighted the relevance of these factors which, it is maintained, would assist in identifying the perceptions of the various religious groups, genders and ages (A. Ahmad, Kashif-ur-Rehman, Saif, et al., 2010; A. Ahmad, Kashif-ur-Rehman, & Saif, 2010; Al-Ajmi et al., 2009; Dusuki & Abdullah, 2007; Naser et al., 1999; A. A. Rehman & Masood, 2012). Basic descriptive statistics were used to process and analyse the quantitative questions contained in the first section of the questionnaire, that is, the sum, mean and standard deviation of the responses (Babbie, 1973; Rugg & Petre, 2007).

The use of descriptive statistics to describe the findings of a study (Rugg & Petre, 2007) provides a method of reducing large data matrices to manageable summaries so as to enable easy understanding and interpretation. Single variables may be summarised by descriptive statistics, as may the associations between variables (Babbie, 1973). L. Steenkamp, Baard, and Frick (2009) suggest that it is appropriate to use questionnaires in a descriptive investigation (Joseph F. Hair Jr et al., 2003; Kelley et al., 2003). Such questionnaires are more structured and less descriptive but allow for an initial statistical analysis and run counter to the basis favoured for the initial investigation of a phenomenon. The results of such questionnaires provide a "snapshot" of how things are at a specific point in time (Joseph F. Hair Jr et al., 2003; Kelley et al., 2003). The variables in this study included gender, age, religion and marital status (Creswell, 2009).

These variables provided a snapshot of the demographic characteristics of the chartered accountants who were surveyed in the study. A variable in this case simply represents a property of an event or phenomenon associated with a particular object, for example sex, age or race (B. Ryan et al., 2002).

Descriptive statistics were also used in A. A. Rehman (2012) study to provide an overview of the demographic characteristics of the respondents. The success of Islamic banks in formulating effective marketing plans depends primarily on maintaining complete up-to-date profiles of their customers. These comprehensive profiles provide the bank management with a solid basis for making plausible and effective decisions regarding the marketing of their products and services (Metawa & Almossawi, 1998). The predetermined categories in this study are reflected by the nominal scale and the responses to these categories will be coded as yes = "1" and no = "0" – in other words, a discrete scale (Joseph F. Hair Jr et al., 2003; McBurney & White, 2007) where certain set values only are possible (Blumberg et al., 2011). All the predetermined categories are mutually exclusive and exhaustive of all possibilities, that is, each category must be different and all possible categories must be included (Joseph F. Hair Jr et al., 2003). The data collected are restricted to counts of the number of responses in each category, a calculation of the mode or percentage for a particular question, and the use of the chi-square statistic to compare proportions (Joseph F. Hair Jr et al., 2003).

The second section in the survey instrument (Appendix A Section 2) contained terms used in Islamic banking and finance and the respondents were asked to indicate whether they were aware of the meaning of each term (Al-Ajmi et al., 2009; Gerrard & Cunningham, 1997; Naser et al., 1999; Ranjbar & Sharif, 2008; Thambiah et al., 2011). Each of the terms (A. Ahmad, Kashif-ur-Rehman, Saif, et al., 2010) were measured on a four-point Likert scale of importance (1 = None ; 2 = Low; 3 = Medium; 4 = High).

The Likert scale is the most frequently used variation of the summated rating scale. Summated scales consist of statements that express either a favourable or unfavourable attitude towards the object of interest. Likert scales help to compare one person's score with a distribution of scores from a well-defined sample group (Blumberg et al., 2011). This type of ranking scale is referred to as an ordinal scale and places objects into a predetermined category that is rank-ordered. This scale enables the researcher to

determine whether an object possesses more or less of a characteristic than some other object (Joseph F. Hair Jr et al., 2003). The points on an ordinal scale do not indicate an equal distance between the values but rather that a value of 3 = medium is better than 2 = low. Ordinal scales allow for the respondents to be placed into groups, which are then ordered (Joseph F. Hair Jr et al., 2003; McBurney & White, 2007). For the purposes of this study the median and the percentages of the data were calculated, while the chi-square test of independence statistic was also used. A separate analysis was conducted to compare Muslims and non-Muslims in relation to their responses in respect of their familiarity with Islamic banking terms.

The third section of the survey instrument (Appendix A Section 3) contained a series of statements or questions that were styled on those which were used by and published at the end of the studies of (Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997; Ranjbar & Sharif, 2008)). Erol and El-Bdour (1989) conducted their study in a country in which Islamic banking was already established and the population was primarily Muslim, while Gerrard and Cunningham (1997) conducted their study in Singapore where Islamic banking had not yet been established. Islamic banking is still growing in South Africa where the majority of the population is non-Muslim. The type of scale used in section three is referred to as a continuous scale as it measures the intensity of agreement with the statements or questions (Joseph F. Hair Jr et al., 2003).

For questions 1, 2 and 3 of section three, descriptive phrases were used to measure intentions and/or likelihoods while for questions 4, 5 and 6 of section three, a Likert-type scale was used to rate the objects. As the distances between the ratings were equal, it was possible to interpret the differences between the points on the scale and make a meaningful comparison between them. In using interval scales an attempt is made to measure the perceptions and attitudes of the respondents through the use of so-called rating scales, as these scales include properties of both nominal and ordinal scales. For the purposes of this study the scale was treated as an interval scale (Joseph F. Hair Jr et al., 2003). It was envisaged that this non-parametric test would meet the expectations of the researcher as the research is exploratory in nature and would provide insightful information (Marimuthu et al., 2010).

In the fourth section of the survey instrument (Appendix A section 4) the respondents were asked to indicate by means of a Likert-type scale (1 = No; 2 = Low; 3 = Medium; 4 = High) how they perceived a series of factors when selecting a bank. Twenty-seven factors were listed in this section, many of which had been adapted from (W. M. W. Ahmad et al., 2008; Al-Ajmi et al., 2009; Bhatti et al., 2010; Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997; Haron et al., 1994; Hedayatnia & Eshghi, 2011; Naser et al., 1999; Ranjbar & Sharif, 2008; A. A. Rehman & Masood, 2012; Saini et al., 2011), with some additional items to represent issues such as new product technology and religious and social responsibility.

In line with the analytical style used by Gerrard and Cunningham (1997) separate factor analyses were conducted for Muslim chartered accountants and non-Muslim chartered accountants in relation to their responses to the statements pertaining to bank selection. Factor analysis is a multivariate statistical technique that is concerned with the identification of structure within a set of observed variables. It involves the study of the interrelationships between variables in an effort to find a new set of variables, fewer in number than the original variables. In other words, it is a data reduction technique that is not accompanied by any great loss of information. Factor analysis indicates the important qualities present in the data, and may be conducted on either an unrotated or a rotated basis (Gerrard & Cunningham, 2001). Accordingly, this technique was deemed appropriate for this section of the questionnaire (Stewart, 1981).

In line with the goal of data reduction, the data for this study was summarised and aggregated into different themes or factors using factor analysis. In other words, the factor analysis was intended to reduce the number of statements considered by the respondents to a more manageable level by bringing together those statements that were seen to measure the same “thing” (W. M. W. Ahmad et al., 2008; Dusuki & Abdullah, 2007; Gerrard & Cunningham, 2001; Hedayatnia & Eshghi, 2011). It is also an efficient method of discovering predominant patterns among a large number of variables (Babbie, 1973). The use of factor analysis would assist in identifying the principle factors that customers perceive as important as regards their bank selection (H. U. Rehman & Ahmed, 2008). The advantage of reducing the number of variables in this way is that it enables researchers, in their comments about the research results, to be more focused. In addition, factor analysis presents the data in a form that may be interpreted by the

reader and/or researcher (Babbie, 1973). For a given factor, the reader may easily discover the variables loading highly on the factor in question, thus noting clusters of variables. On the other hand, the reader may also easily identify which on which factors a given variable is or is not loaded highly (Babbie, 1973).

This study employed factor analysis to identify the most important criteria in the choice of financing and that may have an impact on the marketing of bank financing activities (W. M. W. Ahmad et al., 2008). For each factor, items with a loading greater than .40 only were considered as significant and used in defining the particular “theme”. This was intended to ensure that the total variances retained by the factor analysis would not be less than 50 per cent, thus allowing for data richness as well as improved simplification in order to facilitate analysis. In addition, the means were computed for all the attributes retained within each factor so as to identify the relative importance of such attributes to the respondents in their bank selection process (Almossawi, 2001). These measures also helped to validate that respondents had been able to distinguish between the various variables despite the similarity in the items explored (Dusuki & Abdullah, 2007).

In pursuit of brevity, patterns of correlations between the questions used to measure the respondents’ perceived level of importance attached to different criteria and that could be involved when selecting either a non-Islamic bank or an Islamic bank or both, were examined by subjecting the set of items to principle axis factoring (PAF) using SPSS 21.

The research variables of interest included 27 questions representing different criteria that may be relevant when deciding which type of bank to use. Prior to performing PAF the suitability of the data for factor analysis was assessed. The relationships between the 27 variables, which were measured on a scale of 1 to 4 to indicate the extent to which the participants considered the different aspects to be important, were investigated using the Pearson product-moment correlation coefficient. Preliminary analyses were performed to ensure that the assumptions of normality, linearity and homoscedasticy had not been violated (refer to section 4.5.2 of the questionnaire).

3.3 Population and sample

Business research involves collecting information with the aim of facilitating improved decision making. Collecting information involves contacting a small subset of individuals selected from a set of people who are knowledgeable about a particular topic – the population of interest. This subset constitutes the sample that will be investigated in order to derive conclusions about the characteristics of the population (Blumberg et al., 2011; Creswell, 2009; Joseph F. Hair Jr et al., 2003; McBurney & White, 2007).

This study made use of a survey approach for the purposes of understanding the broader population from which the sample was initially selected (Babbie, 1973). Essentially a survey entails the selection of a relatively large sample of individuals from a predetermined population and then the collecting of a small amount of data from these respective individuals (Joseph F. Hair Jr et al., 2003; Kelley et al., 2003). In other words, the sample should mirror characteristics of the population, thereby minimising the errors which may be associated with sampling (Joseph F. Hair Jr et al., 2003).

For this particular study the relevant population consisted of chartered accountants registered with SAICA. The main reasons for choosing chartered accountants for this study included the following: Firstly, chartered accountants, as educated professionals, would be familiar with banking and banking terminology. Secondly, as high income earners, the members of this population would all be account holders at either a conventional bank or an Islamic bank or both, thus ensuring that adequate input would be received. Thirdly, the respondents, as chartered accountants registered with SAICA, were from different parts of the country and, thus, it would be easy to access the respondents in respect of the various religious groups included in this population. Finally, on the recommendation of the Postgraduate Committee of the School of Accountancy, the desired population was deemed to comprise chartered accountants registered with SAICA. A sample of this population was then surveyed and inferences made about the wider population of chartered accountants, as it would have been both impractical and uneconomical to collect data from every single person in the given population (Creswell, 2009; Kelley et al., 2003).

Joseph F. Hair Jr et al. (2003) also mention that contacting the entire population is usually costly and time consuming, while properly selected samples provide information that is sufficiently accurate to be used in business decision making (Joseph F. Hair Jr et al., 2003). In addition, the sampling may be done at a lower cost and with a greater speed of data collection than if all the members of the population were contacted (Blumberg et al., 2011). However, error may be introduced into the process to the extent that the sample and population are actually different (Joseph F. Hair Jr et al., 2003). The responses to the questionnaire were aggregated and analysed to provide descriptions of the respondents in the sample and to determine the relationships between the responses. The descriptive and explanatory conclusions reached by means of the analysis were then generalised to the population from which the sample had been selected, namely, all the chartered accountants registered with SAICA (Babbie, 1973). Based on this, surveys do not allocate participants to groups or vary the treatment they receive (Kelley et al., 2003).

In view of the fact that a questionnaire was being used in order to collect the data for this study, random purposive sampling was employed for this quantitative research study. The first stage of the selection process involved the purposive sampling. In purposive sampling, the people chosen for the study are selected for a particular purpose (Leedy & Ormrod, 2010; McBurney & White, 2007) and on the basis that the researcher possesses knowledge about the population, its elements and the nature of the research aims (Babbie, 1973). Using this technique, each individual within the population of chartered accountants registered with SAICA was selected by chance and was equally as likely to be picked as anyone else; that is, each individual had the same probability of being chosen at any stage during the sampling process (Blumberg et al., 2011; Creswell, 2009; Joseph F. Hair Jr et al., 2003; McBurney & White, 2007).

The second stage of the sampling process involved randomly selecting a sample of participants from the population of chartered accountants registered with SAICA. The respondents were randomly selected from audit firms, industry and various universities in South Africa. Random sampling serves to check either conscious or unconscious bias on the part of the researcher (Babbie, 1973) and allows the results to be generalised to the broader population (Creswell, 2009; Kelley et al., 2003).

With the assistance of a statistician (Rugg & Petre, 2007), a sample size of 300 was selected based on the length and number of questions contained in the questionnaire. This sample size was considered sufficient for the purposes of this study.

3.4 Validity and reliability

Ethics refers to the study of “right behaviour” and addresses the question of how to conduct research in a moral and responsible way. In other words, ethics are the moral principles, norms or standards of behaviour that guide moral choices about our behaviour and our relationships with others (Blumberg et al., 2011). Drew, Hardman, and Hosp (2008) define ethics in research generally to mean that an investigator has a moral obligation to protect the participants from harm, to prevent an unnecessary invasion of their privacy, and to promote their wellbeing.

Creswell (2009) maintains that it is essential that researchers anticipate the ethical issues that may arise during their studies, as research involves collecting data from people about people. Accordingly, an ethics clearance certificate for this study was completed and submitted for approval to the ethics committee of the University of the Witwatersrand. Joseph F. Hair Jr et al. (2003) maintain that researchers are faced with ethical considerations and possible ethical dilemmas throughout a research project and, therefore, every researcher has a responsibility to protect the participants in an investigation. The primary responsibilities to the participants are clear, namely, obtain informed consent, protect from harm and ensure privacy (Blumberg et al., 2011; Drew et al., 2008; Kelley et al., 2003; Leedy & Ormrod, 2010).

For the purposes of this study, the participants’ permission was sought to complete the questionnaire and their privacy was assured, with this information being included in the covering letter. The questionnaire did not require the participants to provide personal details such as name, identity number or addresses, thus ensuring their privacy. Creswell (2009) reports that researchers need to develop trust with the participants, promote the integrity of research, guard against misconduct and impropriety that may reflect on their organisations and cope with new and challenging problems. In addition, the researcher should show respect to the participants at all times as, without their participation, the researcher may well be without a job (Joseph F. Hair Jr et al., 2003).

Securing the informed consent from participants includes fully disclosing the procedures involved in the proposed survey before requesting permission to proceed with the study (Blumberg et al., 2011). This consent process involves the procedure in terms of which an individual may choose whether or not to participate in the study. The task of the researcher is to ensure that participants have a complete understanding of the purpose of the study, the methods to be used in the study, the risks involved, and the demands that will be placed on them as participants. The participants must also understand that they have the right to withdraw from the study at any time (Creswell, 2009; Drew et al., 2008; Leedy & Ormrod, 2010; McBurney & White, 2007). Moreover, the participants should be given the choice of either participating or not participating in the survey, and any participation in the survey should be strictly voluntary (Babbie, 1973; Leedy & Ormrod, 2010; McBurney & White, 2007). In addition, participants should also be aware of what is about to happen (McBurney & White, 2007) and, if the research is of an experimental design, they should not be forced to participate in an experiment (Joseph F. Hair Jr et al., 2003).

For the purposes of this study, the research was described in an e-mail covering letter, which included information on the researcher undertaking the study, the researcher's contact details, reasons why the respondent had been selected, the aims of the study, what would happen to the information provided and a link to the website hosting the electronic questionnaire. This e-mail covering letter formed part of the instructions on the questionnaire (Joseph F. Hair Jr et al., 2003) while also indicating clearly that responses to the questions were voluntary. Consent was inferred by the participants' willingness to complete the survey.

The most basic concern in all research is that no individual is harmed by serving as a participant in a study. Harm may be broadly defined to include extreme physical pain or death, but it also involves such factors as psychological stress, personal embarrassment or humiliation, or a myriad influences that may adversely affect the participants in a significant way (Drew et al., 2008). No participant in this study was exposed to unnecessary physical or psychological harm due to the nature of the research. Similarly, no inflammatory or highly emotive questions were asked in the questionnaire. The use of chartered accountants precluded minors and people who may be considered ethically vulnerable from participating in the study.

This research study was aimed at obtaining information on the differences in the perceptions, awareness and bank selection criteria of Muslim chartered accountants and non-Muslim chartered accountants with regard to Islamic banking. In terms of this type of research, privacy is becoming an increasingly valued right. Seeking privacy is an act of seclusion or confidentiality, that is, removed from public view or knowledge (Drew et al., 2008). Hence, any research study involving human beings should respect the participants' right to privacy (Joseph F. Hair Jr et al., 2003; Leedy & Ormrod, 2010). Furthermore, the sensitivity of the data in the view of the individual or group being studied must also be considered (Drew et al., 2008). For instance, certain types of information may be considered situationally sensitive and would be divulged only under certain circumstances, for example, age and marital status (see part 1 of the questionnaire). Accordingly, the participants in a research study should be assured that the data collected will be held in strict confidence so as to protect their anonymity (Drew et al., 2008; Joseph F. Hair Jr et al., 2003).

Accordingly, for the purposes of survey research, every respondent should be fully informed about the purpose of the study, the participant demographics, the confidentiality of the responses, how the results will be used and who will have access to the data (Blumberg et al., 2011; Drew et al., 2008).

Before using the scores from any concept (construct) for analysis, the researcher must ensure that the variables (indicators) selected to represent and measure the concept do so in an accurate and consistent manner. Accuracy is associated with the term "validity", while consistency is associated with the term "reliability". When these issues are properly addressed, measurement error is reduced (Joseph F. Hair Jr et al., 2003).

The questionnaire was deemed to be reliable as repeated applications in previous studies have resulted in consistent scores (Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997; Ranjbar & Sharif, 2008). The questions were similar to those contained in previous studies and this, in turn, ensured that this study was comprehensive and that no major issues had been omitted. In addition, the questions were adapted to suit the South African context. In addition, the questionnaire was discussed and amended, where appropriate, after discussions with the Head of Islamic banking and finance at ABSA who had been made aware that the population to be

surveyed comprised chartered accountants registered with SAICA. Reliability is concerned with the consistency of the research findings (Joseph F. Hair Jr et al., 2003).

Validity refers to the extent to which a construct measures what it is supposed to measure. Accordingly, a construct with perfect validity would contain no measurement error. A construct refers to an image or idea which has been specifically invented for a given research project and/or a theory-building purpose. Constructs are built by combining similar concepts, especially when the idea or image which is to be conveyed is not directly subject to observation (Blumberg et al., 2011). The content validity of a measuring instrument is the extent to which the instrument provides adequate coverage of the investigative questions guiding the study. The determination of content validity is judgemental (Blumberg et al., 2011).

