

## A MULTIGROUP STRUCTURAL EQUATION MODELLING APPROACH TO MODERATING THE INFLUENCE OF RELIGION ON THE ADOPTION OF ISLAMIC HOME FINANCING

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### ABSTRACT

*Studies have examined the intention of home buyers to adopt Islamic home financing without considering the effect of religion. The present study, therefore, examines the moderating influence of religion on the adoption of Islamic home financing. The study used the decomposed theory of planned behaviour and SEM multigroup analysis approach. Data collected from 518 prospective home buyers in Nigeria using survey questionnaires indicates a difference between Muslims and non-Muslims. The chi-square result shows that the difference is significant and that religion moderates the relationship between independent variables (attitude, subjective norms, perceived behavioural control) and dependent variable (intention). This paper discusses the implications for academicians to replicate the method used in this study and the stakeholders and bankers to promote Islamic finance. It suggests that religious disparity should be avoided in order to promote Islamic finance and create awareness irrespective of religion.*

Keywords: Adoption, Islamic home financing, Religion, SEM multigroup analysis.

### INTRODUCTION

Religious obligation is an important factor in selecting Islamic home financing (Aminat et al., 2018; Razak & Abdul 2012; Ismail et al., 2014). Studies have used different theories such as the Theory of Reasoned Action (TRA), Theory of Planned Behaviour (TPB) and Decomposed Theory of Planned Behaviour (DTPB) to examine the effect of religious obligation on attitude. Furthermore, the intention of homebuyers to adopt Islamic home financing has been influenced by attitude, subjective norm and perceived behavioural control (Aminat et al., 2018; Razak & Abdul 2012). Intention is highly influential in adopting Islamic home financing in Nigeria (Aminat et al., 2018). However, studies have not considered the differences between religious groups. Being a religiously pluralistic nation, the establishment of Islamic banking in Nigeria is a top concern among non-Muslims due to fear of Islamising the country (Kareem, 2016). Given this lacuna, there is a need to investigate the moderating role of religion on Nigerians' intention when selecting Islamic home financing.

Nigeria is the most populous country in Africa with approximately 198 million people (National Population Commission NPC, 2018). Nigeria is a religiously pluralistic state with three recognised **religions; Islam**, Christianity, and indigenous beliefs. Muslims constitute the largest population with around 50% of the total population, Christian number 40% while the remaining 10% prescribe to traditional religions (The CIA World Fact Book, 2017). In summary, half of Nigeria is Muslim while the remaining half are non-Muslims.

The gradual development of Islamic finance in Nigeria began with the initial licences issued to selected banks by the Central Bank of Nigeria to operate Shari'ah-compliant banking in 2011. To date, Jaiz Bank PLC is the only full-fledged Islamic bank in Nigeria. Others are conventional windows such as Sterling Bank, Stanbic IBTC, and Keystone Bank. There is also the insurance and capital market sector in which Lotus Capital is the only full-fledged Islamic fund management company while others operate Takaful windows such as African Alliance PLC and Cornerstone Insurance PLC. Despite the prohibition of *riba* and the significant Muslim population in the country, Islamic financing has not developed fully, especially in the area of financing products. Nonetheless, Jaiz Bank PLC offers Islamic home financing products based on *Ijarah wa iqtina*.

Religious disparity is a significant challenge facing Islamic banking in Nigeria. As an alternative to *riba*-based banking in Nigeria, non-Muslims have refused to accept the system (Yunusa & Nordin, 2015). However, for Islamic banking to grow, non-Muslims must also partake in the system. Thus, religious disparity is hindering the adoption of Islamic finance in Nigeria (Aminat & Norhazlina, 2016; Bello & Abubakar, 2014 and Yunusa & Nordin, 2015). However, previous studies did not examine the effect of religion on the intention to adopt Islamic home financing. Moreover, research in the area of Islamic home financing in Nigeria is scanty despite its importance. Therefore, being a religiously pluralistic nation, with a gradual increase in Islamic finance products, it is necessary to study the effect of religion on the adoption of Islamic home financing in Nigeria.

Without religious differences in Nigeria, apart from personal equity, Islamic home financing can serve as an alternative to conventional financing (Aminat & Norhazlina, 2016). This research determines whether there is a difference between Muslims and non-Muslims with regard to their intention to adopt Islamic home financing using DTPB. It also determines the effect of religion on the influence of attitude, subjective norms and perceived behavioural control on the intention to adopt Islamic home financing. The study employs SEM multigroup analysis for moderation.

