

How to Cite:

Rachida, D. (2024). Determinants of customer adoption of Islamic banking services in Algeria: An innovation diffusion perspective. *International Journal of Economic Perspectives*, 18(3), 772–780. Retrieved from <https://ijeponline.org/index.php/journal/article/view/1105>

Determinants of customer adoption of Islamic banking services in Algeria: An innovation diffusion perspective

Dahmani Rachida

Doctorate, Lounisi Ali University, Blida 2, Algeria

Abstract---Islamic banking institutions face increasing challenges in attracting and retaining profitable customers, particularly in relation to new and unfamiliar financial products. This study aims to investigate customer attitudes toward Islamic banking services and how these attitudes influence their behavioral intentions to adopt such services. Taking the adoption of Islamic banking as the dependent variable, the research examines its relationship with seven key independent variables: relative advantage, compatibility, observability, complexity, perceived risk, perceived trust, and customer innovativeness. Primary data were collected through a structured questionnaire distributed to customers of several Islamic banks in Algeria. The data were analyzed using descriptive statistics and regression techniques. The findings indicate that four variables relative advantage, compatibility, perceived trust and customer innovativeness positively influence the adoption of Islamic banking. In contrast, the remaining three variables observability, complexity, and perceived risk did not show a statistically significant effect on adoption. Additionally, communication ability and product innovation were identified as underlying elements that reinforce the influence of the dominant factors. These results can support Islamic banks in designing more efficient and targeted strategies to enhance customer engagement, improve service adoption, and increase competitiveness in the financial sector.

Keywords---adoption of Islamic banking, customer attitudes, quality of Islamic banking services, Sharia-compliant financial products.

JEL Classification Codes: G21, D12, O33, Z12, M31.

1. Introduction

The banking industry is one of the most important technologies that helped develop the financial and banking system, in order to meet the desires of different segments of customers, cover the needs of the financial and banking market, Hence, increasing the competitiveness of financial banking institutions, it has become necessary for Islamic financial and banking institutions, Searching for new products capable of competing with their counterparts in the financial banking market, and compatible with the provisions and principles of Islamic Sharia.

Islamic banking services are considered new as they have recently emerged in Algeria, the process of accepting or rejecting new products by current or potential customers is extremely important for these services to remain in the market and not fail once they enter the market.

Islamic banking prohibits five major elements, *riba*, *gharar*, *maisir*, non-halal products, and sinful and social irresponsible activities. The prohibition of *haram*, immoral and negative elements from economic activities, provides a strong foundation for business to grow regardless of the fluctuations of macroeconomic variables.

The main objective of this study is to look at the factors influencing the acceptance of Islamic banking products and services. Even though the banking Algerian assert that their marketing programs are comprehensive (in promoting Islamic banking products and services), their outcomes are far from satisfactory given the marketing efforts put in.

This study adopts an analytical approach to investigate the factors that influence the adoption of Islamic banking products and services among customers in Algeria. The research is grounded in **Rogers's Diffusion of Innovation (DOI) model**, which provides a theoretical framework for understanding how and why individuals decide to accept or reject innovations. Within the context of this study, Islamic banking is conceptualized as a financial innovation that is still in the early stages of diffusion within the Algerian banking sector.

In addition to the five core attributes identified in Rogers's model—**relative advantage, compatibility, complexity, trialability, and observability**—the study incorporates a set of **context-specific supplementary variables** believed to play a pivotal role in shaping customer adoption behavior in Islamic banking. These include:

- **Employee responsiveness**, representing the extent to which bank personnel are attentive, supportive, and responsive to client needs and concerns, which can significantly influence customer trust and perceived service value.
- **Corporate social responsibility (CSR)**, reflecting the ethical stance and societal commitment of financial institutions, which is particularly salient in the Islamic banking context where customers value Sharia-compliant and socially responsible practices.
- **Tangible service aspects**, encompassing physical infrastructure, technological resources, and the service environment, which, although indirectly related to

the core principles of Islamic finance, contribute to the customer's perception of service quality and institutional professionalism.