The content validity of the research instrument used in this study was established from prior literature (W. M. W. Ahmad et al., 2008; Gerrard & Cunningham, 1997; Ranjbar & Sharif, 2008) and also on the basis of the findings of an interview with the head of Islamic banking and finance at ABSA, with necessary adaptations for the South African Islamic banking system. This was intended to reduce the risk of researcher bias in the design of the questionnaire (Creswell, 2009). The use of the predesigned measurement questions which had been formulated and tested by previous researchers enhanced the validity and also reduced the cost of the study (Blumberg et al., 2011).

A measure is reliable to the degree that it supplies consistent results. Reliability is a necessary contributor to validity but it is not a sufficient condition for validity. It is concerned with estimates of the degree to which a measurement is free of random or unstable error. Reliable instruments may be used with confidence in the knowledge that transient and situational factors will not interfere. In addition, reliable instruments are robust and they work well at different times and under different conditions (Blumberg et al., 2011).

The questionnaire first had to be approved by the University of the Witwatersrand School of Accountancy's Postgraduate Committee. It was then submitted for ethics clearance and permission from the University's ethics committee. This committee reviews any research using human participants and checks the research procedures to ensure that all

the participants are treated ethically (Blumberg et al., 2011; Joseph F. Hair Jr et al., 2003). From the results of the questionnaires, certain interpretations can be made regarding the perceptions and awareness of Islamic banking and finance, together with the awareness of the fundamental terms used in Islamic banking and finance, and any differences between Muslims and non-Muslims in terms of their attitudes, together with the patronage factors, towards conventional and Islamic banks.

CHAPTER 4: RESULTS AND DISCUSSION

4.1 Introduction

Researchers generate information by analysing data after it has been collected. As such data analysis usually involves reducing the accumulated data to a manageable amount while it also involves developing summaries, looking for patterns and applying statistical techniques (Blumberg et al., 2011). For the purposes of this study a quantitative approach was used with a structured questionnaire being distributed to the respondents with the aim of gaining an understanding of the environment of chartered accountants registered with SAICA. The validity and reliability of the questionnaire were established as discussed in Chapter 3. A purposive random sample was selected and a total of 115 responses were received. A statistical package, SPSS version 21, was used to analyse the data derived from the questionnaires.

4.2 Demographic profile of respondents

The survey investigated the background of the respondents in terms of six categories, including gender, religion, age, marital status, type of chartered accountant and type of banking institution.

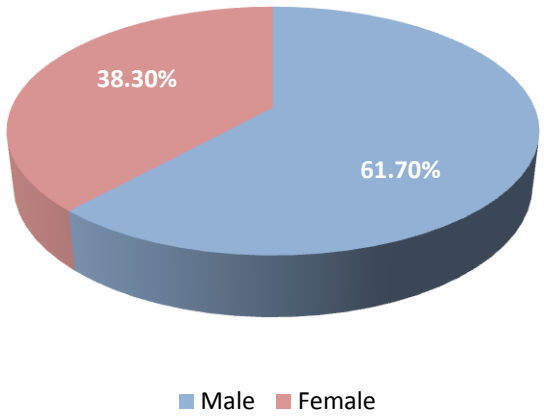


Figure 4.1: Gender of the respondents

The demographics of the 115 respondents reflected that 61.7 per cent (71) were male and 38.3 per cent (44) were female. It is interesting to note that, as per the SAICA website (28 April 2009), of SAICA's total membership base of 28 483 chartered accountants, 26 per cent are women. This may possibly explain why more males than females responded to the questionnaire in this study.

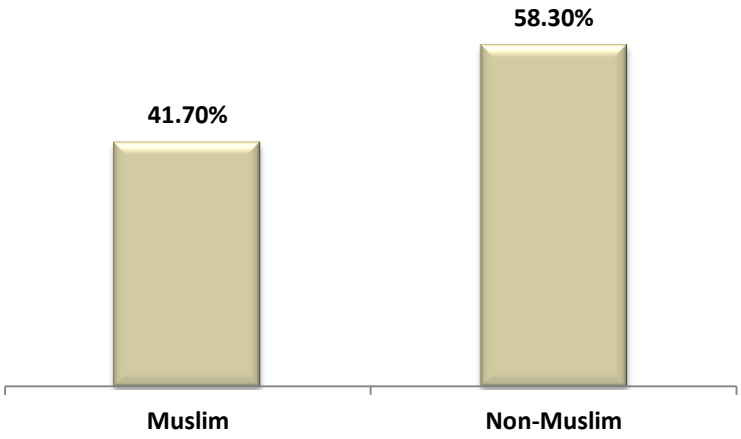


Figure 4.2: Religion of the respondents

The majority of the respondents were non-Muslim (58%), while Muslims (42%) made up the rest, representing a good mix of South Africa's chartered accountant population. It is interesting to note that, owing to the nature of the study which focused on Islamic banking, a larger response rate was received from non-Muslims than Muslims. This may be indicative of the fact that South Africa is a country with a Muslim minority, whereas, when a similar study was conducted in countries with a Muslim majority (Malaysia and Bahrain), the responses received were mainly from Muslims.

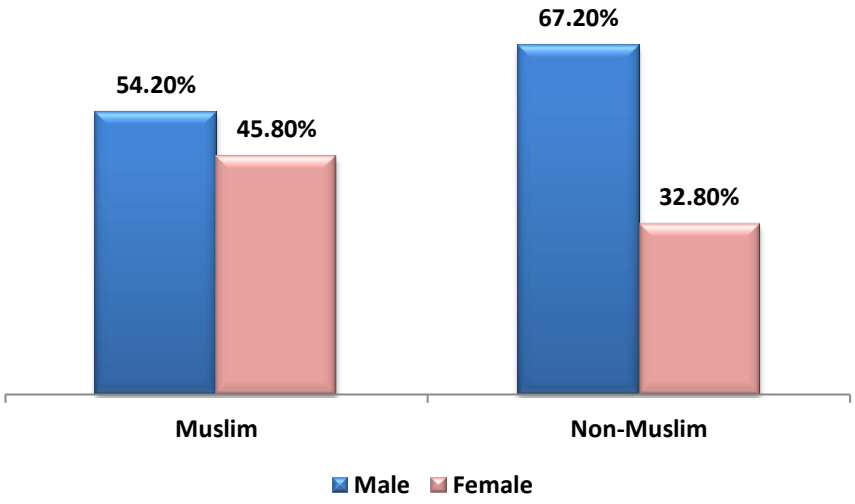


Figure 4.3: Gender of respondents by religion

Of the 67 non-Muslim respondents, 67.2 per cent were male and 32.8 per cent were female while, of the 48 Muslims, 54.2 per cent were male and 45.8 per cent female. This indicates that the majority of the respondents were male. Based on the gender and religion of the respondents the findings reveal that majority of the respondents were non-Muslim males.

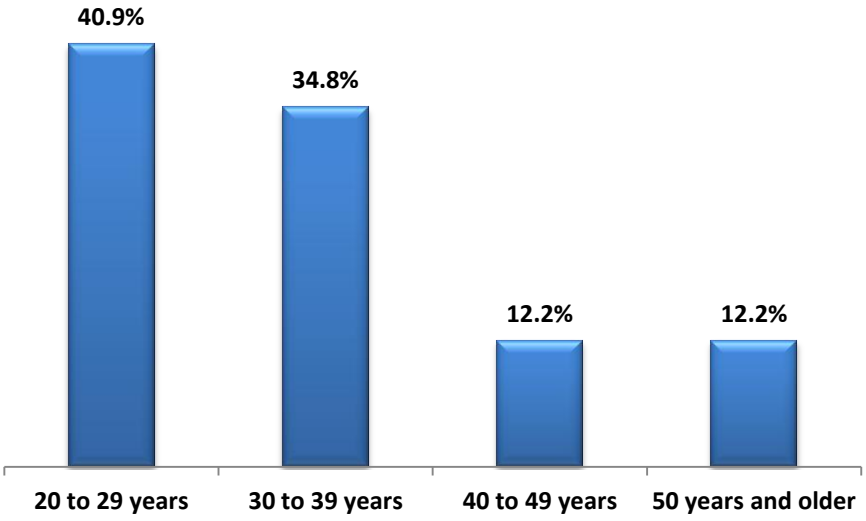


Figure 4.4: Age group of respondents

The sample was collected from a group ranging in age from 20 to 50 years and older. The results showed that the majority of the respondents were young – between the ages

of 20 and 39 years (76%). The remaining 24 per cent was split evenly between 40 to 49 years and 50 years and older.

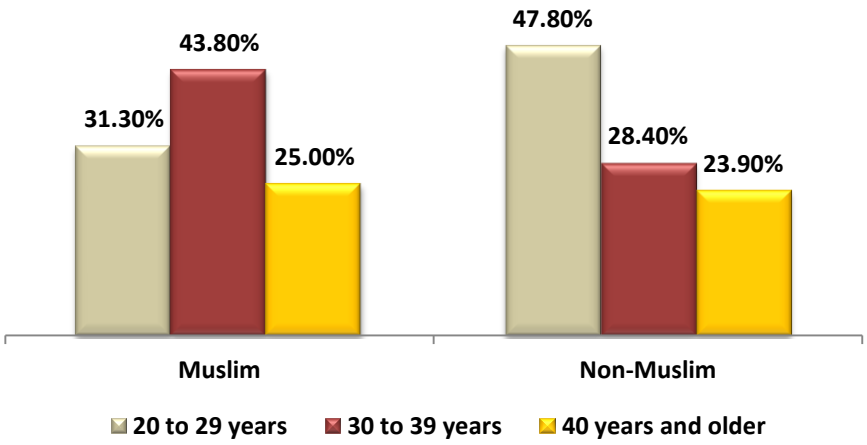


Figure 4.5: Age group of respondents by religion

Of the 48 Muslim respondents, 75.1 per cent were between the ages of 20 and 39 years while 76.2 per cent of the 67 non-Muslim respondents were in the same age category. Almost 76 per cent of the respondents (Muslims and non-Muslims) were between 20 and 39 years. The researcher is of the belief that customers and depositors within this age range are likely to exert a significant influence on Islamic banking policies. Banks may regard this age group as a relatively less risky age group then other age groups, particularly with regard to advancing loans and other financing transactions (Dusuki & Abdullah, 2007; Ranjbar & Sharif, 2008). Furthermore, with this sample of respondents, the study may also provide useful insights into how this promising group perceives Islamic banking (Dusuki & Abdullah, 2007; Ranjbar & Sharif, 2008)

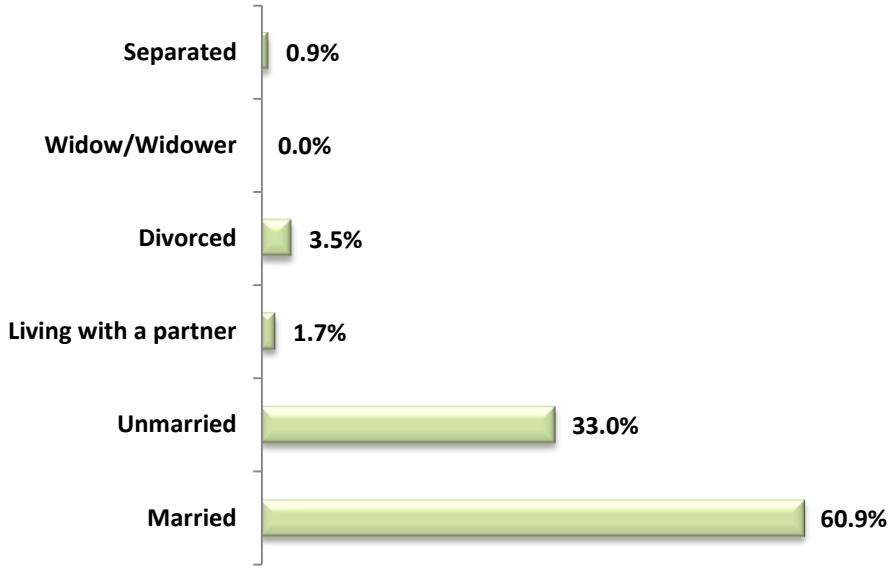


Figure 4.6: Marital status of respondents

The results showed that 61 per cent of the respondents were married, 33 per cent were unmarried while the balance (6%) were either living with a partner, are divorced or separated.

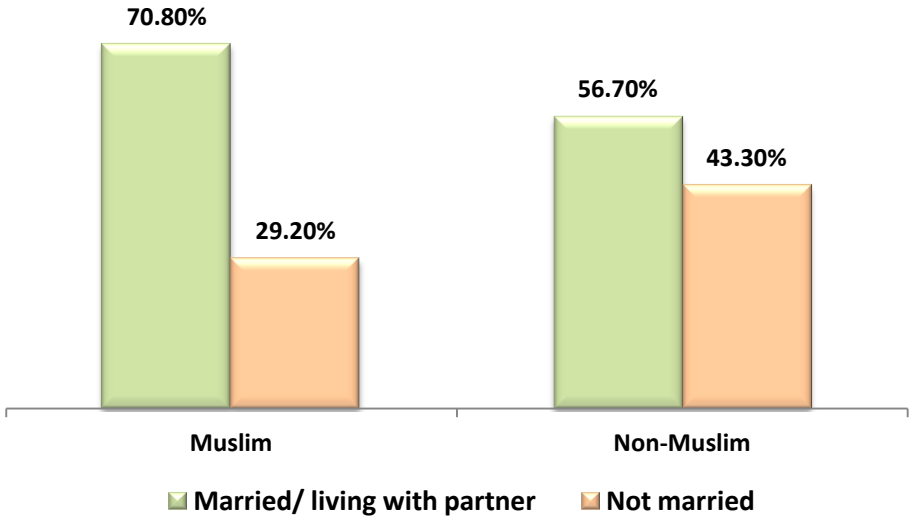


Figure 4.7: Marital status of respondents by religion

Based on Figure 4.7, the marital status of the respondents indicates that 70.8 per cent of Muslims were either married or living with a partner, compared to the 56.7 per cent of non-Muslims who were either married or living with a partner. The remaining Muslims

(29.2%) were either unmarried, divorced or separated, while 43.3 per cent of the non-Muslims were in this category. It would appear that, when it comes to issues such as finance, banking, savings, and so forth, those respondents who are married or living with a partner (62.6%) would be a more stable group as compared to separated, divorced or unmarried respondents. The possible reason for this is that individuals who are married or living with a partner would have to consider their decisions jointly and are often forced to debate the merits of a particular decision. In comparison, those individuals who are separated, divorced and unmarried are more independent and they may have exhibit less caution in their decisions while also not having to discuss their decisions with anyone.

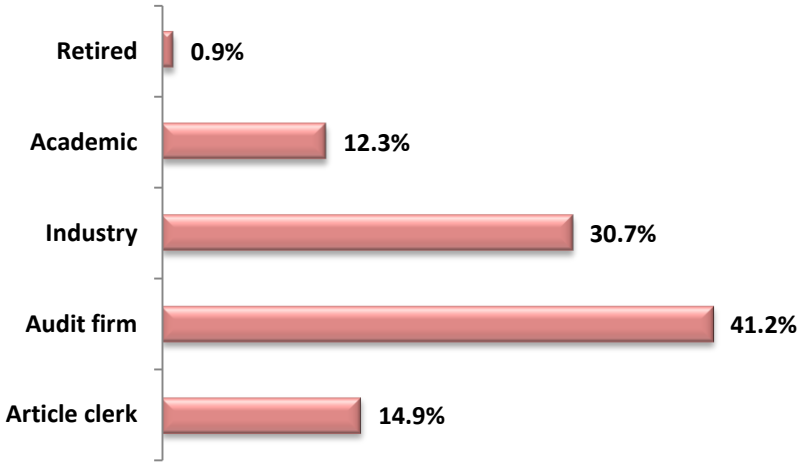


Figure 4.8: Type of chartered accountant respondent

Of the chartered accountants, 41.2 per cent were employed at audit firms with another 30.7 per cent were working in industry. The balance of 28 per cent was made up of articled clerks, academics and retirees.

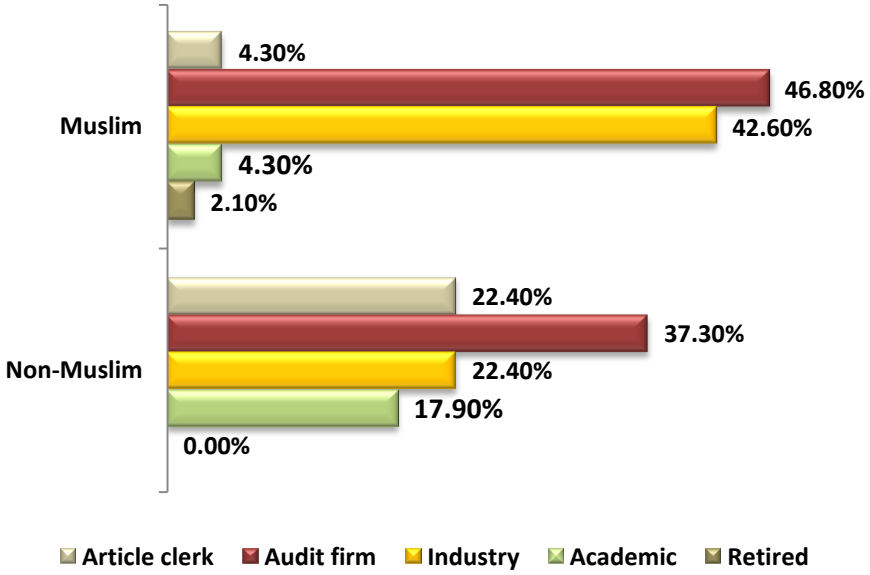


Figure 4.9: Type of chartered accountant respondent by religion

The findings indicate that, of the total number of chartered accountants who were surveyed, 46.8 per cent of the Muslim chartered accountants were employed at audit firms and 42.6 per cent were in industry. In comparison, 37.3 per cent of the non-Muslims were employed at audit firms and 22.4 per cent in industry. Thus, it would appear that, in view of the fact that approximately 71.9 per cent of respondents work in industry and at audit firms, this may provide useful insights into the way in which chartered accountants in the workforce perceive the selection criteria of banks, in particular, Islamic banks.

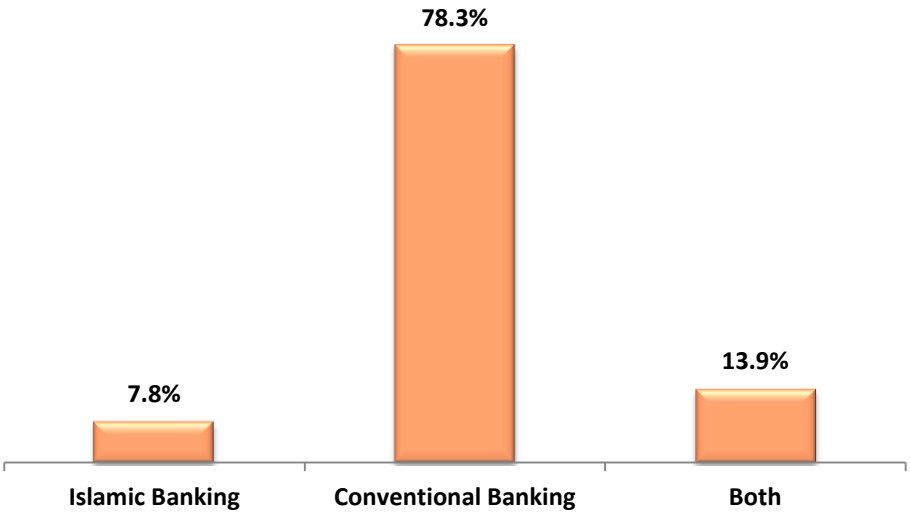


Figure 4.10: Type of banking in which the respondents are engaged

The majority of the sample of chartered accountants (78%) was involved in conventional banking, with 8 per cent involved in Islamic banking. The balance of 14 per cent was involved in both conventional and Islamic banking.