## LITERATURE REVIEW

Perception of intention is a strategic approach to explaining why customers behave the way they do. Behavioural factors are related to a person's intention which is then translated into actual behaviour (Ajzen, 1991). Several factors have been investigated as factors influencing customers' intention to adopt Islamic banking. To date, some of the factors that have been studied include customer attitude, subjective norm, perceived usefulness, perceived ease of use, perceived financial cost, perceived credibility, perceived self-expressiveness, the amount of information, price, religious affiliation and commitment, knowledge, religious obligation, government support and demographic, etc. However, there is a scarcity of studies on Islamic finance using the TPB in Africa, particularly in Nigeria. Alam and Sayuti (2011) suggested that research is needed on the application of the TPB in both Western and Muslim countries. Furthermore, Taylor and Todd (1995) suggested that researchers should consider using the Decomposed Theory of Planned Behaviour (DTPB) if they are looking for more comprehensive perceptions of intentions.

Studies have examined customers' perceptions in the area of Islamic home financing (Razak & Abdul, 2012; Ismail et al., 2014; Jashmidi et al., 2014). They used TPB to measure the perception of intention. The major variables that have significant influence on intention are attitude, subjective norms and perceived behavioural control. Similarly, Aminat et al. (2018) used DTPB and SEM to explore the homebuyers' perceptions of intentions to use Islamic home financing in Nigeria. They found that attitude, subjective norms and perceived behavioural control are the main factors influencing customers' intention to adopt Islamic home financing while decomposed variables that influence attitude are knowledge, religious obligation and cost-benefit. This study extends the previous studies by using DTPB and SEM multigroup to determine the effect of religion on the three main factors that influence intention.

Studies of the perception of non-Muslims toward Islamic banking in Saudi Arabia and Malaysia have found no difference between Muslim and non-Muslim perception toward Islamic banking. Just like Muslims, non-Muslims also perceived Islamic banking products and services as an ideal alternative that best meets their banking needs (Hidayat & Al-Bawardi, 2012; Wan Omar & Abdul Rahim, 2015). This could result from the awareness and previous experience with Islamic banking (Hidayat & Al-Bawardi, 2012). Nevertheless, there is a difference between Muslim and non-Muslim perceptions in Tanzania based on their level of awareness and the factors influencing the adoption of Islamic banking despite half of their population being Muslim (Soud, & Saylir, 2017).

Eze & Nwankwo (2014) studied the religions perceptions of Islamic banking in Awka, Anambra State, South East Nigeria and found that the perceived relative advantage of Islamic banking is higher for Muslims compared to Christians which indicates a significant difference between the two popular religions (Islam and Christianity). Imam et al. (2015) examined the willingness of people to invest in Islamic fund in Borno State in the northern part of Nigeria. They found that Borno people are willing to invest their money in Islamic fund regardless of their religious belief. This finding might not be relevant in other regions like the south-west and east because northerners are mostly Muslim and they might have basic knowledge of Islamic finance. Their results are contradictory because it was limited to one state and hence cannot be generalised to the entire country.

The present study collected data from all geographical regions in Nigeria so that it can be generalised to all Nigeria. It focuses specifically on Islamic home financing unlike the previous studies which were based on Islamic banking in general (Hidayat & Al-Bawardi, 2012; Eze & Nwankwo, 2014; Wan Omar & Abdul Rahim, 2015). It is expected that there is difference between Muslim and Non-Muslim intention. Therefore, this study hypothesises:

**H1:** There is a significant difference between Muslim and non-Muslim intention to adopt Islamic home financing.

### MODERATING ROLE OF RELIGION

Prior research has investigated the effect of attitude on intention to adopt Islamic home financing (Aminat et al., 2018; Elchabi & Aziz 2012; Ayedh et al., 2014) using TPB and DTPB, they have found strong influence of attitude on intention. Although, attitude influence customers' intention positively, these studies did not consider religion differences. There is limited studies examined the moderating effect of religion on intention to adopt Islamic finance. Using Innovation Diffusion Theory (IDT), Thambiah et al. (2013) studied the moderating effect of religion on Islamic retail banking adoption in Malaysia. According to their findings, religion moderates the interaction between relative advantage, compatibility and complexity on intention to use Islamic retail banking. The present study therefore, used Decomposed Theory of Planned Behaviour (DTPB) to examine the moderating effect of religion on the relationship between attitude and intention to adopt Islamic home financing. The study hypothesises:

**H2:** The influence of attitude on intention is moderated by religion.

Subjective norm are beliefs about what behaviours are approved of or disapproved by other people in a society (Ajzen, 1991). Friends and family are the most influential factor determining a person's norms when it comes to buying behaviour in Islamic financing (Ismail et al., 2011; Amin et al., 2009). TPB and DTPB have been used to examine customers' intention to adopt Islamic home financing by previous studies and subjective norm was found as the most influential factor on intention (Razak & Abdul, 2012; Aminat et al., 2018). In the case of this study, the influence of subjective norm on intention is expected to be moderated by religion. This study therefore, hypothesises:

**H3:** The influence of subjective norm on intention is moderated by religion.

Perceived behavioural control refers to people’s perception of the ease or difficulty of performing a behaviour (Ajzen, 1991). Behavioural control factors have been investigated by previous studies in the context of home financing (Aminat et al., 2018 and Alam et al., 2012). They found that, perceived behavioural control has a significant influence on intention to adopt Islamic home financing. However, they did not consider the effect of religion on their relationship. Hence, this study hypothesises:

**H4:** The influence of perceived behavioural control on intention is moderated by religion.

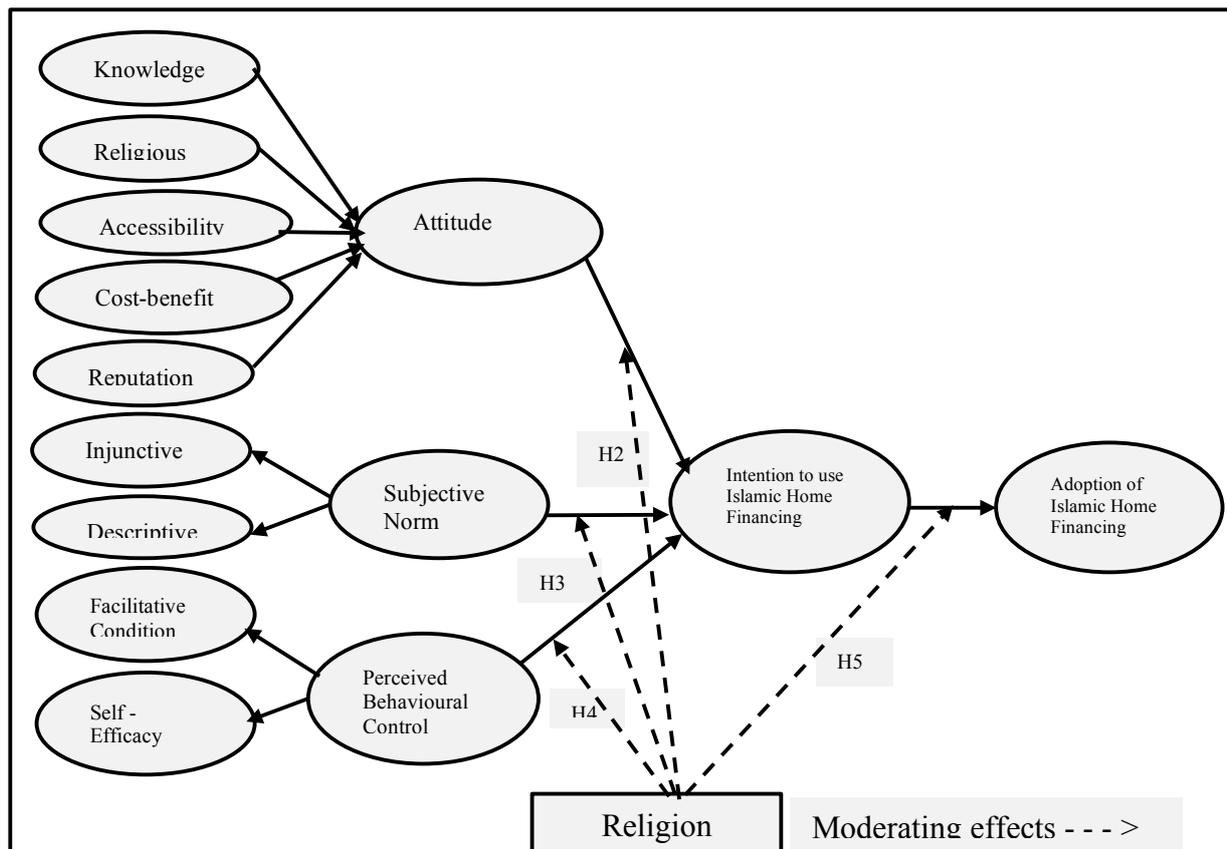
Behavioural intention is the most important factor in predicting the decision to take a specific action Ajzen (1991). Given the close relationship between intention and behaviour, previous studies have used behavioural intention to predict specific behaviour (Ayedh et al., 2014; Elchachabi & Aziz, 2012). Despite the close relationship between intention and adoption, there is still need to consider the effect of religion on their relationship. Therefore, this study hypothesises:

**H5:** The influence of intention on adoption is moderated by religion.

**METHODOLOGY**

This is a quantitative study that uses stratified random sampling to reduce the possible human bias that could be involved in sample selection. To conduct this sampling strategy, the research first defined the study population, listed all the 36 states in Nigeria and grouped them into three strata according to the region. Nigeria has three geographical regions. The research identified all the eligible homebuyers (those who already own a house and those who intend to buy) in the population and selected respondents from each stratum to form the sample. The data was collected among 518 prospective home buyers from the three geographical regions in Nigeria using a survey questionnaire. The sampled cities were Lagos, Ibadan, Kano, Abuja, Port Harcourt and Enugu. The study ensures that two cities were chosen from each geographical region. For the purpose of this study, the data was analysed using Structural Equation Modelling (SEM) and Analysis of Moment Structures (AMOS) Version 23. After the questionnaires were answered, the researcher collated the completed questionnaires. The responses for each item were sorted and computed with the aid of SPSS software. In addition, SEM multigroup analysis was used to determine the difference between the religious groups in the study. Figure 1 presents the conceptual framework of this study and the moderating role of religion.

*Figure 1: Conceptual framework of adoption of Islamic home financing*



DATA ANALYSIS AND FINDINGS

DIFFERENCE BETWEEN RELIGIOUS GROUPS

Given that religious disparity hinders the adoption of Islamic banking, we have tested religious difference for Muslims and non-Muslims. To test the religious difference in the model, this study constrained all variables. The data were run and all the fitness indices for the model meet the required level (CFI = 0.916; TLI = 0.911; RMSEA = 0.035 and  $X^2/df = 1.648$ ). Based on the results of the multigroup analysis, the chi-square difference indicates there is a significant difference between the models. Table 1 depicts the result of chi-square difference (CMIN Diff.) from constrained and unconstrained models, and the differences indicate CMIN Diff.= 67.697 and DF diff = 39 with p-value 0.003. Form this result, it can be suggested that there is a significant difference between Muslim and non-Muslim perceptions of the adoption of Islamic home financing. Therefore, H1, which states that there is a significant difference between Muslim and non-Muslim intention to adopt Islamic home financing is supported. This result is consistent with the previous studies of Muslim and non-Muslim perceptions of Islamic banking in Nigeria and Tanzania by Eze & Nwankwo (2014) and Soud & Sayılır (2017).

**Table 1: Model Comparison – Religions**

Overall Model	CMIN	DF	P
Fully Constrained Model	2734.677	1657	.000
Unconstrained Model	2666.980	1618	.000
No of Group	2		
Difference	67.697	39	.003

**Table 2: The Moderation Test for Religion (Chi-square difference)**

Path Difference			CMIN Diff.	DF Diff	P-Value	Result on Moderation	Result on Hypothesis
Attitude	→	Intention	7.184	1	.007	Significant	Supported
Subjective Norm	→	Intention	4.009	1	.043	Significant	Supported
PBC	→	Intention	4.659	1	.031	Significant	Supported
Intention	→	Adoption	1.174	1	.279	Not Significant	Not Supported

MODERATING EFFECT OF RELIGION

Evidence from the chi-square difference test suggests that there is a significant difference between Muslims and non-Muslims with regard to their perceptions of Islamic home financing. Figure 2 shows the path analysis for the unconstrained model for Muslims while Figure 3 shows the unconstrained model for non-Muslims. Results from the path estimate show a significant difference between the perceptions of Muslims and non-Muslims. For the path difference, all the hypotheses were supported except H5. The chi-square differences (CMIN Diff.) for each path are also significant. Religion moderates the influence of attitude on intention with (CMIN Diff. = 7.184; P=0.007); it moderates the influence of subjective norm on intention with (CMIN Diff. = 4.009; P=0.043) and moderates the influence of perceived behavioural control with (CMIN Diff. = 4.659; P=0.031). Therefore, H2, H3 and H4 are supported. However, the influence of intention on adoption is not moderated by religion (CMIN Diff. = 1.174; P=0.279). Therefore, H5, i.e., the influence of intention on adoption is moderated by religion, is not supported. Table 2 details the results.