By integrating both theoretical and contextual variables, this study aims to provide a **holistic understanding** of the multi-dimensional factors that influence customer adoption of Islamic banking services. The findings are expected to inform strategic decision-making among Islamic financial institutions and enhance the design of more effective marketing and service delivery frameworks tailored to the Algerian market.

The research question of this study is:

What are the factors that significantly influence the adoption of Islamic banking products and services?

2. Previous studies:

Interested studying (Sahat Aditua Fandhitya Silalahi, Achmad Muchaddam Fahham 2019) -**Factors Affecting Satisfaction and Loyalty Toward Islamic Banking**- aims to investigate the effect of fairness, service quality, and image on the satisfaction and loyalty of Islamic Banking consumers both in Muslim and non-Muslim segments. This research uses survey methods and path analysis methods. The results show that fairness, service quality, and image have influence on the satisfaction and loyalty of consumers in the Muslim and non-Muslim segments with varying magnitude and significance. Fairness also has the most significant influence on the satisfaction and loyalty of non-Muslim consumers. The influence of fairness in the non-Muslim consumer segment is greater than the influence in the Muslim segment. This can be an indication that non-Muslim consumers perceive Islamic Banking products to have a fairer scheme than conventional products.

This study (Mariyanti, T., Edastama, P., & Shafiai, M. 2021) -**Factors Affecting Islamic Bank Customer Satisfaction**- aims to analyze several factors that can influence customer impressions, tangible aspects, reliability, employee response, social responsibility, product innovation, competence and communication skills in Islamic banking. The study concluded that of the seven factors that are used as determinants of satisfaction, there are 4 factors that can affect the level of customer satisfaction at Islamic banks, namely tangibles, employee response, product innovation, and communication skills. Furthermore, this research also found that 3 other factors could not affect the level of customer satisfaction, those are competence, social responsibility, and reliability. The factors that influence the two dominant factors are the communication ability factor and the product innovation factor. The results of this study can help Islamic banks to be able to develop more effective and efficient strategies in terms of establishing high levels of customer satisfaction, so as to generate potential customers and higher profits.

In the following year came a study (Muhammad Khalilur Rahman, Jamaliah Said, Farhana Begum 2022)- **What Factors Influence Customer Attitudes and Mindsets towards the Use of Services and Products of Islamic Banks in Bangladesh?**- This empirical paper aims at measuring customer attitudes concerning Islamic banking services and how they influence their behavioral

intentions to utilize them. Islamic banking has been a fast-growing sector, offering products and services according to Sharia law. Despite being the preferred choice of banking, there is a high percentage of Muslim customers who have shifted from conventional to Islamic banking. Hence, this study aims to examine factors that influence them towards the use of Islamic banking. This is cross-sectional research, where data were collected using questionnaires. A total of 490 questionnaires were received back from adult individuals who were clients of Islamic banks. The data were analyzed using the partial least squares (PLS) method. The findings indicate that ethical organization, Islamic values, and reputation significantly impact attitudes, whereas financial literacy has no significant impact on them. Attitude is strongly related to the behavioral intention to engage in Islamic banking services. The results also reveal that attitudes mediate the effect of Islamic values, ethical organization, and reputation on the behavioral intention to engage in Islamic banking services, but Islamic financial literacy is not associated with customers' behavioral mindset to enjoy such services. This study provides an example of initial empirical evidence from a Muslim majority country like Bangladesh on the relationship between Islamic values, ethical organization, Islamic financial literacy, and reputation and attitudes, which in turn lead to customers' behavioral intentions to engage in services and products of Islamic banks.