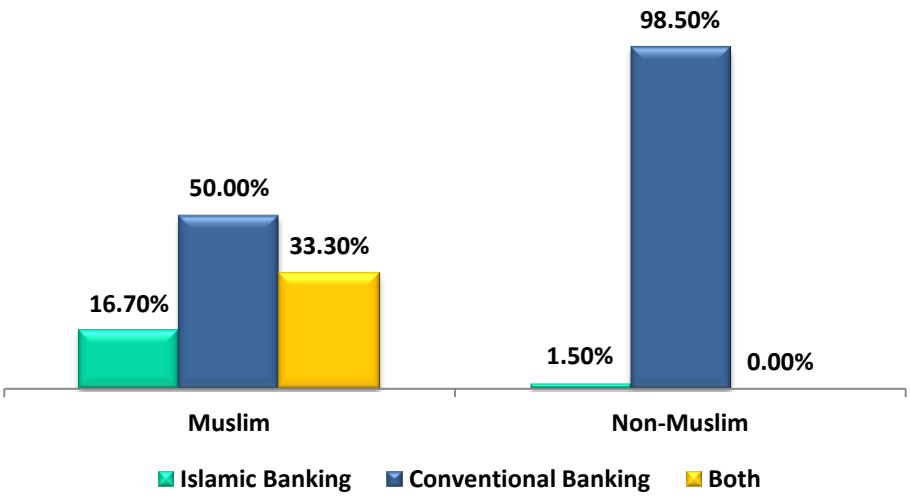


Figure 4.11: Type of banking in which the respondents are engaged by religion

As the results reflect, 98.5 per cent of the non-Muslims and 50 per cent of the Muslims banked with a conventional bank, while 16.7 per cent of the Muslims and 1.5 per cent of the non-Muslims banked with an Islamic bank. However, only Muslim respondents indicated that they made use of both an Islamic bank and a conventional bank – 33.3 per

cent of the 48 Muslim respondents. Holding bank accounts in both a conventional bank and an Islamic bank may possibly enable customers to make useful comparisons between the banks and compare and evaluate the quality of services provided by them, particularly in South Africa which has a dual banking system. It should be noted that the Islamic faith requires that Muslims should preferably make use of Islamic banking only. However, the general lack of awareness, and the fact that Islamic banking is only now emerging in South Africa may possibly explain the low levels of usage of Islamic banking in South Africa. As a result of a collaboration between Ernst & Young and SAICA, awareness sessions are being rolled out in order to educate the professional community about the basics of Islamic banking and finance (Ernst & Young, 2012).

The following sections will address the three research questions presented in section 1.3. These sections contain a discussion on the results relating to the culture of Islamic banking and finance, awareness of Islamic banking and finance, and bank selection criteria (Gerrard & Cunningham, 1997).

4.3 The culture of Islamic banking and finance

This subsection will address the first research question formulated for the purposes of this study and which was designed to measure the overall knowledge of Islamic banking and Islamic banking terms of the respondents:

Will Muslims, in contrast to non-Muslims, be more aware of the culture of Islamic banking and finance and, as a consequence, be more aware of the meaning of the fundamental terms used in Islamic banking and finance?

4.3.1 Knowledge levels of Islamic basic and banking terms

Islamic banks and the Islamic banking windows of conventional banks offer a wide range of services. The most widely available are *mudaraba*, *musharaka* and *murabaha*. The respondents were asked to indicate their level of familiarity with these terms and also other products/services and terminology used in Islam, including *Shariah* and *riba*.

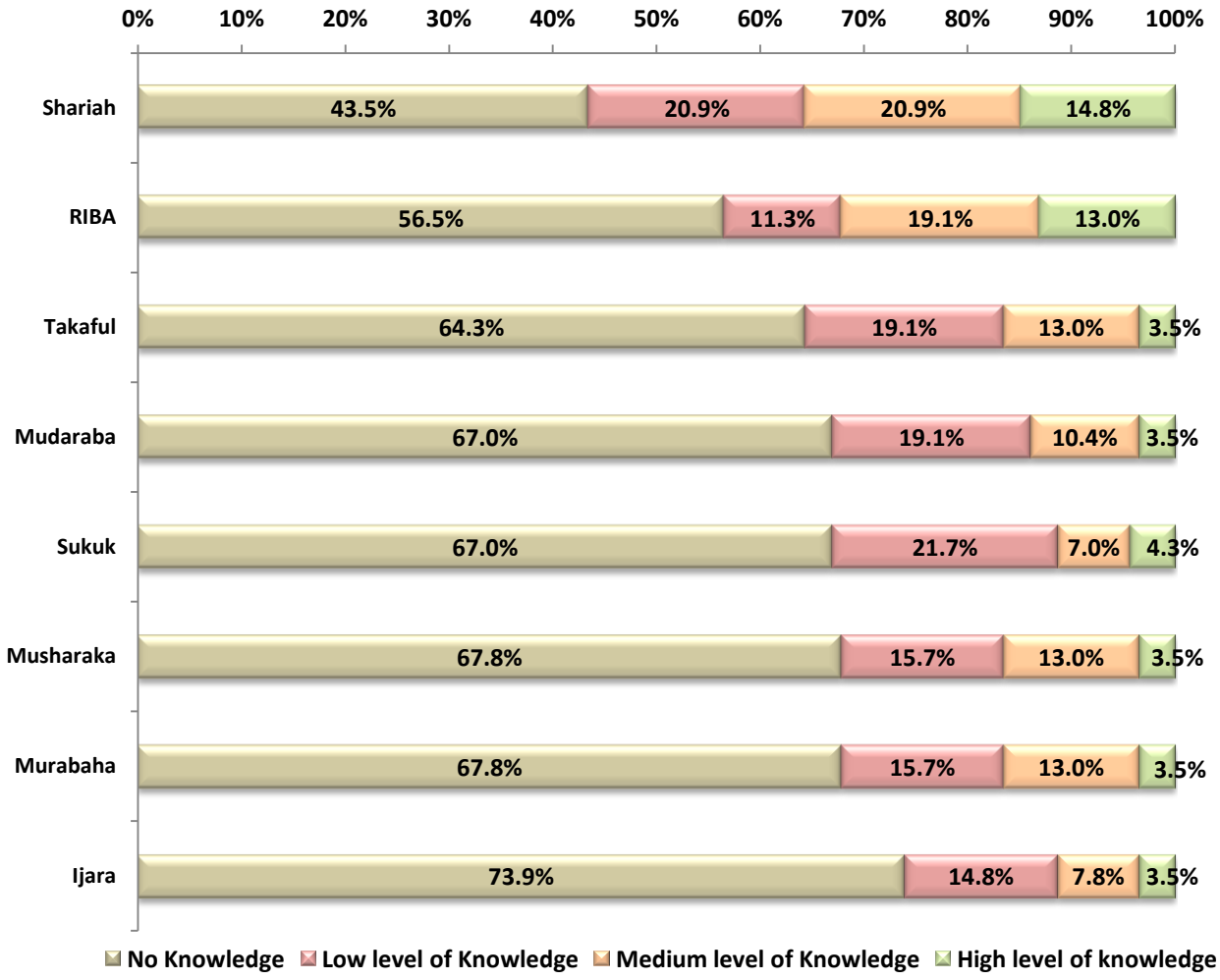


Figure 4.12: Distribution of respondents in terms of knowledge levels

The analysis in Figure 4.12 reveals that the majority of the respondents (both Muslims and non-Muslims) had no knowledge of the terms used in Islam and Islamic banking. Although 11 to 20 per cent of the respondents had a low level of knowledge of the terms used in Islam and the relevant Islamic banking terms, 4 per cent only were very familiar with the Islamic banking terminology such as *takaful*, *mudaraba*, *musharaka*, *murabaha*, *ijara* and *sukuk*. The highest rate of knowledge pertained to Islamic terms such as *Shariah* and *riba* at 14.8 and 13 per cent respectively.

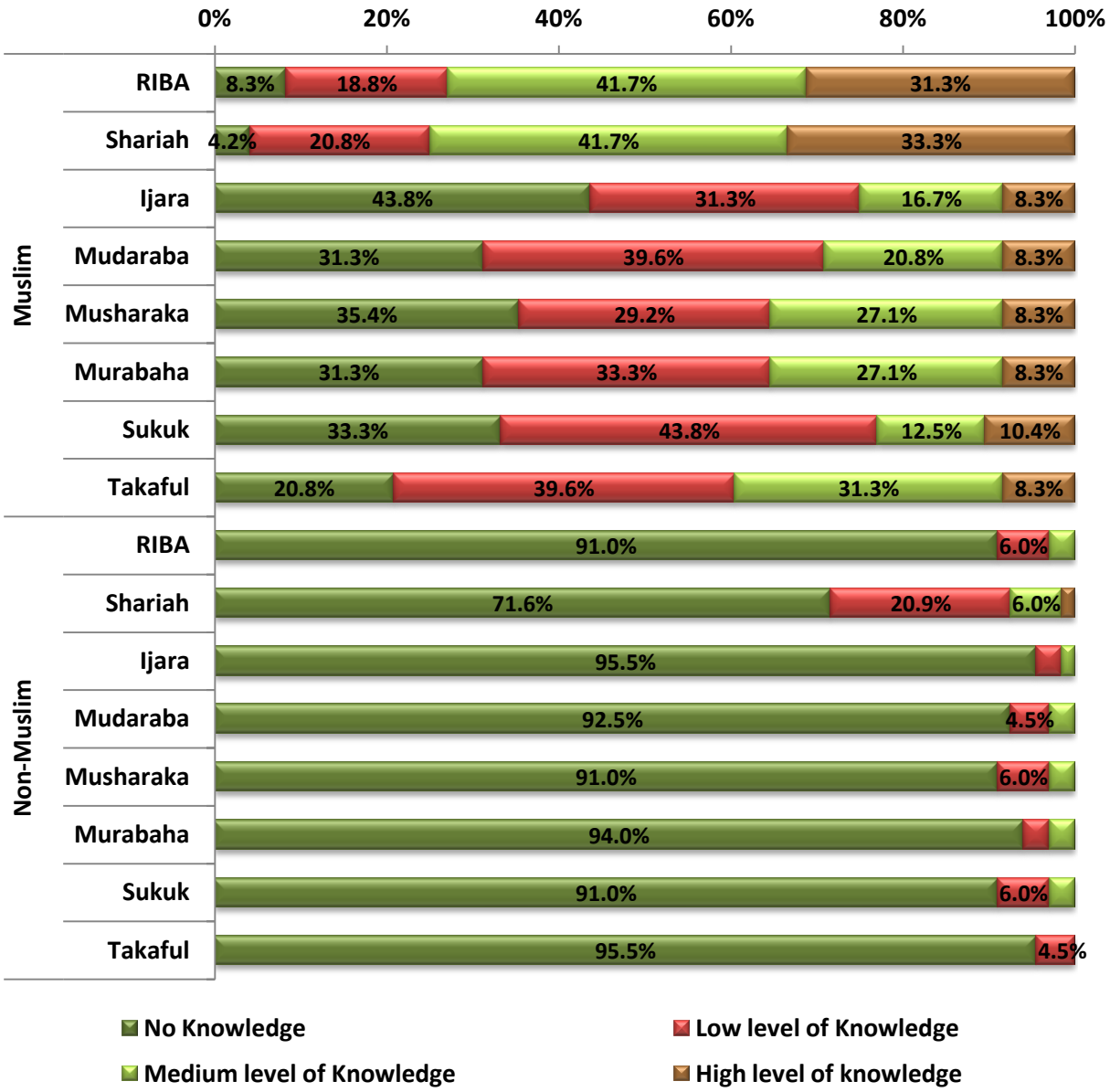


Figure 4.13: Distribution of respondents in terms of knowledge levels and by religion

As shown in Figure 4.13, most of the non-Muslim respondents (in excess of 90%) had no knowledge of the meaning of the fundamental terms used in Islam and Islamic banking, with the exception of the term *Shariah* (71.6%). Figure 4.13 also indicates that a medium to high level of knowledge was reported by Muslims as regards the meaning of the Islamic terms *riba* (73%) and *Shariah* (75%). This finding is supported by the results depicted in Figure 4.13, which indicates a mean = 2.958 and $p < 0.01$ for *riba* and a mean of 3.042 and $p < 0.01$ for *Shariah.* However, there is a no to low level of knowledge with respect to Islamic banking terms such as *ijara* (75.1%), *mudaraba* (70.9%),

musharaka (64.6%), *murabaha* (64.6%), *sukuk* (77.1%) and *takaful* (60.4%). The findings of the *t*-test also indicate that there was a significant difference between Muslims and non-Muslims in this regard.

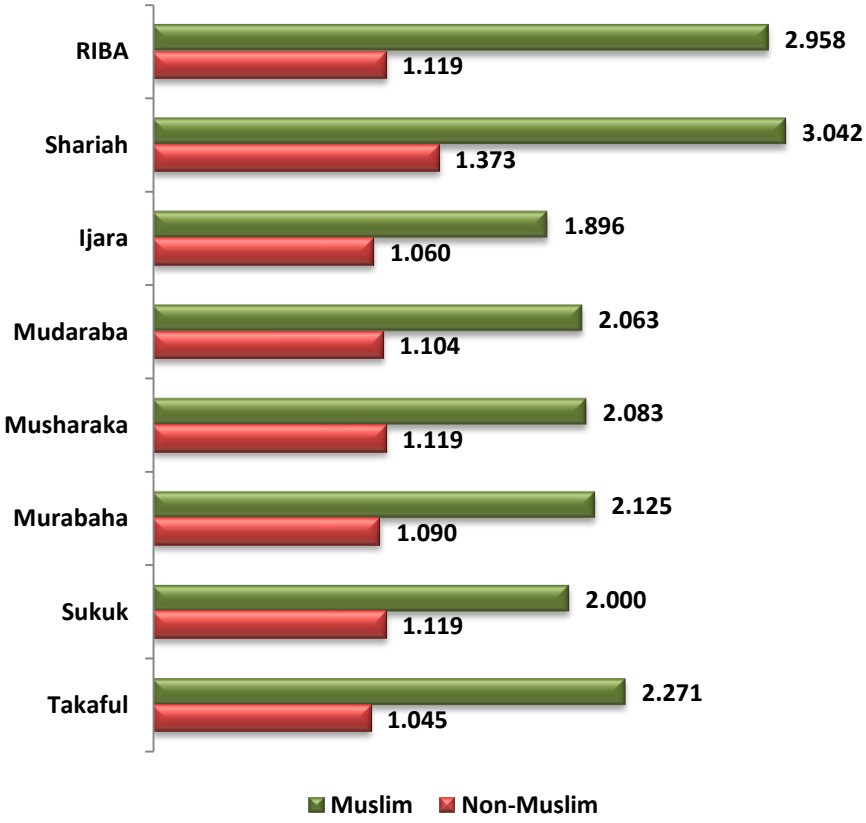


Figure 4.14: Mean level of knowledge by religion

With regard to Islamic banking terms, the Muslims, as compared to the non-Muslims, had a slightly higher mean response in respect of their knowledge of the terms used in Islam and Islamic banking although the difference was not significant. This is surprising as one would assume that Muslims would have more in-depth knowledge of these terms. However, it is also not surprising that there was the low level of knowledge of Islamic banking terms on the part of non-Muslims, considering the non-Islamic environment of the country. The Islamic banking terms *sukuk* and *takaful* refer to relatively new products being offered in South Africa and, thus, the mean response for these terms was favourable despite the fact that the Muslims ranked much higher than the non-Muslims. It is, thus, clear the terms *riba* and *Shariah* appear to be the best known terms compared to the other terms used in Islam and Islamic banking. These low levels of knowledge

about both the culture of Islamic banking and Islamic terms reveal a problem for the existing Islamic banks and also for any potential Islamic banks contemplating setting up operations as well as the conventional banks wanting to start Islamic windows. For these banks, adequate marketing and advertising campaigns would have to be carried out to provide explanations of the terms used in Islam and Islamic banking. This further emphasises that there is huge growth potential for Islamic banking and finance for both Muslims and non-Muslims in South Africa, especially as it is perceived as an untapped market.

Low levels of familiarity with Islamic banking terms were also reported by Rammal and Zurbruegg (2007) who surveyed Muslims in Adelaide, Australia. In addition, the study conducted by Gerrard and Cunningham (1997) found that both Muslims and non-Muslims in Singapore had a low level of awareness of the culture of Islamic banking although this may be explained by the fact that Singapore is a country with a minority Muslim population. The study carried out by Khattak and Kashif-Ur-Rehman (2010) in Pakistan indicated that, among the banking customers, the awareness levels regarding Islamic banking products were positive for certain of the general products, such as current accounts and time deposit accounts. However, most of the customers were unaware of individual Islamic financial products such as *murabaha*, *ijara*, *mudaraba* and *musharaka* (Khattak & Kashif-Ur-Rehman, 2010). Similar findings were revealed by a study conducted in Sungai Petani, Malaysia, by Doraisamy et al. (2011), where the reason for not holding accounts may be attributed to a lack of knowledge about Islamic banking products.

4.4. Awareness of the principles and methods of Islamic banking

This subsection will address the second research question of the study and which is related to the awareness of Muslims and non-Muslims of the principles and methods of Islamic banking:

Are Muslims, in contrast to non-Muslims, more aware of the principles and methods of Islamic banking?