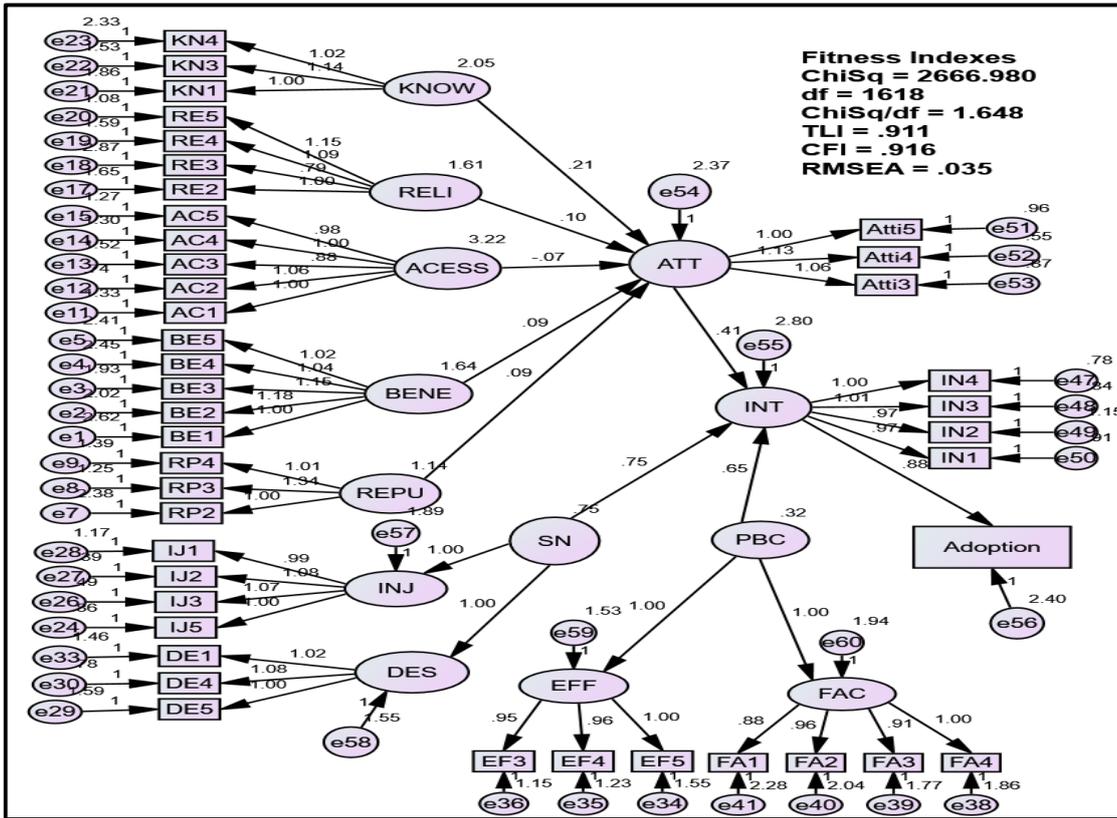


Figure 2: Unconstrained Model for Muslims

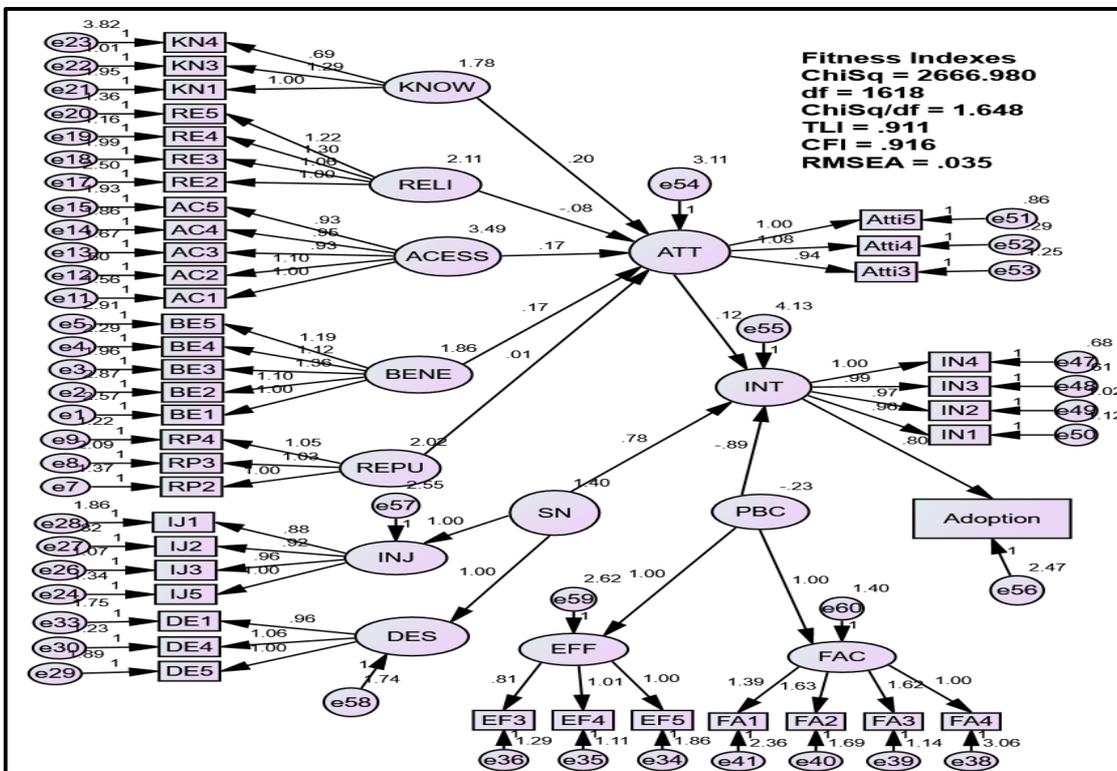


Figure 3: Unconstrained Model for Non-Muslims

## CONCLUSION

Apart from ethnicity, religion is often a distinguishing factor in Nigeria (Kareem, 2016). Northerners are Muslim while Easterners are Christian. This study groups the religions into Muslim and non-Muslim and tests the differences based on the perceptions of the adoption of Islamic home financing. Using multigroup analysis, the result from chi-square difference has shown a significant difference between the two religious groups. This means that there is a difference between Muslims and non-Muslims with regard to their intention to adopt Islamic home financing. Moreover, religion moderates the attitude and intention, subjective norm and intention as well as perceived behavioural control and intention. This suggests that Muslims are more concerned about choosing Islamic home financing than non-Muslims.

As discussed in the introduction, Nigeria has no less than three recognised religions. Given that Islamic financing is not restricted to Muslims, there should be proper awareness of Islamic products and services for everybody to benefit. Religious disparity could cause misperceptions of Islamic finance. Disparity in people's perceptions of Islamic home financing products, it could cause misperceptions among non-Muslims (Aminat & Norhazlina, 2016). It could also lead to the unacceptability of Islamic home financing by some religious groups. Therefore, Islamic home financing should not be attached to one religion or culture so that, irrespective of religious belief or culture, people would still opt for Islamic home financing. The implication of this study tells why there is need to promote Islamic home financing. From the findings, there is difference in perception of the two religious group which can affect the demand for home financing which will also affect the economy of the country. This shows the necessity to promote Islamic home financing in Nigeria by the government. Bankers and the stakeholders should increase public awareness of Islamic finance to avoid misperceptions among non-Muslim.

The study has contributed to the body of knowledge through the use of SEM multigroup analysis. Although SEM is not new in social research, testing the moderator with SEM multigroup is rare. Therefore, this study can serve as a reference for academicians to replicate the method. This study has examined the differences between religious groups by collecting data from three geographical regions in Nigeria. The result indicates differences between Muslims and non-Muslims. This result is generalisable but this should be approached with caution as the study collected data only from the most populated cities while rural residents are also eligible home buyers. Hence, future research could examine the difference between rural and urban home buyers.

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