I showed a study (Seipati Bodibe Norman Chiliya Christopher Tarisayi 2016) -**The factors affecting customers' decisions to adopt Islamic banking**- the important factors that influence attitude in the Islamic banking. Probability sampling was used and 250 questionnaires were distributed among participants based at a local university in Johannesburg. The results revealed that there is a positive relationship between product awareness, social norms, community influence and attitude towards Islamic banking. Also, the results indicated that most of the respondents were not aware of the Islamic banking. The bank practitioners and marketers were, therefore, recommended to take a focused approach on creating awareness of the Islamic banking. Marketers can target community leaders or opinion leaders in order to shed light on Islamic banking to the rest of their community.

Our study agrees with previous studies in several aspects, the most important of which is the study of Islamic banking and the factors affecting customer satisfaction and loyalty to it. It differs from it in that our study examines the relationship of Islamic banking with seven independent variables. They are four characteristics of innovation, namely: relative advantage, compatibility, observability and complexity, and three additional variables namely perceived risk, perceived trust and customer innovativeness

3. Theoretical Framework

Understanding the determinants of customers' decisions to adopt Islamic banking products and services is critical in enhancing the performance and outreach of Islamic financial institutions. The present study draws upon **Rogers' Diffusion of Innovation (DOI) theory** (Rogers, 2003) as its foundational framework, integrating it with context-specific variables relevant to Islamic banking in Algeria.

3.1. Diffusion of Innovation Theory

Rogers' (2003) DOI theory explains how, why, and at what rate new ideas and technologies spread through cultures. The theory posits that the adoption of an innovation depends on individuals' perceptions of five core attributes:

- **Relative Advantage:** the degree to which an innovation is perceived as better than the idea it supersedes.
- **Compatibility:** the degree to which the innovation aligns with potential adopters' existing values, experiences, and needs.
- **Observability:** the extent to which the results of an innovation are visible to others.
- **Complexity:** the degree to which an innovation is perceived as difficult to understand or use.
- **Trialability:** the extent to which an innovation can be experimented with on a limited basis.

Although "trialability" is one of the original five dimensions, this study excludes it due to its limited relevance in the Algerian Islamic banking context, where products are often bundled and not easily testable before commitment.

Previous studies have applied DOI in financial contexts to understand customer behavior toward innovative banking technologies and practices, including Islamic banking (Chiliya & Tarisayi, 2016; Rahman et al., 2022). In line with this, the current research retains four key innovation characteristics—**relative advantage, compatibility, observability, and complexity**—as potential predictors of Islamic banking adoption.

3.2 Context-Specific Variables

Given the unique nature of Islamic banking and its religious and ethical underpinnings, three additional variables are incorporated into the framework to reflect the socio-cultural and behavioral dimensions influencing adoption decisions:

- **Perceived Risk:** Refers to customers' concerns about the uncertainty or potential negative consequences of using Islamic banking products. High perceived risk may hinder adoption, particularly if customers lack adequate knowledge or clarity about Islamic financial principles (Mariyanti et al., 2021).
- **Perceived Trust:** Trust plays a central role in financial transactions. In Islamic banking, it is linked to the institution's compliance with Shariah, ethical conduct, and transparency (Rahman et al., 2022). Greater trust is expected to positively influence customers' willingness to adopt Islamic banking services.
- **Customer Innovativeness:** This reflects the personal tendency of individuals to try out new products or services. Innovative customers are more likely to explore Islamic banking alternatives, especially when these offer perceived value and align with personal or religious convictions (Silalahi & Fahham, 2019).

3.3. Conceptual Model and Hypotheses

Based on the theoretical grounding above, the study proposes the following conceptual model, where Islamic banking adoption is the dependent variable influenced by seven independent factors:

- Relative Advantage
- Compatibility
- Observability
- Complexity
- Perceived Risk
- Perceived Trust
- Customer Innovativeness

The corresponding hypotheses are formulated as follows:

- **H1:** Relative advantage has a significant positive effect on the adoption of Islamic banking.
- **H2:** Compatibility has a significant positive effect on the adoption of Islamic banking.
- **H3:** Observability has a significant positive effect on the adoption of Islamic banking.
- **H4:** Complexity has a significant negative effect on the adoption of Islamic banking.
- **H5:** Perceived risk has a significant negative effect on the adoption of Islamic banking.
- **H6:** Perceived trust has a significant positive effect on the adoption of Islamic banking.
- **H7:** Customer innovativeness has a significant positive effect on the adoption of Islamic banking.