4.4.1 Awareness of Muslims and non-Muslims of the principles and methods of Islamic banking

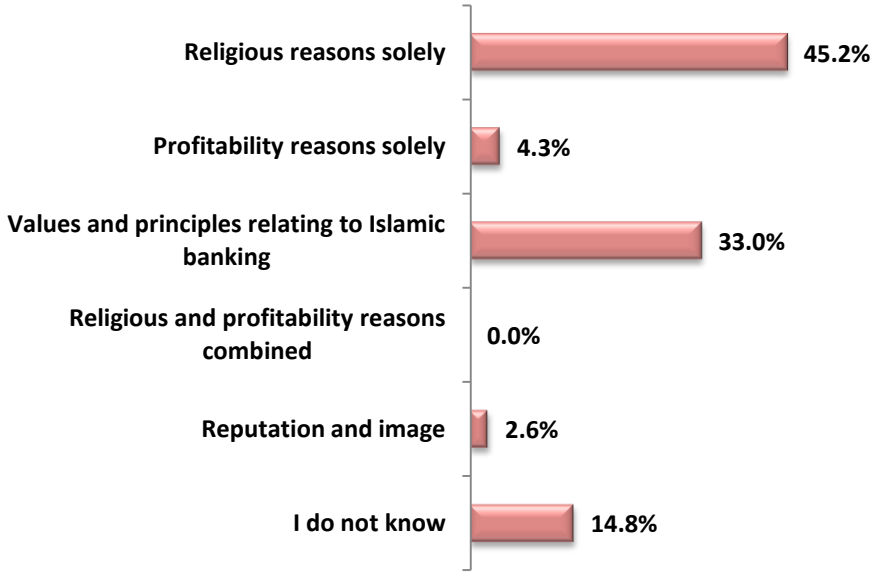


Figure 4.15: Reasons which motivate people to deposit their money at an Islamic bank

The first question in section 3 covered the reasons that motivate people to deposit their money in an Islamic bank. The findings revealed that 45.2 per cent of the sample had indicated that religious reasons only motivated people to deposit money with Islamic banks while one-third of the sample indicated that the values and principles relating to Islamic banking were the reason why people deposited their money with an Islamic bank. A low response of 4.3 per cent was obtained in respect of profitability being the sole reason for depositing money with an Islamic bank and, when religion and profitability as reasons were combined, not one of the respondents indicated that these were motivating reasons for using an Islamic bank.

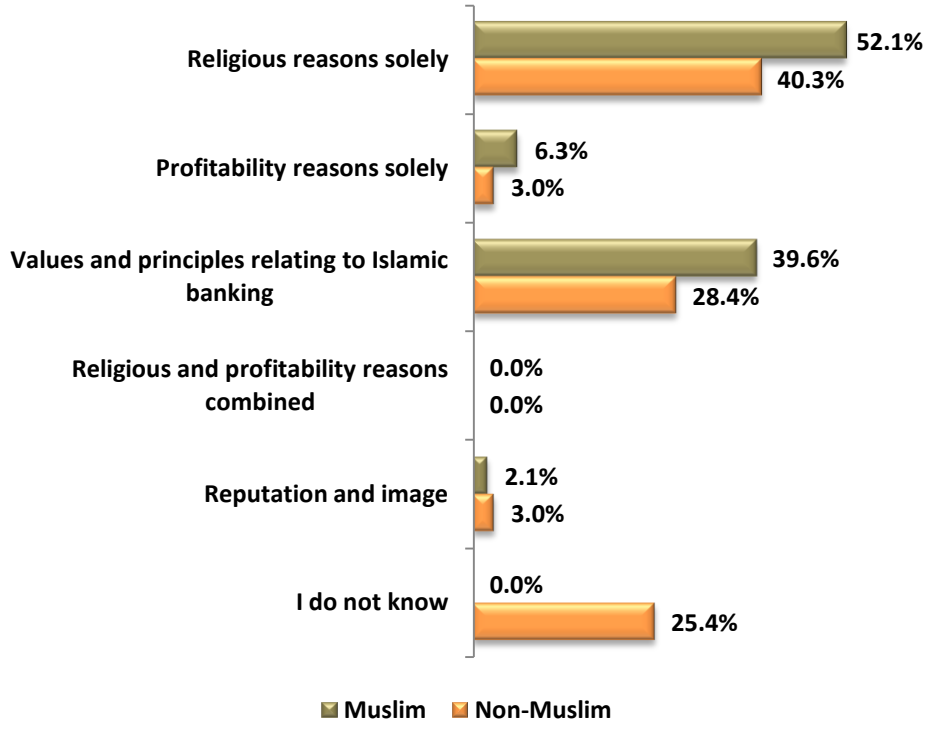


Figure 4.16: Reasons which motivate people to deposit their money at an Islamic bank by religion

A further analysis using religious criteria as the reasons that would motivate people to deposit their money at an Islamic bank suggests that both Muslims and non-Muslims believe that religious reasons are the primary criterion for selecting Islamic banking. The religious reason was proportionally more important for Muslims (52.1%) as opposed to non-Muslims (40.3%). On the other hand, profitability reasons ranked low for both Muslims and non-Muslims and did not appear to constitute a primary reason for either religious group.

None of the respondents supported the notion that religious and profitability reasons combined were a reason for depositing money in an Islamic bank. This may be explained by the fact that Islamic banking fulfils religious obligations only, as was evident with Muslims ranking this higher (52.1%) than non-Muslims (40.3%). It was also interesting to note that the values and principles espoused by Islamic banking ranked as the second most important criterion for the selection of Islamic banking services with the values and principles relating to Islamic banking emerging as more important for Muslims (39.6%) as compared to non-Muslims (28.4%). In comparison, the findings of Gerrard and Cunningham (1997) and Ranjbar and Sharif (2008) revealed that religious reasons only

had ranked as more important with Muslims than non-Muslims, with religious and profitability reasons combined ranking as the second most important criterion for both groups. However, this conclusion is not consistent with the previous findings of Erol and El-Bdour (1989), who found that religious motivation appeared to be the primary criterion but that profitability motives were ranked higher than the religious motivation. Reputation and image were also not considered important by either Muslims or non-Muslims at 2.1 and 3 per cent respectively.

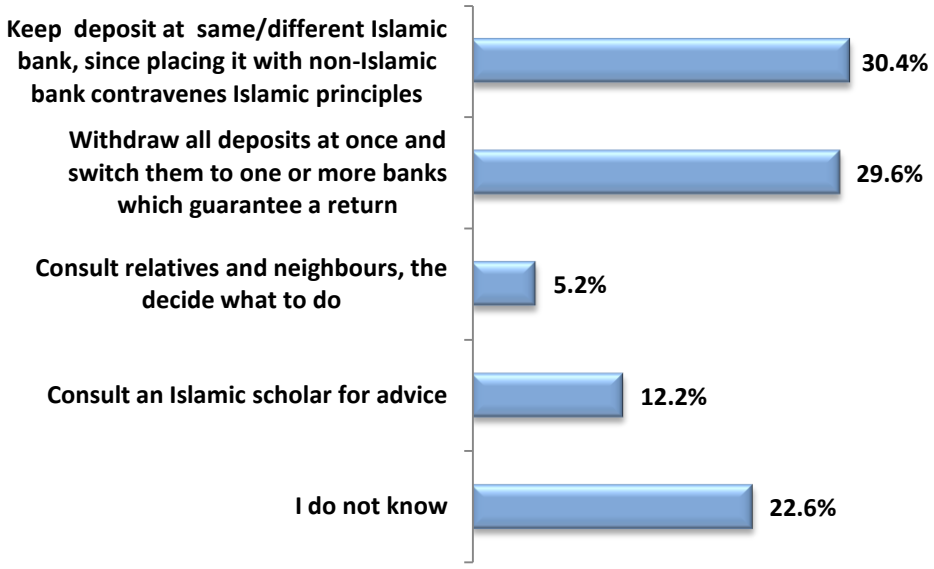


Figure 4.17: Reaction of customers to bank announcement of no profit distribution on investments

Islamic banking methods involve a profit-loss sharing principle in terms of which the profit or loss on an investment is not assured in advance when a financier makes funds available as an investor. As a result, the profit is shared in a mutually agreed ratio while the losses are also shared in proportion to the investor's share of the total financing. This then formed the basis for the second question in section 3, which asked respondents about the possible reaction of a depositor to a bank announcement of no profit distribution on his or her investment. The findings revealed that 30.4 per cent of the respondents would still be willing to keep their deposits with the same or a different Islamic bank while an almost similar proportion of the respondents (29.6%) indicated that they would withdraw all their deposits immediately and switch to one or more banks which guaranteed a return. On the other hand, 12.2 per cent of the respondents

maintained they would consult with an Islamic scholar for advice, while 5.2 per cent would consult with relatives and neighbours before making a decision.

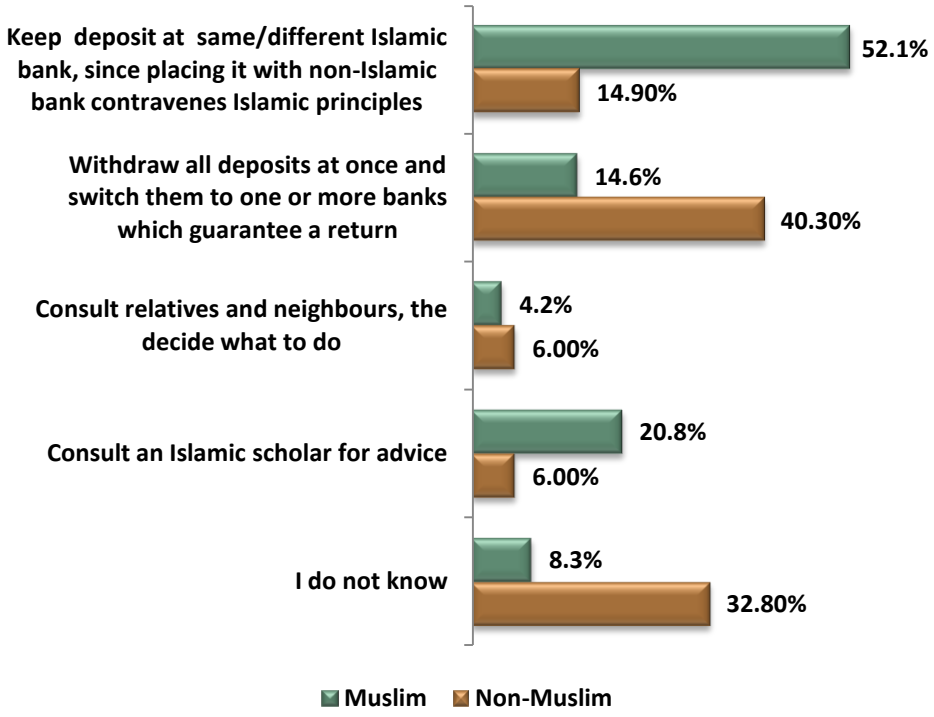


Figure 4.18: Reaction of customers to bank announcement of no profit distribution on investments by religion

As expected, based on the results reflected in Figure 4.18, a large portion of the Muslim respondents (52.1%) indicated that they would keep their deposits at the same or a different Islamic bank, possibly because placing deposits in a conventional bank would contravene Islamic principles. On the other hand, this was a less popular reaction of the non-Muslims with, as expected, 40.3 per cent of the non-Muslims indicating that they would being to withdraw all their deposits at once and switch to one or more banks that guaranteed a return. However, 14.6 per cent of Muslims only maintained that they would switch banks for this reason. One may infer from these findings that Muslims would be far more loyal to the Islamic banking movement if an Islamic bank performed poorly in any one year (Gerrard & Cunningham, 1997). As indicated in the above discussion, 20.8 per cent of Muslims would consult an Islamic scholar for advice. This may also be linked to the fact that religion was the sole reason for 52.1 per cent of the Muslims (refer Figure 4.20) banking with an Islamic bank.

Interestingly, the findings also highlight that, although 40.3 per cent of the Muslims and 28.4 per cent of the non-Muslims believed that religious factors and the values and principles relating to Islamic banking were important reasons for people depositing their money in Islamic banks, 6 per cent of the non-Muslims only suggested consulting an Islamic scholar for advice in the case of no profit distribution while 14.9 per cent only were of the opinion that customers would keep their deposit with the same or a different Islamic bank. Moreover, 20.8 per cent of the Muslims had indicated that they would consult an Islamic scholar for advice. In both groups the proportion of respondents who would consult with relatives and neighbours before making a decision about their deposits was small.

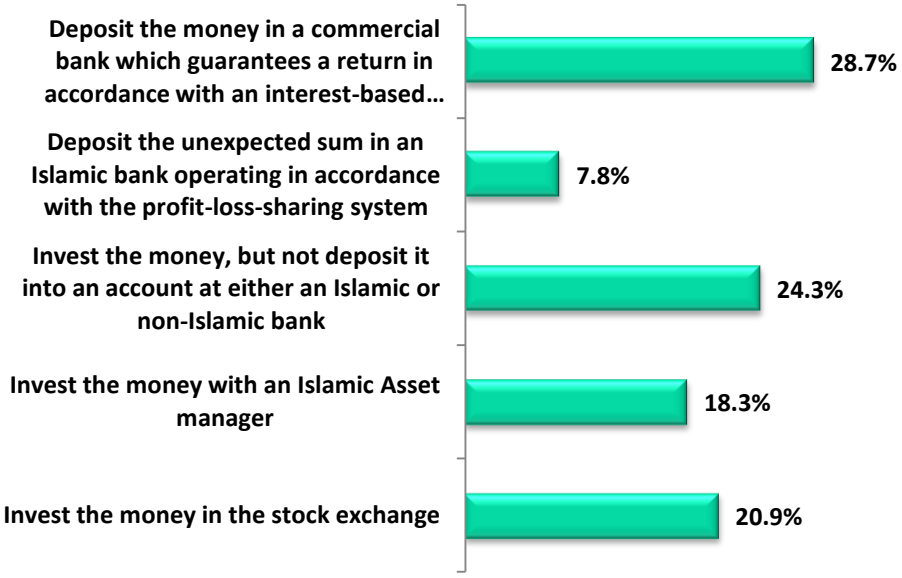


Figure 4.19: What you would do if you unexpectedly acquired a substantial sum of money

In the third question of section 3, the respondents were asked what they would do if they unexpectedly acquired a substantial sum of money. As shown in the analysis, 28.7 per cent of the sample indicated that they would deposit the money in a commercial bank that guaranteed a return in accordance with an interest-based system, while 24.3 per cent of the sample maintained that they would invest the money, but not deposit it, into an account at either an Islamic or a non-Islamic bank. As is shown, 20.9 per cent of the

respondents would invest the money in the stock exchange, with 18.3 per cent of the respondents indicating that they would invest the money with an Islamic asset manager.

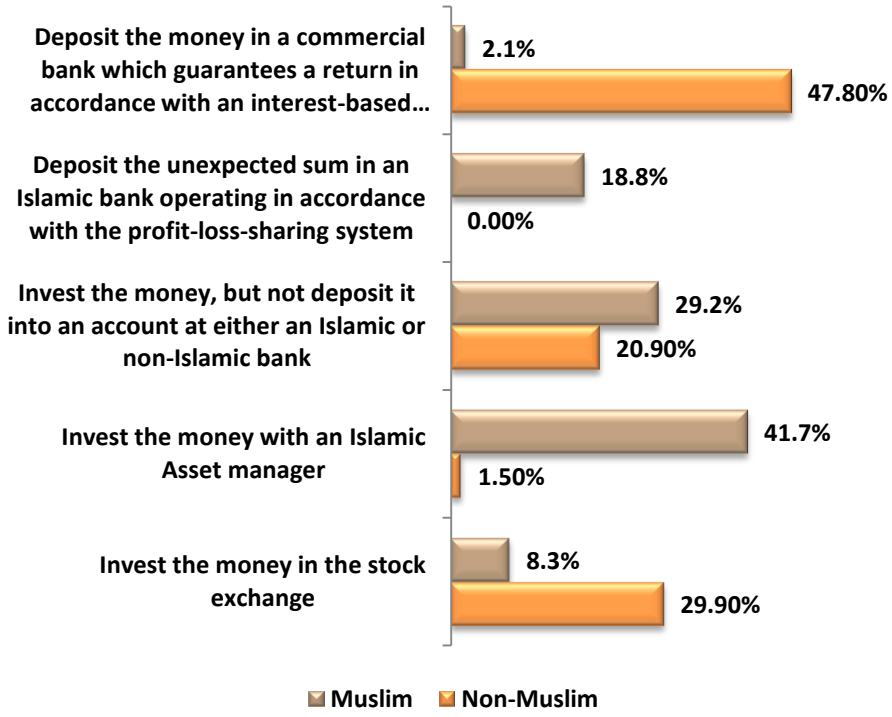


Figure 4.20: What you would do if you unexpectedly acquired a substantial sum of money by religion

Based on the findings depicted in Figure 4.20 there appeared to be a significant difference between Muslims and non-Muslims in terms of what they would do with a sum of money. The findings suggest that the most popular choices among Muslims would be, firstly, to invest the money with an Islamic asset manager (41.7%) and, secondly, to invest the money, but not deposit it, in either an Islamic or non-Islamic bank (29.2%). These options may be seen as not contravening the principles of Islam and Islamic banking as neither option involves either *riba* or interest. In comparison, the first choice among the non-Muslims would be to deposit the money in a commercial bank guaranteeing an interest return (47.8%) while the second choice would be to invest the money in the stock exchange (29.9%). The proportion of respondents who would invest

the money, but not deposit it, in either an Islamic or a conventional bank was similar for both Muslims and non-Muslims, with 29.2 and 20.9 per cent respectively.

Likewise, Gerrard and Cunningham (1997) found that most non-Muslims would deposit the money in a commercial bank while most Muslims would deposit in an Islamic bank operating in accordance with the profit-loss-sharing system. The study by Ranjbar and Sharif (2008) showed that there were no significant differences among Muslims, whereas depositing the unexpected sum in an Islamic bank operating in accordance with a profit-loss-sharing system had the highest probability among both Muslims and non-Muslims.

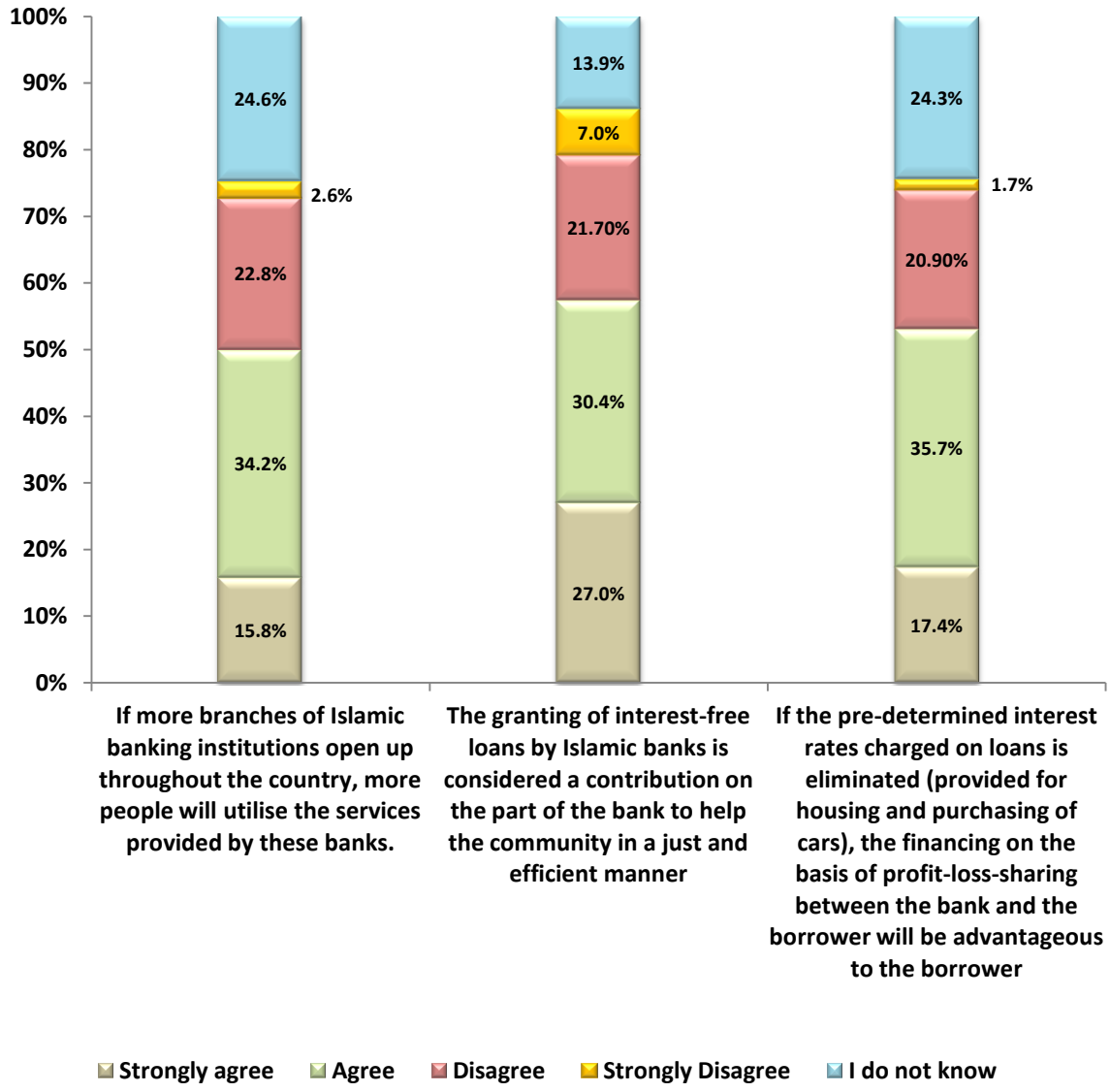


Figure 4.21: Proportionate agreement with statements about Islamic banking

As predicted, an analysis of the results of the remaining questions in section 3 of the questionnaire once again showed a significant difference between Muslims and non-Muslims. The fourth question relates to the level of agreement that, if more branches of Islamic banks were to open up in the country, more people would make use of the services provided by these banks. The analysis reveals that 50 per cent of the respondents agreed with this statement while 25.4 per cent disagreed. The findings also revealed that 24.6 per cent reported that they were not certain whether more people would use the services of Islamic banks if more branches were to open up in the country.

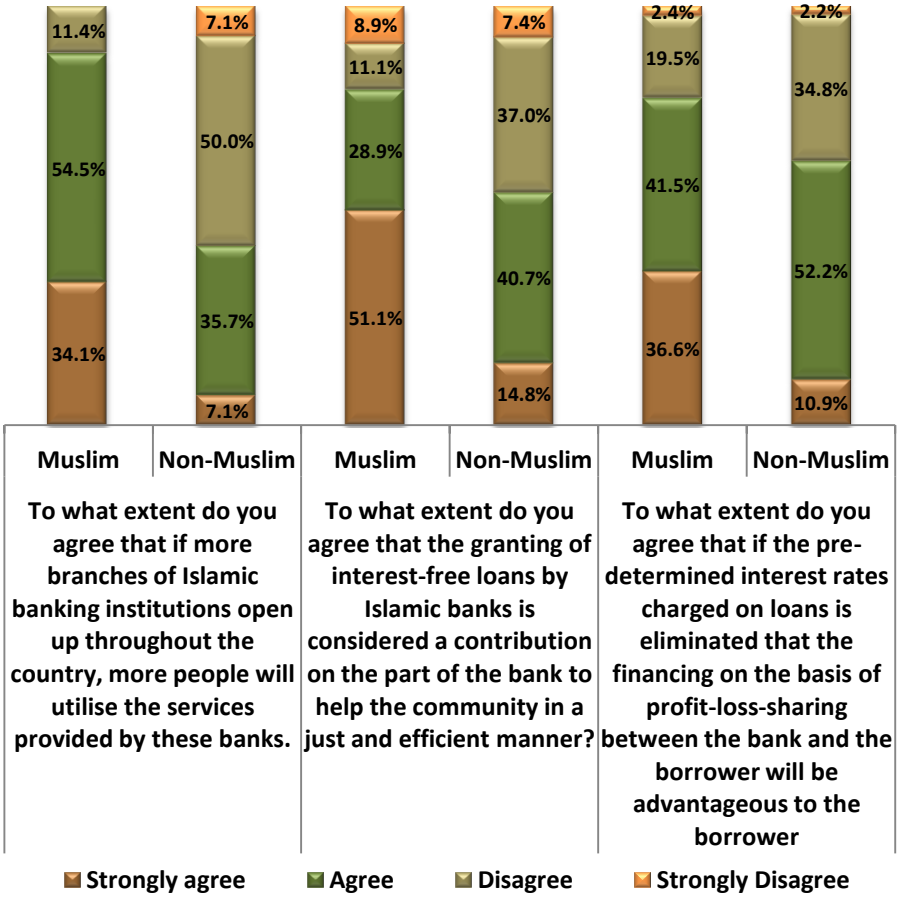


Figure 4.22: Proportionate agreement with statements about Islamic banking by religion

The analysis depicted in Figure 4.22 reveals that the majority of Muslims (88.6%) agreed that, if more branches were to open up in the country, more people would make use of their services as compared to 42.8 per cent of non-Muslims. This, in combination with an increase in the awareness of the principles and methods of Islamic banking and finance,

may result in an increase in patronage of Islamic banks in South Africa. On the other hand, 57.1 per cent of the non-Muslims disagreed that, if more branches of Islamic banks were to open up in the country, more people would make use of their services.

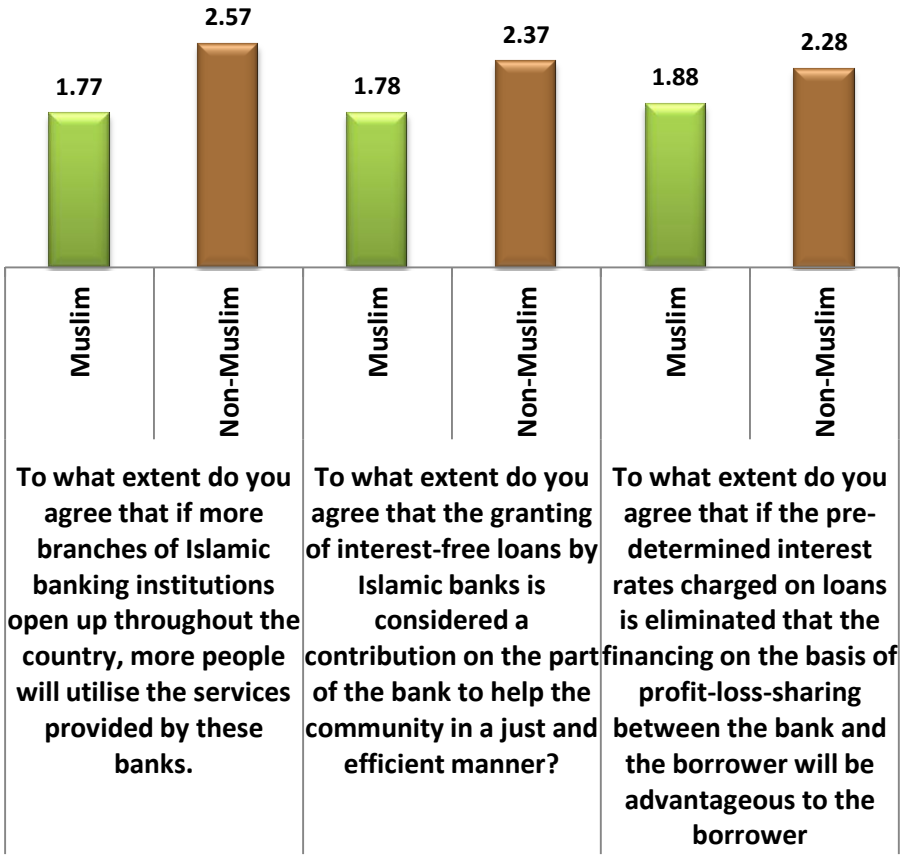


Figure 4.23: Mean agreement with statements about Islamic banking by religion (I don't know excluded)

With reference to the analysis in Figure 4.23, the mean response to question four of non-Muslims was 2.57 as compared to Muslims at 1.77, which may indicate that there was more agreement among the Muslims that more people will utilise Islamic bank services if more branches opened country wide and also they were more concerned about Islamic banking and whether they had convenient access to Islamic bank branches. The result of the t-test was -5.364 and $p < 0.01$. This may imply an increase in investments in Islamic banks and greater use of the Islamic financial services by interested consumers. This is consistent with the studies conducted by Gerrard and Cunningham (1997) and by Ranjbar and Sharif (2008).

The fifth question in section 3 of the questionnaire related to the respondents' level of agreement in respect of whether the granting of interest-free loans by Islamic banks constitutes a contribution on the part of these banks to helping the community in a just and efficient manner. While 57.4 per cent of the respondents agreed with this statement, 29.7 per cent of the sample disagreed with it. The results further highlighted (Figure 426) a difference between the Muslims and non-Muslim respondents. While 80 per cent of Muslims agreed with this question, 55.5 per cent of non-Muslims only agreed. The findings once again highlighted the significant difference between Muslims and non-Muslims, with mean responses of 1.78 and 2.37 respectively (t = -3.266, $p < 0.001$). This may imply that it was not an important consideration for non-Muslims, while Muslims were in agreement as it may possible link to the charitable obligations of all Muslims. Charity or *zakaat,* as it is called*,* is one of the five pillars of Islam.

The sixth question in section 3 of the questionnaire referred to the level of agreement on the part of the respondents on the issue of whether the elimination of the predetermined interest rates charged on loans provided for the purchase of housing and cars would mean that financing on the basis of profit-loss-sharing between the bank and the borrower would be advantageous to the borrower. The study found that 53.1 per cent of the respondents agreed that the elimination of the predetermined interest rates charged on loans would be advantageous to the borrower, while 22.6 per cent of the sample disagreed with the statement. The majority of Muslims (78.1%) agreed that, if the predetermined interest rates charged on loans were eliminated, financing on the basis of profit-loss-sharing between the bank and borrower would be advantageous to the borrower, as compared to 63.1 per cent of non-Muslims. These findings further revealed a difference between the Muslims and non-Muslims, with mean responses of 1.878 and 2.283 respectively (t = -2.514, $p < 0.05$). Non-Muslims ranked slightly higher on this score as compared to the previous two scenarios, which may suggest a higher level of agreement with this statement than the other statements. However, based on the findings, it may also imply that the level of awareness on the part of all the respondents, especially non-Muslims, about the principles and methods of Islamic banking, was not as high as expected.

Based on the findings of section 3, it would appear that Muslims are more aware of the principles and methods of Islamic banking than non-Muslims.

4.5 Bank selection criteria

This subsection will address the third research question posed in this study:

Will there be significant differences between Muslims and non-Muslims in the ranking of the certain bank selection criteria?

4.5.1 Factor analysis

In line with the studies conducted by Erol and El-Bdour (1989) and Gerrard and Cunningham (1997), separate factor analyses with varimax (orthogonal) rotation were conducted for both Muslims and non-Muslims in relation to their responses to the bank selection statements. Factor analysis is a multivariate statistical technique that is concerned with the identification of structure within a set of observed variables. As such, it involves the study of the interrelationships between variables in an effort to find a new set of variables, fewer in number than the original variables; that is, it is a data reduction technique that does not involve a significant loss of information. Factor analysis indicates the important qualities present in the data. In this study the 27 factors were reduced with the eigenvalue having a value of more than one – the criterion used in determining the number of factors extracted. Six factors were extracted (refer Table 4.1), with a satisfactory 61 per cent of the variance being explained (Appendix C).

An inspection of the correlation matrix (Appendix G) confirmed the presence of several coefficients of 0.3 and above. In addition, the Kaiser-Meyer-Olkin value was 0.804 when submitting all the items and .799 when submitting the 23 retained items only, thus well exceeding the recommended minimum value of 0.6 (H.F. Kaiser, 1970; H.F Kaiser, 1974). In addition, the Bartlett's test of sphericity (Bartlett, 1954) reached statistical significance, $p < 0.001$, thus supporting the factorability of the correlation matrix.

Four of the items, namely, Q4.27, Q4.5 and Q4.7, as well as Q4.26, were excluded in the final analysis. Q4.27 was deleted first because it had a communality of less than 0.3, it did not load above 0.4 on any one of the factors and the total variance explained for the factor solution increased by 1.35 per cent. Q4.5 was dropped next as its communality was less than 0.3 and the total variance explained increased by another 1.2 per cent. Q4.7 was subsequently dropped because, although it had a communality of greater than

0.4, the internal consistency (Cronbach's alpha) of the factor that it loaded on improved from 0.795 to 0.831 when it was deleted and the total variance explained increased by another 1.33 per cent. Although the factor solution found that using these 24 items resulted in a reasonably simple structure (Thurstone, 1947), some of the resulting factors did not make practical (logical) sense. Since Q4.13 and Q4.26 were not originally part of the item set of the research replicated in this research effort, it was decided to experiment with excluding them from the exploratory factor analysis. Excluding Q4.26 only resulted in a plausible solution and, thus, Q4.13 was subsequently retained in the final solution.

Appendix C shows that PAF using the remaining 23 items revealed the presence of six factors with eigenvalues exceeding 1, cumulatively explaining 61.365 per cent of the variance in the data. An inspection of the scree plot (Appendix F) revealed an inflection point at the seventh factor. Using (Cattell, 1966) scree test, it was decided to retain these six components for further investigation.

In order to assist in the interpretation and scientific utility of these six components, varimax rotation[1] was performed. The rotated solution revealed the presence of a simple structure (Thurstone, 1947), with each of the six components showing a number of strong loadings (loadings less than .4 were excluded from the solution) (Appendix D).

It is interesting to note that Q4.13 loads negatively on factor 4, which is an indication of a negative correlation with most of the other items that load on factor 4. This is evident in the correlation table (Appendix E). Each of the six factors demonstrated acceptable internal consistency, as illustrated by the Cronbach's alpha coefficients[2] listed in Appendix E.

The subscales for the six extracted factors were obtained by calculating the mean of the items loading on each of the subscales or factors. Q4.13 was reverse-coded before calculating a value for factor 4. For the first factor, the mean calculation was done only if

[1] Orthogonal rotation was chosen since the analytical procedures are better developed than those of oblique rotation. Varimax was chosen specifically because it results in a clearer separation of factors (J.F. Hair Jr, W.C. Black, B.J. Babin, R.E. Anderson, & R.L. Tatham, 2006).
[2] "The generally agreed upon lower limit for Cronbach's alpha is 0.70, although it may decrease to 0.60 in exploratory research" (J.F. Hair Jr et al., 2006).

at least five of the items had valid values; for the second factor, the mean calculation was done only if at least three of the items had valid values; for the third factor when two items had valid values; for the fourth when three items had valid values; for the fifth factor if both items had valid values; and for the sixth factor also when both items had valid values. This resulted in six factors being calculated and named. Variables under each of these six factors were tested using Cronbach's alpha for reliability (Rashid & Hassan, 2009).

Factor 1: *Confidence and customer oriented services*

The interpretation of the results in Appendix D highlights that the fact that the first factor delineates a cluster of relationships between the following variables, namely, the provision of a fast and efficient service, confidentiality of the bank, confidence in the bank's management, friendliness of bank's personnel, lower bank charges/service fees, wide range of products and services offered, and financial strength and soundness. The nature of these variables based on this factor suggests that the factor could be called *Confidence and customer oriented services*. This is considered to be the most important factor influencing a customer's selection of a bank.

Factor 2: *Corporate and social responsibility/3rd party influences*

The variables that have loadings on the second factor include the following: environmental practice and impact, social responsibility to the community, innovation in product development and recommendation/advice of friends. These may be grouped together under the heading C*orporate and social responsibility/third party influences*.

Factor 3: *Ambience and religion*

The third factor that defines the bank selection criteria of customers relates to counter partitions in the bank, available parking space nearby, and recommendation/advice of relatives. These may be grouped together as *Ambience and religion*.

Factor 4: *Economics and electronic services*

The relationships between lower interest charges on loans, higher interest payments on savings, overdraft privileges on current accounts, availability of credit on favourable

terms, and fulfilment of religious obligations may be loaded as the fourth factor, namely, *Economics and electronic services*.

Factor 5: *Convenience*

The variables that have loadings on factor 5 include convenient location and ease of accessibility, availability and location of ATMs and cell phone banking. These may be grouped under the heading *Convenience*.

Factor 6: *Public relations and image of bank*

The external appearance of the bank and mass media advertising variables may be loaded on factor 6 as *Public relations and image of bank* with each factor demonstrating acceptable internal consistency, as illustrated by the Cronbach's alpha coefficients listed in Appendix E.

Appendix C shows that the first six factors cumulatively account for at least 61 per cent of the variation in the factor space after rotation.

Table 4.1: Descriptive statistics of factors by religion

	Muslim	Non-Muslim
F1 Confidence and customer oriented services	3.711	3.632
F2 Corporate and social responsibility/3rd party influences	3.214	3.026
F3 Ambience and religion	2.903	2.580
F4 Economics and electronic services	2.576	3.366
F5 Convenience	3.456	3.423
F6 Public relations and image of bank	2.885	2.646

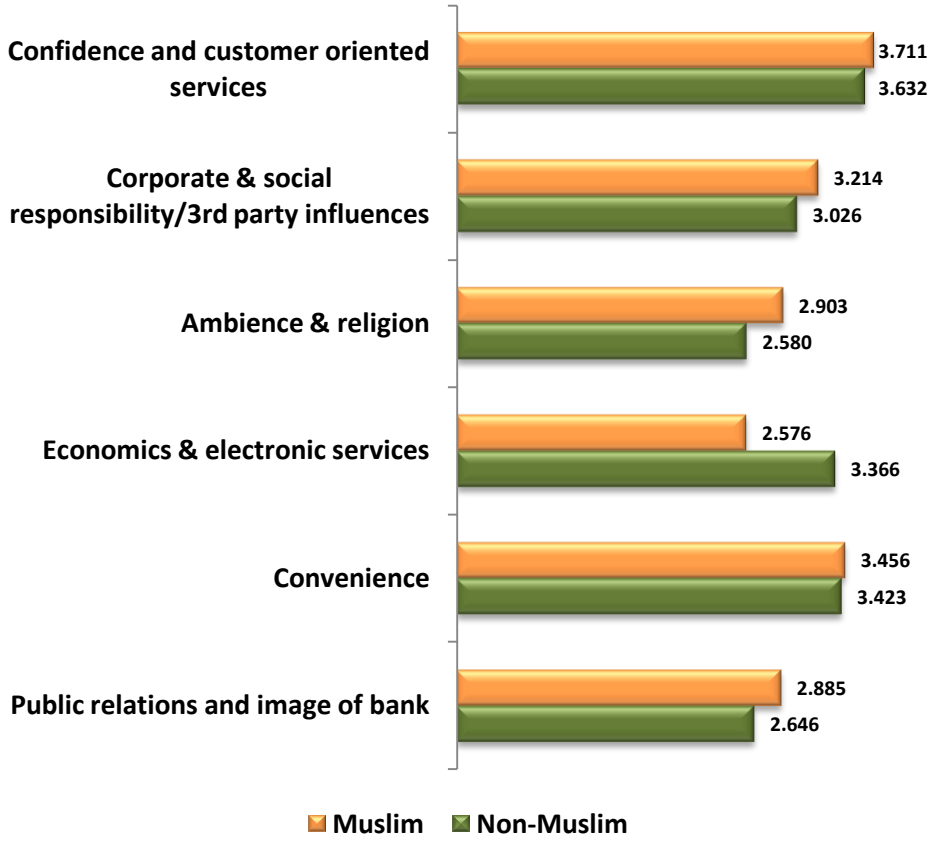


Figure 4.24: Mean importance factors of bank selection criteria by religion

4.5.2 Importance of bank selection criteria

A total of 27 criteria that may be used by banking clients was included in the questionnaire and the respondents were asked to express their opinions about the relative importance of each criterion as regards theirs decision when choosing a bank (Al-Ajmi et al., 2009). Table 4.2 depicts the ranking of relative importance of each of the criteria for the sample. The relative rank is based on the mean of the responses with the higher scores indicating more importance. The findings presented in Table 4.2 highlight that the five most important criteria considered by the respondents when selecting a financial services provider include the provision of fast and efficient service, the confidentiality of the bank, confidence in the bank's management (skills and expertise), the bank's reputation and image, and financial strength and soundness.

Table 4.2: Ranking of bank selection criteria by religion

Q No		Muslim		Non-Muslim		*t*
		Mean	Rank	Mean	Rank	
1	Provision of fast and efficient service	3.875	1	3.746	3	1.280
2	Confidentiality of bank	3.833	2	3.776	1	.714
3	Confidence in bank's management (skills and expertise)	3.830	3	3.776	1	.606
5	Bank's reputation and image	3.813	4	3.657	5	1.695
6	Friendliness of bank personnel	3.681	5	3.552	10	1.120
15	Financial strength and soundness	3.646	6	3.742	4	-.779
11	Lower bank charges/service fees	3.617	7	3.597	8	.169
13	Fulfilment of religious obligations	3.563	8	2.045	26	9.220**
25	Availability and location of ATMs and cell phone banking	3.500	9	3.385	12	.713
4	A wide range of products and services provided	3.479	10	3.227	13	1.996*
10	Convenient location and easily accessible	3.447	11	3.463	11	-.104
24	Innovation in product development	3.417	12	3.194	14	1.670
27	Availability of new banking methods such as rewards programs e.g. eBucks, air miles	3.417	12	3.000	18	2.806**
9	Availability of credit on favourable terms	3.375	14	3.612	7	-1.728
22	Social responsibility to the community	3.250	15	2.955	19	2.011*
8	Lower interest charges on loans	3.234	16	3.657	5	-2.875**
26	Recommendation of religious leaders	3.229	17	1.909	27	7.681**
7	Financial counselling services provided (including estate services)	3.222	18	3.104	15	.716
18	Recommendation/advice of friends	3.125	19	2.881	20	1.939
17	External appearance of bank	3.125	19	2.833	21	1.741
19	Available parking space nearby	3.125	19	2.642	23	2.537*
23	Environmental practice and impact	3.063	22	3.075	16	-.081
20	Counter partitions in bank	2.875	23	2.463	24	2.172*
21	Recommendation/advice of relatives	2.708	24	2.652	22	.336
16	Mass media advertising	2.646	25	2.439	25	1.233
12	Higher interest payments on savings	2.500	26	3.582	9	-5.879**
14	Overdraft privileges on current account	2.362	27	3.030	17	-3.511**

Ratings were based on a four-point scale, where 4 = very important; 3 = important; 2 = not important; and 1 = of no importance

Significance levels are: *$p < 0.05$; **$p < 0.001$

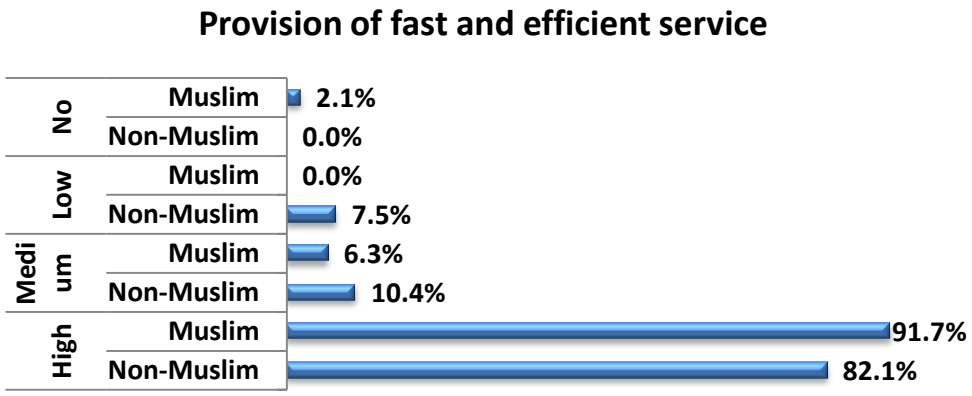


Figure 4.25: Provision of fast and efficient service

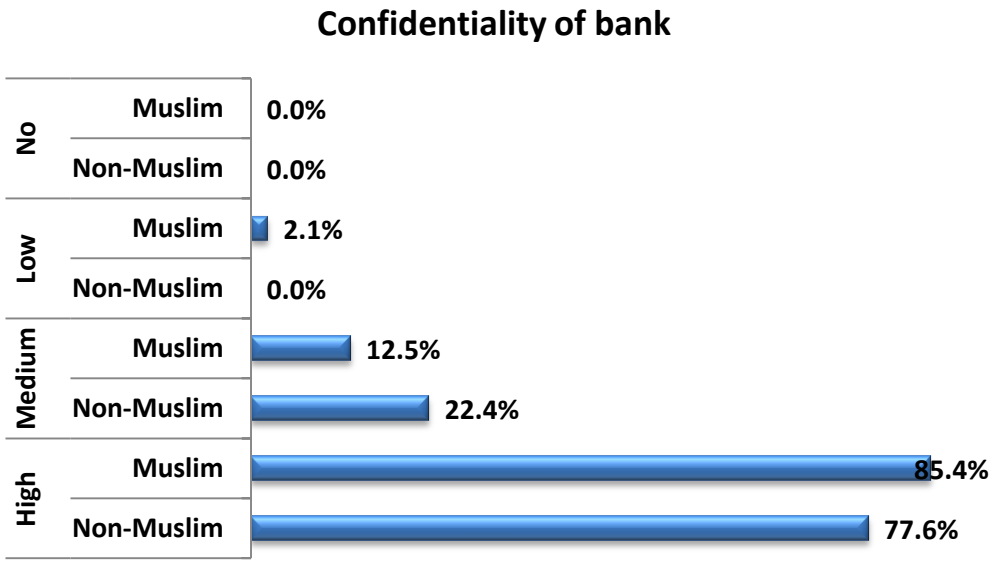


Figure 4.26: Confidentiality of bank

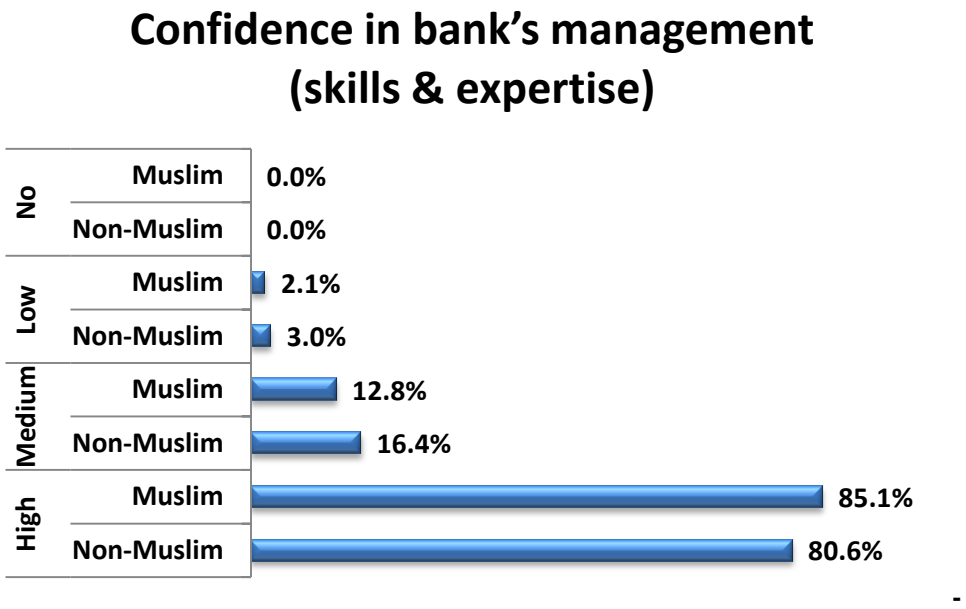


Figure 4.27: Confidence in bank's management

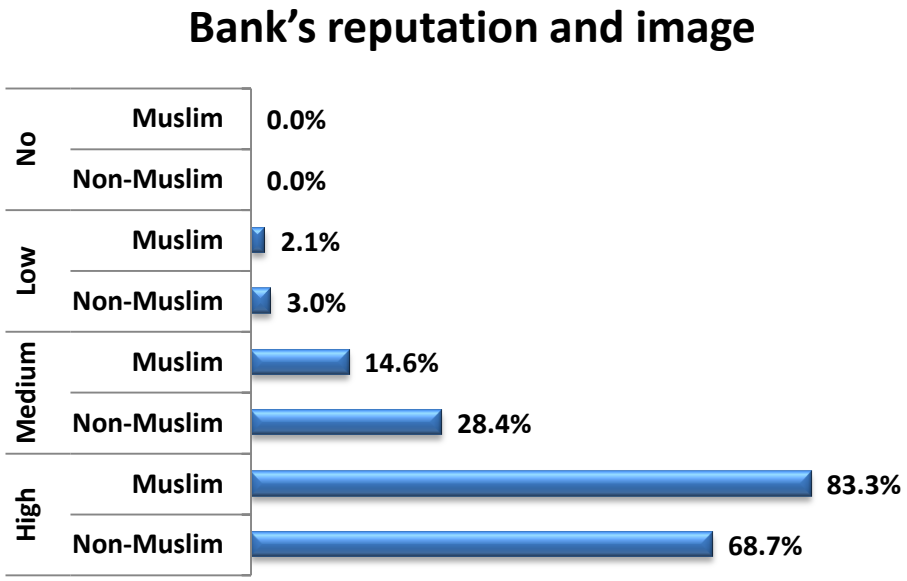


Figure 4.28: Bank's reputation and image

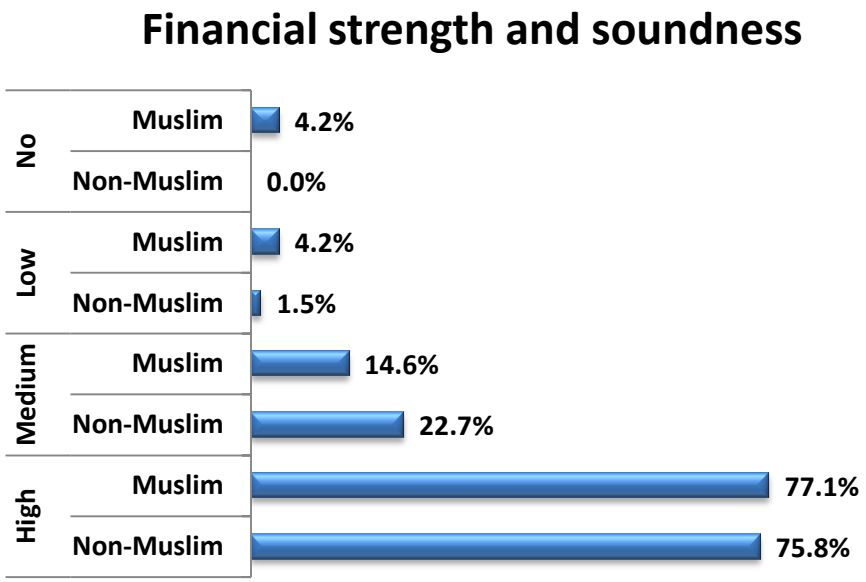


Figure 4.29: Financial strength and soundness

Based on the findings presented in Table 4.2, the five most important criteria considered by Muslims are the provision of fast and efficient service, confidentiality of bank, confidence in the bank's management (skills and expertise), the bank's reputation and image and friendliness of bank personnel. Interestingly, for non-Muslims, the first four criteria are in a similar sequence to that of Muslims, with the fifth important criteria being financial strength and soundness. These findings suggest close similarities between the Muslims and non-Muslims in South Africa when considering a financial services provider with fast and efficient service as the most important. This factor also displayed the highest eigenvalue which means that it is the most important criterion in bank selection. These findings may also suggest that both Muslims and non-Muslims value their time highly and expect their banking transactions to be completed as quickly as possible. In this particular type of industry where the products and services are similar, differentiation from a competitor would be how fast and efficient the service provided is in order to obtain a competitive advantage. This is consistent with the studies conducted by Ranjbar and Sharif (2008) in Malaysia, Erol and El-Bdour (1989) in Jordan and Gerrard and Cunningham (1997) in Singapore. Regardless of whether Muslims were in the majority or the minority, the results of these studies suggest that the respondents considered the services provided as the most important factor with the emphasis on quick and convenient access to banking services.

For Muslims, the five criteria that were not considered important at all included higher interest payments on savings, overdraft privileges on current accounts, mass media advertising, counter partitions in banks, and recommendation/advice of relatives. The higher interest on savings and overdraft privileges on current accounts are not an important criterion for Muslims as this is in line with the principles and methods of Islamic banking. The results of the *t*-test indicate that these two criteria ranked much higher for non-Muslims than Muslims, with -5.879 ($p < 0.001$) and -3.511 ($p < 0.001$) respectively. Mass media advertising and recommendation/advice of relatives were also not ranked highly, which may indicate that Muslims are not easily influenced by third parties and they work independently. Thus, mass media advertising and recommendation/advice of relatives clearly do not impact noticeably on the decisions made by Muslims when selecting a bank.

On the other hand, the five criteria that were not considered important by non-Muslims included the fulfilment of religious obligations, recommendation of religious leaders, counter partitions in banks, available parking space nearby and mass media advertising, all of which had mean scores less than 2.8. These findings suggest that religion plays no role in the selection of banks, with the religious obligations and recommendations of religious leaders ranking extremely low. The findings in Table 4.2 also highlight the results of the *t*-test which indicate that the fulfilment of religious obligations displayed the highest significant difference between the respondents at 9.220 ($p < 0.001$), followed by the recommendation of religious leaders at 7.681 ($p < 0.001$). Convenience in terms of counter partitions in banks and available parking space nearby also appear not to be influential in any way, as non-Muslims considered the availability and location of ATMs and cell phone banking as more important. This may mean that they may not necessarily have the need to physically visit a bank, but prefer to conduct their banking by more convenient means. This result is consistent with the fact that Muslims would be more concerned about religious connotations as compared to non-Muslims, who appear to be interested in the financial aspects of their banking only.

Third-party influences in terms of recommendations/advice of friends and relatives emerged as an important factor in the study conducted by Erol and El-Bdour (1989), but ranked low in the studies conducted by Gerrard and Cunningham (1997) and Ranjbar and Sharif (2008). It is possible that people today people prefer to make their own

decisions based on their personalities, attitudes or understanding rather than listening to others (Ranjbar & Sharif, 2008).

The relative importance of bank selection criteria varies from one country to another, depending on age, gender, marital status, occupation, income and background, as well as the type of bank (Islamic or conventional) (Naser et al., 1999). Islamic banks should, therefore, more convenient goods and services to customers in order to differentiate themselves from other existing banks. In addition, by improving their communications there would be a greater chance that their customers would recommend them to others (Echchabi & Olaniyi, 2012).

The overall conclusion that may reached based on the findings of the questionnaire is that Muslim chartered accountants are more aware of the culture of Islamic banking and of the Islamic terms used in Islam and Islamic banking than non-Muslin chartered accountants. However, the difference is not significant, presumably because they all reside in a non-Muslim country. In addition, Muslim chartered accountants and non-Muslim chartered accountants use similar criteria when considering a banking institution, with religion not being a primary motive.

CHAPTER 5: CONCLUSION

5.1 Introduction

Islamic banking is a banking system which was established in order to utilise funds in accordance with Islamic *Shariah* principles (Abdullah et al., 2012; Bhatti et al., 2010). The main principles of Islamic banking activities include the prohibition of *riba* in all forms of banking transactions, undertaking business and trade activities on the basis of fair and legitimate profit, giving to charity, the prohibition of monopoly, cooperation for the benefit of society, and the development of all the *halaal* aspects of business that are not prohibited by Islam (Doraisamy et al., 2011). The purpose of Islamic banking is primarily to expand the ring of unity between Muslims and to ensure a fair distribution and utilisation of funds in compliance with Islamic principles and teachings (Abdullah et al., 2012). Accordingly, the Islamic banking system prohibits the collection and payment of *riba* and, instead, promotes profit-loss sharing in all banking business conducted (Doraisamy et al., 2011).

Despite its name, Islamic banking and finance is fast gaining ground with non-Muslims throughout the world as a result of its strict lending principles, reflecting industry efforts to transcend religious beliefs in order to gain a greater market share. In view of the fact that *Shariah* finance is a blend of Islamic economics and modern lending principles, its product and services may be sold to both Muslims and non-Muslims. In addition, since the onset of the global credit crisis that has cast doubt on many Western risk management practices, non-Muslim investors have also been looking for less risky alternatives (Abdullah et al., 2012).

In contrast to the widespread and extensive analysis of attitudes, perceptions and knowledge relating to conventional financial institution products and services, a parallel analysis of these issues in Islamic finance is still in its infancy (A. H. Gait & Worthington, 2009). This is especially evident in countries in which Muslims are in the minority. However, as Islamic banking is becoming more international and is now part of the financial scene in many countries, this should possibly narrow the gap in the availability of published information on Islamic banking and finance. There is a dearth of such

literature, particularly in view of the fact that the financial services industry has witnessed unprecedented growth during the last decade, particularly in the Islamic finance and banking industry (refer to section 2.2) which is a fast growing sector that has spread to all corners of the globe. This growth in Islamic finance and banking has also been seen in Africa and, notably, in South Africa, with new opportunities arising for the Islamic banking industry as an alternative to conventional interest-based banking, including the dual banking system that is in its evolutionary phase in many parts of the Middle East and Southeast Asia (A. Gait & Worthington, 2008). As a developing economy and as part of the BRICS (Brazil, Russia, India, China and South Africa) group of countries, South Africa has begun to promote Islamic banking and finance widely. In this age of globalisation the provision of effective and quality services to customers is a key determinant in the growth and prosperity of the banking sector.

5.1.1 Perceptions of the culture of Islamic banking and finance and the meaning of fundamental terms used in Islamic banking and finance

Very little is known about customer perceptions and knowledge of Islamic banking in countries in which Muslims are in the minority. In South Africa, where Islamic banks have to compete with established conventional banks, it is important that customer perceptions and awareness of Islamic banking and finance products and services be understood in order to provide a framework for approaching prospective customers and also increasing and capturing a significant market share. It was noted in the findings from section 2 of this study on the awareness and knowledge of Islamic banking and finance that most of the Muslims respondents exhibited a medium to high level of knowledge of *riba* and *Shariah,* with none to low levels of knowledge about the Islamic banking terms, while a small number of Muslims possessed some awareness of the culture of Islamic banking. As expected, non-Muslims possessed none to low levels of knowledge of the terms used in Islam and Islamic banking. This lack of knowledge may be the result of an extremely low level of awareness of these terms, products and services. It is, thus, essential that Islamic financial institutions host seminars and information sessions and also involve customers and potential customers in product launches (Ackermann & Jacobs, 2008). This is crucial if they want to increase the level of consumer awareness

about the unique characteristics of Islamic banking and the range of products and services it offers (Dusuki & Abdullah, 2007).

Islamic banks have the potential to be marketed to various segments of customers, both Muslim and non-Muslim, thus implying that the use of their services may be extended beyond the Muslim community. It is highly probable that the customers of Islamic banks would not only be interested in *Shariah* compliance, but would also be attracted to these banks because of their socially responsible activities and profitability. Based on the findings of this study, it may be concluded Muslims are more aware than non-Muslims of the culture of Islamic banking and, as a consequence, are more aware of the meaning of fundamental terms used in Islam and Islamic banking and finance. This deficit in understanding may be as a result of a lack of information provided by the Islamic banking industry. In addition, there has been very little written on the potential of Islamic banking in South Africa that may serve to increase perceptions and awareness. In light of the fact that the South African market has ties with numerous international institutions and, thus, it has access to a wealth of senior Islamic finance skills from across the globe (Ernst & Young, 2012). Thus, initiatives taken to enhance understanding and increase perceptions and awareness of Islamic banking and finance should be regarded as a priority as the consumers are the lifeblood of any type of business (Hassan & Kabir, 2011).

5.1.2 Awareness of the principles and methods of Islamic banking

Islamic banking is no longer regarded as a business entity striving to fulfil the religious obligations of Muslims but as a business committed to winning over new customers (Dusuki & Abdullah, 2007). In addition to their Muslim clients, it is essential that these institutions target non-Muslim clients as well in order to be profitable, competitive and increase market share. It is, therefore, important for these banks to assess the degree of awareness of the principles and methods of Islamic banking and finance of both Muslim and non-Muslim consumers in order to attract more customers. This may even provide information about possible improvements can be made and what does or does not work (Haque et al., 2009).

The results from section 3 indicate that there are differences in the level of awareness of Muslims and non-Muslims, while bearing in mind the non-Islamic environment of the country. For example, Muslims will keep their deposits in the same or a different Islamic bank even if there is no profit distributed by the Islamic bank, whereas non-Muslims will withdraw all their deposits at once and switch to banks which guarantee a return. In addition, if a customer were to unexpectedly acquire a substantial sum of money, Muslims would invest the money with an Islamic asset manager, while non-Muslims, on the other hand, would deposit the money in a commercial bank guaranteeing a return of interest.

However, the findings also revealed that there is no significant difference between Muslims and non-Muslims in their responses to the motivations for people depositing their money with an Islamic bank, as religious reasons appear to be the primary reason for this. The remaining results for this section reveal that Muslims would be more positive than non-Muslims with regard to using the services provided by Islamic banks if more branches were to be opened countrywide. The Islamic bank's contribution to helping the community by granting interest-free loans and the profit–loss sharing principles being advantageous to the borrower were more attractive to Muslims than non-Muslims.

The findings also revealed that the majority of respondents were between the ages of 20 and 39 years and, as a result of their education and employment levels, would have a better understanding and knowledge of the principles and methods of Islamic banking and finance. This may be used as a basis for formulating and launching appropriate saving and finance schemes that would suit the demographics of the customers (Metawa & Almossawi, 1998). Accordingly, increased marketing on the part of Islamic banks could result in a change in the level of awareness of the principles and methods of Islamic banking and finance, particularly with Muslims. However, non-Muslims would also be attracted to this form of banking if the principles and methods were to be communicated through the appropriate channels. Non-Muslims comprise a potential customer group for Islamic banking and finance in the future in the South African market, and non-Muslims would, in many situations, select Islamic banks as investment opportunities and for the Islamic banking products because they like knowing that these banks are not investing in industries which are regarded as potentially detrimental to society, for example, alcohol, tobacco and gambling (Peacock, 2012). Thus, the financial institutions should take note

of consumers' inadequate knowledge when promoting Islamic financial products and services. This may be addressed by absorbing more qualified experts or a knowledge-based workforce into the industry in order to promote greater innovation, especially as regards Islamic financial products and services (Marimuthu et al., 2010).

5.1.3 Bank selection criteria

Banks operating in a competitive environment should be aware of the criteria which are used by customers to select their banks (Al-Ajmi et al., 2009). In view of the fact that conventional banks have been operating for longer than Islamic banks, it is essential that the value created by Islamic banks be brought to the attention of banking customers in order to divert their demand (Shabbir et al., 2012; Thambiah et al., 2011). Therefore, instilling the culture of Islamic banking is important, irrespective of geographical boundaries, religious differences and racial diversity (Thambiah et al., 2011) and bank managers should develop the ability to determine the critical bank selection factors for the segments of the market they wish to attract and serve.

The findings from section 4 revealed similar rankings by Muslims and non-Muslims in their choice of a service provider. Although religious conviction is a logical key determinant of the use of Islamic financial services, it is not the only concern (A. Gait & Worthington, 2008). Instead, the provision of fast and efficient services is of primary importance to both Muslims and non-Muslims, regardless of background and religion. This is an indication that customers value their time highly and expect their banking transactions to be completed as speedily as possible. Most of the respondents were engaged in conventional banking, irrespective of their religion. However, if the level of awareness of Islamic banking and finance were increased, the selection criteria of customers may also possibly change. This could be done, for example, through mass media advertising and building reputation and image.

Promotional strategies should also be devised that would differentiate the Islamic bank from conventional banks while marketing campaigns could be narrowly targeted at the needs of particular groups of customers (Denton & Chan, 1991). The results of section 4 may provide adequate information to enable banking institutions to identify the specific criteria that are able to win over new customers. Potentially the analysis of this

information also provides an insight into the services that banks should improve in order to reach, retain and attract the attention of customers (Hin et al., 2011).

5.2 Conclusions from the study

In both Africa and South Africa, Islamic banking and finance is growing at a rate that is exceeding the growth of conventional banking. This is evidenced by the fact that the Islamic finance industry has remained fairly stable despite the current global financial crisis. Hence, this stability in the Islamic finance industry provides an untapped opportunity in an emerging economy such as South Africa where the potential to grow is significant. In light of this, the Islamic financial system is not limited to Muslims only but it is open to anybody who is looking for an alternative to the conventional interest-based system. Accordingly, there is huge potential for Islamic finance and banking to thrive in South Africa, and it is believed that it may compete successfully alongside the conventional banking system (A. Imam & Zubairu, 2011). Bank management should realise that the dynamics of the financial services industry are changing and, with the advent of deregulation, the introduction of sophisticated technology, the internationalisation of competitors and the shift in bargaining power into the hands of the customer, the rules of the game have changed. Accordingly, the success and survival of Islamic banks will depend on the bankers' ability to understand the customer and his or her needs and to find effective ways in which to satisfy those needs (Haron et al., 1994).

This study, although exploratory in nature, provides useful information to academics and to those who manage both conventional and Islamic banks in South Africa. It provides an insight into the perceptions, attitudes and awareness of Islamic banking of South African chartered accountants, both Muslims and non-Muslims, together with the criteria they deemed important for bank selection. For academics, this study makes an important contribution to existing research in the area of Islamic banking in South Africa, particularly in the context of an important, developing economy. The resultant contribution to research will also provide a platform for the exchange of views and ideas on aspects of Islamic finance and provide valuable input into legislative and regulatory amendments proposed by regulators to accommodate Islamic finance transactions (Ernst & Young, 2012). For the providers of Islamic banking products and services, this

study indicates that not enough is being done by Islamic banks to educate customers and to market their products. As regards the perceptions and knowledge of Islam and Islamic banking products, the level of knowledge of Islamic finance methods was generally low among the respondents, especially in view of the fact that South Africa has been identified as a key role player in the introduction of new institutions, products and services by the Islamic finance industry. This untapped, but emerging market, has growth trajectories in excess of 15-20 per cent and, therefore, it is vital that the community at large embrace the concepts of Islamic banking and finance. Thus, academics and financial institutions should stimulate the demand for these products and services through initiatives such as awareness campaigns and the provision of Islamic finance literature and advertising.

DELIMITATIONS AND LIMITATIONS OF THE STUDY

The study has the following limitations and delimitations:

- Relatively small sample sizes are an inherent limitation of any study using a quantitative method. This holds equally true for this study and, as a result, generalisation of findings should be done with caution.
- The research is not a philosophical study but examines the merits of Islamic banking while accepting that Islamic banking practices are both valid and legitimate.
- The research was an exercise in determining whether Muslim chartered accountants and non-Muslim chartered accountants ranked a predetermined set of criteria differently. These criteria were selected from previous studies in other jurisdictions such as Singapore and Malaysia and from an interview with the head of Islamic banking and finance at ABSA. It was assumed that the criteria were sufficiently well developed to capture a total assessment of South African banking.
- The study examined perceptions at a particular point in time and did not investigate any changes in perceptions or why there would be a change in perceptions.
- The differences between the responses of Muslim chartered accountants and non-Muslim chartered accountants were not explained and South Africa and other countries were not compared.
- The sample size was not representative of all South African banking consumers but was restricted to chartered accountants registered with the South African Institute of Chartered Accountants. This was discussed in more detail in Section 3.
- The entire population of chartered accountants registered with SAICA was not surveyed, merely a sample. Hence, error is introduced into the sampling process to take into account that the sample and the population are different.

FUTURE RESEARCH

Future research could focus on the following:

The sample size could be extended to include a cross section of Muslims and non-Muslims in different occupations and professions, as this may provide better insights into customer perceptions of and attitudes towards Islamic banking and finance.

The relationship between the customers' perceived quality and satisfaction regarding Islamic banking and finance in South Africa could be investigated in order to influence the practices of these institutions.

It would be interesting to compare the results of this study with the findings of a study conducted in another country in Africa that also had a predominantly non-Muslim environment, or another country which was also in the early stages of introducing Islamic finance.

An equivalent study to this one could be conducted about two years after the introduction of Islamic banking at other conventional banks and also the introduction of more Islamic-based products and services as this may validate the results of this study.

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LIST OF APPENDICES

Appendix A

SECTION 1: **Profile of the respondents**
Please select your gender (W. M. W. Ahmad et al., 2008; Al-Ajmi et al., 2009; Almossawi, 2001; Bhatti et al., 2010; Denton & Chan, 1991; Doraisamy et al., 2011; Dusuki & Abdullah, 2007; Erol & El-Bdour, 1989; A. H. Gait & Worthington, 2009; Hassan & Kabir, 2011; Hedayatnia & Eshghi, 2011; Khattak & Kashif-Ur-Rehman, 2010; Marimuthu et al., 2010; Naser et al., 1999; Rashid & Hassan, 2009; Saini et al., 2011)
Male
Female
Religion (N. Ahmad & Haron, 2002; Khattak & Kashif-Ur-Rehman, 2010; Marimuthu et al., 2010; Naser et al., 1999; Ranjbar & Sharif, 2008)
Muslim
Non-Muslim
Please select your age group: (N. Ahmad & Haron, 2002; W. M. W. Ahmad et al., 2008; Al-Ajmi et al., 2009; Doraisamy et al., 2011; Dusuki & Abdullah, 2007; Erol & El-Bdour, 1989; Haron et al., 1994; Hassan & Kabir, 2011; Hedayatnia & Eshghi, 2011; Khattak & Kashif-Ur-Rehman, 2010; Naser et al., 1999; Ranjbar & Sharif, 2008; Rashid & Hassan, 2009; H. U. Rehman & Ahmed, 2008; Saini et al., 2011)
20–29
30–39
40–49
>50
Marital status (Al-Ajmi et al., 2009; Denton & Chan, 1991; Dusuki & Abdullah, 2007; Rashid & Hassan, 2009)
Married
Unmarried
Living with a partner
Divorced
Widow/widower
Separated
What type of chartered accountant are you?
Articled clerk
Audit firm
Industry
Academic
Retired
What type of banking are you currently engaged in? (Al-Ajmi et al., 2009; Doraisamy et al., 2011; Khattak & Kashif-Ur-Rehman, 2010; Naser et al., 1999)
Conventional banking
Islamic banking
Both

SECTION 2: **What is the extent of your knowledge of basic terms in Islam and Islamic banking?**	None	Low	Medium	High
Riba (Gerrard & Cunningham, 1997; Ranjbar & Sharif, 2008; Thambiah et al., 2011)				
Shariah (Gerrard & Cunningham, 1997; Ranjbar & Sharif, 2008; Thambiah et al., 2011)				
Ijara (Al-Ajmi et al., 2009; Gerrard & Cunningham, 1997; Hamid & Azmin, 2001; Hassan & Kabir, 2011; Khattak & Kashif-Ur-Rehman, 2010; Naser et al., 1999; Ranjbar & Sharif, 2008)				
Mudaraba (Al-Ajmi et al., 2009; Doraisamy et al., 2011; Gerrard & Cunningham, 1997; Hamid & Azmin, 2001; Hassan & Kabir, 2011; Khattak & Kashif-Ur-Rehman, 2010; Naser et al., 1999; Ranjbar & Sharif, 2008; Thambiah et al., 2011)				
Musharaka (Al-Ajmi et al., 2009; Doraisamy et al., 2011; Gerrard & Cunningham, 1997; Hamid & Azmin, 2001; Hassan & Kabir, 2011; Khattak & Kashif-Ur-Rehman, 2010; Naser et al., 1999; Ranjbar & Sharif, 2008; Thambiah et al., 2011)				
Murabaha (Al-Ajmi et al., 2009; Doraisamy et al., 2011; Gerrard & Cunningham, 1997; Hamid & Azmin, 2001; Hassan & Kabir, 2011; Khattak & Kashif-Ur-Rehman, 2010; Naser et al., 1999; Ranjbar & Sharif, 2008; Thambiah et al., 2011)				
Sukuk				
Takaful				

SECTION 3:
Awareness of Muslims and non-Muslims towards principles and methods of Islamic banking

1. The reasons which motivate people to deposit their money at an Islamic bank are:
    1. Religious reasons solely
    2. Profitability reasons solely
    3. Values and principles relating to Islamic banking
    4. Religious and profitability reasons combined
    5. Reputation and image

(N. Ahmad & Haron, 2002; Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997; Ranjbar & Sharif, 2008)

2. In a case where an Islamic bank announced that it had no profit to distribute on investment and savings deposits for any one year; if you were a depositor, would you:
    1. Keep the deposit at the same or a different Islamic bank, because placing the deposit with a non-Islamic bank contravenes Islamic principles?
    2. Withdraw all deposits at once and switch them to one or more banks which guarantee a return?
    3. Consult relatives and neighbours, then decide what to do?
    4. Consult an Islamic scholar for advice
    5. I do not know

(Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997; Ranjbar & Sharif, 2008)

3. If I unexpectedly acquired a substantial sum of money, I would:
    1. Deposit the money in a commercial bank which guarantees a return in accordance with an interest-based system
    2. Deposit the unexpected sum in an Islamic bank operating in accordance with the profit-loss-sharing system
    3. Invest the money, but not deposit it into an account at either an Islamic or non-Islamic bank
    4. Invest the money with an Islamic Asset manager
    5. Invest the money in the stock exchange

(Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997; Ranjbar & Sharif, 2008)

4. To what extent do you agree that if more branches of Islamic banking institutions were to open up in the country, more people would make use of the services provided by these banks?
    1. Strongly agree
    2. Agree
    3. Disagree
    4. Strongly disagree
    5. I do not know

(Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997; Ranjbar & Sharif, 2008)

5. To what extent do you agree that the granting of interest-free loans by Islamic banks is considered a contribution on the part of the bank to help the community in a just and efficient manner?
    1. Strongly agree
    2. Agree
    3. Disagree
    4. Strongly disagree
    5. I do not know

(Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997; Ranjbar & Sharif, 2008)

6. To what extent do you agree that if the predetermined interest rates charged on loans is eliminated (provided for purchasing of housing and cars) that the financing on the basis of profit-loss-sharing between the bank and the borrower will be advantageous to the borrower:
    1. Strongly agree
    2. Agree
    3. Disagree
    4. Strongly disagree
    5. I do not know

(Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997; Ranjbar & Sharif, 2008)

SECTION 4: **Bank selection criteria**				
How important do you consider the following criteria?	No	Low	Medium	High
Provision of fast and efficient service (W. M. W. Ahmad et al., 2008; Al-Ajmi et al., 2009; Dusuki & Abdullah, 2007; Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997, 2001; Haron et al., 1994; Hedayatnia & Eshghi, 2011; Ranjbar & Sharif, 2008; Rashid & Hassan, 2009; Saini et al., 2011)				
Confidentiality of bank (W. M. W. Ahmad et al., 2008; Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997, 2001; Haron et al., 1994; Khattak & Kashif-Ur-Rehman, 2010; Naser et al., 1999; Ranjbar & Sharif, 2008; Rashid & Hassan, 2009; Subhani et al., 2012)				
Confidence in bank's management (skills & expertise) (Almossawi, 2001; Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997; Hedayatnia & Eshghi, 2011; Naser et al., 1999; Ranjbar & Sharif, 2008; Rashid & Hassan, 2009)				
A wide range of products & services provided (Bhatti et al., 2010; Gerrard & Cunningham, 1997, 2001; Haron et al., 1994; Hedayatnia & Eshghi, 2011; Khattak & Kashif-Ur-Rehman, 2010; Ranjbar & Sharif, 2008)				
Bank's reputation and image (W. M. W. Ahmad et al., 2008; Al-Ajmi et al., 2009; Almossawi, 2001; Bhatti et al., 2010; Dusuki & Abdullah, 2007; Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997; Haron et al., 1994; Hedayatnia & Eshghi, 2011; Khattak & Kashif-Ur-Rehman, 2010; Marimuthu et al., 2010; Naser et al., 1999; Ranjbar & Sharif, 2008; H. U. Rehman & Ahmed, 2008; Subhani et al., 2012)				
Friendliness of bank personnel (W. M. W. Ahmad et al., 2008; Al-Ajmi et al., 2009; Almossawi, 2001; Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997; Ranjbar & Sharif, 2008; Subhani et al., 2012)				
Financial counselling services provided (including estate services) (Bhatti et al., 2010; Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997; Haron et al., 1994; Hedayatnia & Eshghi, 2011; Ranjbar & Sharif, 2008)				
Lower interest charges on loans (W. M. W. Ahmad et al., 2008; Almossawi, 2001; Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997; Hedayatnia & Eshghi, 2011; Ranjbar & Sharif, 2008)				
Availability of credit on favourable terms (Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997; Ranjbar & Sharif, 2008)				
Convenient location & easily accessible (W. M. W. Ahmad et al., 2008; Al-Ajmi et al., 2009; Almossawi, 2001; Bhatti et al., 2010; Dusuki & Abdullah, 2007; Gerrard & Cunningham, 2001; Haron et al., 1994; Hedayatnia & Eshghi, 2011; Khattak & Kashif-Ur-Rehman, 2010; Marimuthu et al., 2010; Naser et al., 1999; Ranjbar & Sharif, 2008; Rashid & Hassan, 2009; H. U. Rehman & Ahmed, 2008)				
Lower bank charges/service fees (W. M. W. Ahmad et al., 2008; Almossawi, 2001; Bhatti et al., 2010; Haron et al., 1994; Naser et al., 1999; Rashid & Hassan, 2009; Saini et al., 2011; Subhani et al., 2012)				
Higher interest payment on savings (W. M. W. Ahmad et al., 2008; Almossawi, 2001; Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997; Haron et al., 1994; Hedayatnia & Eshghi, 2011; Ranjbar & Sharif, 2008; Saini et al., 2011)				
Fulfilment of religious obligations (W. M. W. Ahmad et al., 2008; Al-Ajmi et al., 2009; Bhatti et al., 2010; Khattak & Kashif-Ur-Rehman, 2010; Marimuthu et al., 2010)				

Overdraft privileges on current account (Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997; Haron et al., 1994; Ranjbar & Sharif, 2008)				
Financial strength and soundness (Al-Ajmi et al., 2009)				
Mass media advertising (Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997; Haron et al., 1994; Marimuthu et al., 2010; Ranjbar & Sharif, 2008; H. U. Rehman & Ahmed, 2008)				
External appearance of bank (W. M. W. Ahmad et al., 2008; Almossawi, 2001; Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997; Haron et al., 1994; Hedayatnia & Eshghi, 2011; Ranjbar & Sharif, 2008; H. U. Rehman & Ahmed, 2008)				
Recommendation/advice of friends (W. M. W. Ahmad et al., 2008; Al-Ajmi et al., 2009; Almossawi, 2001; Bhatti et al., 2010; Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997; Haron et al., 1994; Hedayatnia & Eshghi, 2011; Marimuthu et al., 2010; Naser et al., 1999; Ranjbar & Sharif, 2008; Subhani et al., 2012)				
Available parking space nearby (W. M. W. Ahmad et al., 2008; Almossawi, 2001; Dusuki & Abdullah, 2007; Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997; Haron et al., 1994; Hedayatnia & Eshghi, 2011; Ranjbar & Sharif, 2008; H. U. Rehman & Ahmed, 2008)				
Counter partitions in bank (W. M. W. Ahmad et al., 2008; Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997; Ranjbar & Sharif, 2008)				
Recommendation/advice of relatives (W. M. W. Ahmad et al., 2008; Al-Ajmi et al., 2009; Almossawi, 2001; Bhatti et al., 2010; Erol & El-Bdour, 1989; Gerrard & Cunningham, 1997; Haron et al., 1994; Hedayatnia & Eshghi, 2011; Marimuthu et al., 2010; Naser et al., 1999; Ranjbar & Sharif, 2008; Subhani et al., 2012)				
Social responsibility to the community (Al-Ajmi et al., 2009; Hedayatnia & Eshghi, 2011)				
Environmental practice and impact (Al-Ajmi et al., 2009)				
Innovation in product development				
Availability & location of ATMs and cell phone banking (W. M. W. Ahmad et al., 2008; Almossawi, 2001; Gerrard & Cunningham, 2001; Hedayatnia & Eshghi, 2011; H. U. Rehman & Ahmed, 2008; Subhani et al., 2012)				
Recommendation of religious leaders				
Availability of new banking methods such as rewards programmes e.g. eBucks, air miles (Hedayatnia & Eshghi, 2011)				

Appendix B

Islamic Banking knowledge – *t*-test

Q No		Muslim		Non-Muslim		*t*
		Mean	Rank	Mean	Rank	
2	*Shariah*	3.042	1	1.373	1	11.762**
1	*Riba*	2.958	2	1.119	2	12.941**
8	*Takaful*	2.271	3	1.045	8	9.332**
6	*Murabaha*	2.125	4	1.090	6	7.093**
5	*Musharaka*	2.083	5	1.119	2	6.392**
4	*Mudaraba*	2.063	6	1.104	5	6.705**
7	*Sukuk*	2.000	7	1.119	2	6.060**
3	*Ijara*	1.896	8	1.060	7	5.767**

Ratings were based on a four-point scale, where 4 = high level of knowledge; 3 medium level of knowledge; 2 = low level of knowledge; and 1 = no knowledge at all
Significance levels are: * $p < 0.05$; ** = $p < 0.01$

Appendix C

Factor	Initial eigenvalues			Rotation sums of squared loadings		
	Total	% of variance	Cumulative %	Total	% of variance	Cumulative %
1	7.281	31.655	31.655	3.439	14.953	14.953
2	3.107	13.511	45.166	2.682	11.662	26.615
3	2.217	9.638	54.804	2.613	11.361	37.976
4	1.453	6.317	61.120	1.930	8.391	46.367
5	1.145	4.980	66.100	1.830	7.956	54.323
6	1.036	4.502	70.603	1.620	7.042	61.365
7	.822	3.574	74.176			
8	.802	3.489	77.665			
9	.720	3.131	80.796			
10	.610	2.654	83.450			
11	.550	2.392	85.842			
12	.516	2.245	88.087			
13	.449	1.952	90.039			
14	.402	1.748	91.787			
15	.327	1.422	93.209			
16	.301	1.310	94.519			
17	.261	1.133	95.652			
18	.235	1.021	96.673			
19	.215	.936	97.609			
20	.190	.827	98.436			
21	.134	.584	99.019			
22	.122	.533	99.552			
23	.103	.448	100.000			

Total variance explained by exploratory factor analysis

Appendix D

	Factor					
	1	2	3	4	5	6
Q14_1 Provision of fast and efficient service	**.886**					
Q14_2 Confidentiality of bank	**.781**					
Q14_3 Confidence in bank's management (skills & expertise)	**.761**					
Q14_6 Friendliness of bank personnel	**.554**					
Q14_11 Lower bank charges/service fees	**.483**					
Q14_4 A wide range of products & services provided	**.467**					
Q14_15 Financial strength and soundness	**.425**					
Q14_23 Environmental practice and impact		**.842**				
Q14_22 Social responsibility to the community		**.723**				
Q14_24 Innovation in product development		**.690**				
Q14_18 Recommendation/advice of friends		**.468**				
Q14_20 Counter partitions in bank			**.912**			
Q14_19 Available parking space nearby			**.729**			
Q14_21 Recommendation/advice of relatives		.439	**.604**			
Q14_8 Lower interest charges on loans				**.735**		
Q14_12 Higher interest payment on savings				**.584**		
Q14_14 Overdraft privileges on current account				**.563**		
Q14_9 Availability of credit on favourable terms				**.553**	.462	
Q14_13 Fulfilment of religious obligations				**-.415**		
Q14_10 Convenient location & easily accessible					**.787**	
Q14_25 Availability & location of ATMs and cell phone banking					**.668**	
Q14_17 External appearance of bank						**.764**
Q14_16 Mass media advertising						**.718**

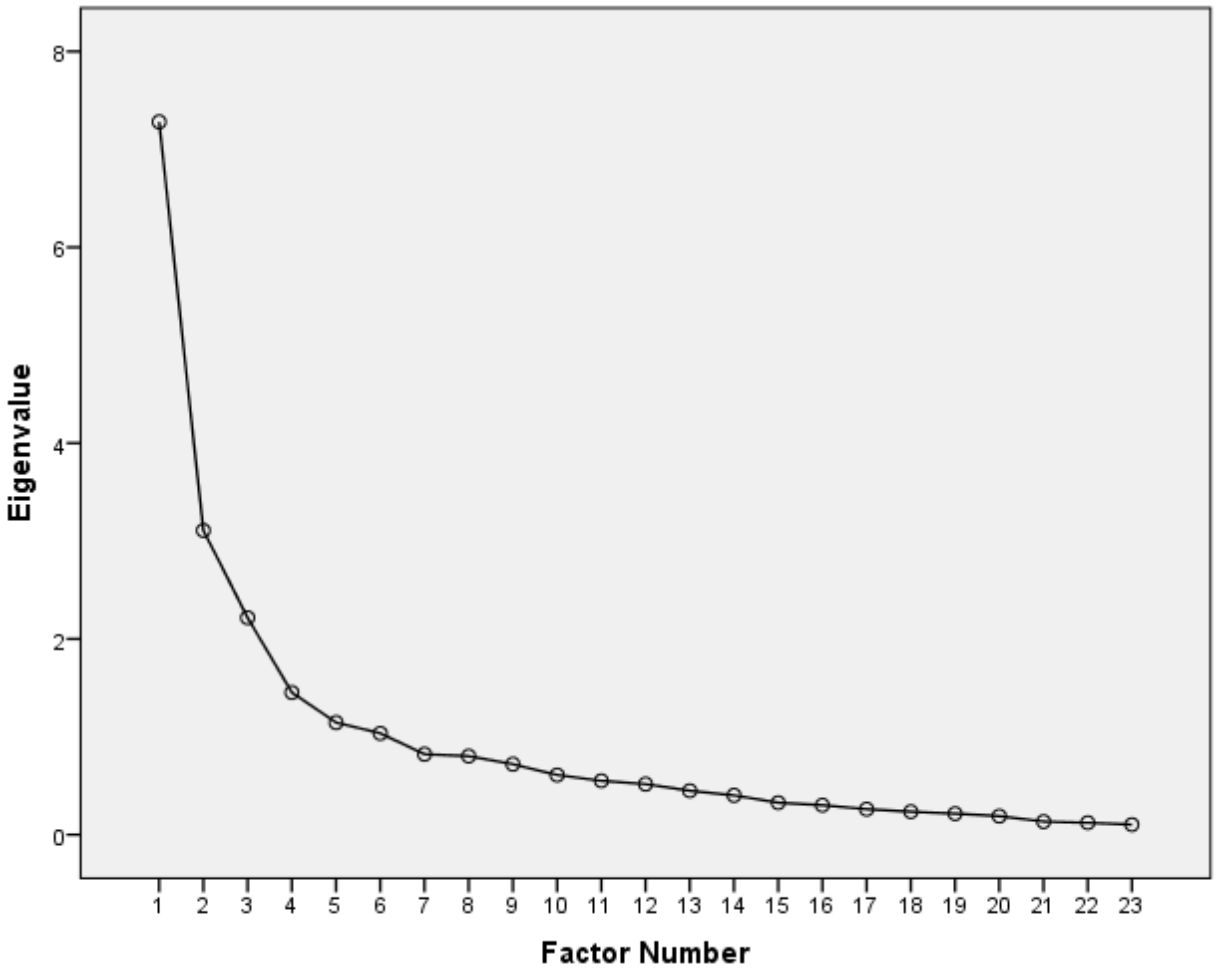
Rotated factor matrix: Principal axis factoring with varimax rotation (Kaiser Normalisation)

Appendix E

Subscale	Description	N of items	Cronbach's alpha
F1	Confidence and customer oriented services	7	0.832
F2	Corporate & social responsibility/3rd party influences	4	0.835
F3	Ambience & religion	3	0.851
F4	Economics & electronic services	5	0.658
F5	Convenience	2	0.835
F6	Public relations and image of bank	2	0.807
Overall	**All dimensions**	**23**	**0.884**

Reliability statistics for the six extracted factors

Appendix F



Scree Plot

APPENDIX G

Pearson Correlation Coefficients between the original 27 importance items (*N* = 98, Listwise)

	Q14_1	Q14_2	Q14_3	Q14_4	Q14_5	Q14_6	Q14_7	Q14_8	Q14_9	Q14_10	Q14_11	Q14_12	Q14_13	Q14_14	Q14_15	Q14_16	Q14_17	Q14_18	Q14_19	Q14_20	Q14_21	Q14_22	Q14_23	Q14_24	Q14_25	Q14_26	Q14_27
Q14_1 Provision of fast and efficient service	1																										
Q14_2 Confidentiality of bank	.695**	1																									
Q14_3 Confidence in bank's management (skills & expertise)	.704**	.690**	1																								
Q14_4 A wide range of products & services provided	.397**	.361**	.361**	1																							
Q14_5 Bank's reputation and image	.398**	.435**	.359**	.302**	1																						
Q14_6 Friendliness of bank personnel	.476**	.342**	.406**	.430**	.271**	1																					
Q14_7 Financial counselling services provided (including estate services)	.086	.136	.148	.454**	.163	.412**	1																				
Q14_8 Lower interest charges on loans	.347**	.255**	.205*	.151	.198*	.275**	.058	1																			
Q14_9 Availability of credit on favourable terms	.272**	.204*	.211*	.126	.311**	.251**	.213*	.644**	1																		
Q14_10 Convenient location & easily accessible	.170	.169	.176	.302**	.166	.263**	.468**	.301**	.439**	1																	
Q14_11 Lower bank charges/service fees	.465**	.435**	.428**	.293**	.264**	.406**	.260**	.280**	.327**	.475**	1																
Q14_12 Higher interest payment on savings	.138	.100	.138	.080	.003	.176	.058	.405**	.211*	.057	.164	1															
Q14_13 Fulfilment of religious obligations	.186*	.207*	.137	.353**	.063	.182	.315**	-.165	-.088	.176	.227*	-.331**	1														
Q14_14 Overdraft privileges on current account	-.042	-.096	-.121	.011	.054	.114	.144	.329**	.357**	.231*	.096	.337**	-.245**	1													
Q14_15 Financial strength and soundness	.426**	.382**	.285**	.328**	.300**	.446**	.068	.260**	.222*	.121	.302**	.230*	.031	.164	1												
Q14_16 Mass media advertising	-.071	-.021	.000	.277**	.175	.199*	.496**	-.003	.100	.322**	.203*	.020	.276**	.271**	.095	1											
Q14_17 External appearance of bank	.140	.130	.166	.302**	.299**	.459**	.494**	.065	.156	.280**	.305**	.114	.227*	.150	.192*	.680**	1										
Q14_18 Recommendation/advice of friends	.183*	.238*	.218*	.252**	.103	.355**	.283**	.087	.136	.214*	.337**	.003	.232*	.122	.201*	.315**	.438**	1									
Q14_19 Available parking space nearby	.099	.209*	.117	.377**	.101	.263**	.369**	.048	.150	.522**	.295**	-.014	.446**	.139	.149	.416**	.349**	.428**	1								
Q14_20 Counter partitions in bank	-.022	.175	.084	.368**	.124	.178	.398**	-.003	.081	.408**	.221*	.087	.430**	.109	.149	.485**	.373**	.474**	.787**	1							
Q14_21 Recommendation/advice of relatives	.064	.116	.087	.278**	.098	.153	.364**	.084	.112	.404**	.254**	.063	.245**	.157	.069	.386**	.278**	.681**	.536**	.640**	1						
Q14_22 Social responsibility to the community	.159	.206*	.213*	.381**	.144	.363**	.398**	.010	.087	.261**	.255**	.052	.326**	.044	.215*	.409**	.429**	.509**	.438**	.551**	.500**	1					
Q14_23 Environmental practice and impact	.133	.173	.206*	.350**	.115	.353**	.451**	.032	.142	.321**	.355**	.149	.264**	.119	.245**	.337**	.397**	.461**	.411**	.477**	.497**	.795**	1				
Q14_24 Innovation in product development	.283**	.309**	.312**	.413**	.273**	.384**	.265**	.076	.197*	.279**	.402**	-.016	.263**	.011	.282**	.177	.321**	.405**	.409**	.279**	.327**	.541**	.619**	1			
Q14_25 Availability & location of ATMs and cell phone banking	.310**	.302**	.297**	.341**	.180	.265**	.315**	.157	.347**	.717**	.434**	-.031	.210*	.133	.131	.295**	.267**	.358**	.465**	.388**	.443**	.387**	.401**	.362**	1		
Q14_26 Recommendation of religious leaders	.068	.069	.007	.261**	.117	.115	.288**	-.166	-.091	.135	.086	-.225*	.796**	-.158	.002	.381**	.253**	.274**	.448**	.521**	.367**	.401**	.319**	.214*	.193*	1	
Q14_27 Availability of new banking methods such as rewards programs e.g. eBucks, air miles	.237*	.180	.279**	.277**	.162	.341**	.320**	.160	.152	.100	.221*	-.017	.288**	-.058	.107	.186*	.351**	.382**	.159	.258**	.227*	.296**	.214*	.294**	.216*	.279**	1

**.Correlation is significant at the 0.01 level (2-tailed).

Appendix H

Dear colleague

I am in the process of completing my MCom (Acc) and would like to invite you to participate in a survey that will contribute to the literature on my area of research. This will not take more than fifteen minutes to complete and your cooperation in this regard will be highly appreciated.

Do you consent for the information gathered from this questionnaire to be used towards my area of research for my MCom (Acc) degree and to be published in academic journals?

All information/data collected will be kept strictly confidential and only used for the above purposes.

Please follow this link to participate in this survey. www.surveyz.co.za

Kind regards

Mariam Vawda

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18 September 2012

Mrs Mariam Vawda
P O Box 1493
Kelvin
Johannesburg
2054

Student Number: 9209243M

Dear Mrs Vawda

I have pleasure in informing you that the **SOA Post Graduate Degrees Committee** has approved the following title for your Research Report:

Islamic banking: an exploratory study of perceptions and bank selection criteria among chartered accountants in South Africa

Furthermore the committee has approved the following supervisor: **Prof N Padia and Mr W Maroun**, with whom you should maintain regular contact. Please ensure that the title on the bound copies of your research report is the same as that approved by the Post Graduate Committee.

You will be required to submit to the Faculty Office on submission of the report:

- Two spiral bound copies of the Research Report with a signed declaration
- one copy of the abstract
- one copy of the title page
- the Supervisor's Clearance Form

The ethics number for your research report is **CACCN/1021**. It is very IMPORTANT that you ensure that this number appears on the cover page of your research report when you submit.

Please note that you need to be registered every year until your graduation.

Please note: After confirmation of the final Research Report mark, you will be required to submit two unbound final corrected copies signed and dated, an electronic copy (in PDF format), a signed library clearance form and have completed the full ETD form.

We wish you success with your research.

Kind Regards

Ms Ntshepeng Tshabalala
Senior Faculty Officer
Faculty of Commerce, Law & Management