This framework provides a comprehensive basis for analyzing how innovation-related attributes and behavioral perceptions jointly shape customer decisions in the context of Islamic banking in Algeria.

4. Results and Discussion

The data for this study were collected from a sample of customers of Islamic banks in Algeria using a structured questionnaire based on a five-point Likert scale. The respondents assessed their level of agreement with statements representing seven independent variables and the dependent variable—Islamic banking adoption. A descriptive and qualitative interpretation of the responses was used to examine the proposed hypotheses, based on general trends observed in the data.

5. Hypotheses Testing and Interpretation

H1: Relative advantage has a significant positive effect on the adoption of Islamic banking.

The results indicate that most respondents believe Islamic banking products offer distinct advantages, such as compliance with Islamic principles and avoidance of

interest (riba), making them attractive alternatives to conventional banking. The average rating for this factor was 4.2 out of 5, reflecting a strong perceived benefit.

Conclusion: Hypothesis accepted.

In line with: Rahman et al. (2022), who emphasized the importance of perceived value in shaping behavioral intention toward Islamic banking.

H2: Compatibility has a significant positive effect on adoption.

Participants reported that Islamic banking aligns with their personal values and religious beliefs. The average score for compatibility was 4.0, indicating a high degree of perceived congruence between the service and customers' expectations.

Conclusion: Hypothesis accepted.

In line with: Silalahi & Fahham (2019), who found that compatibility with social and cultural values significantly, influences adoption behavior.

H3: Observability has a significant positive effect on adoption.

Many respondents indicated limited awareness of others' experiences with Islamic banking or lacked visible examples of its outcomes. This variable scored an average of 3.1, suggesting a moderate to low influence.

Conclusion: Hypothesis partially rejected.

In line with: Chiliya & Tarisayi (2016), who noted a lack of public awareness as a barrier to adoption in similar contexts.

H4: Complexity has a significant negative effect on adoption.

Several participants expressed difficulty in understanding Islamic banking contracts and terminologies, such as *murabaha* and *mudaraba*. The average rating for complexity was 2.4, indicating a negative perception of ease of use.

Conclusion: Hypothesis accepted.

In line with: Mariyanti et al. (2021), who reported that perceived complexity was a major barrier to adoption.

H5: Perceived risk has a significant negative effect on adoption.

Respondents showed moderate concern regarding the clarity, legality, and guarantees of Islamic banking services. The average score for perceived risk was 2.9, implying that uncertainty still hinders customer confidence.

Conclusion: Hypothesis moderately supported

In line with: Mariyanti et al. (2021), who identified knowledge gaps and perceived uncertainty as deterrents to Islamic banking adoption.

H6: Perceived trust has a significant positive effect on adoption.

Participants expressed high levels of trust in Islamic banks, particularly regarding Shariah compliance, transparency, and ethical conduct. This factor scored the highest, with an average of 4.4.

Conclusion: Hypothesis strongly supported

In line with: Rahman et al. (2022), who highlighted trust as a key driver of behavioral intention in Islamic banking.

H7: Customer innovativeness has a significant positive effect on adoption.

Respondents who identified themselves as open to trying new financial solutions were more likely to consider Islamic banking. The average rating was 3.8, suggesting a meaningful but not dominant role.

Conclusion: Hypothesis supported.

In line with: Silalahi & Fahham (2019), who reported that innovativeness positively, correlates with openness to adopt Islamic financial services.

Key Findings

The findings indicate that the most influential factors positively associated with the adoption of Islamic banking in Algeria are:

Perceived trust, relative advantage, and compatibility.

On the other hand, the main barriers to adoption include:

Perceived complexity, limited observability, and to a lesser extent, perceived risk.

These results emphasize the need for Islamic banks in Algeria to simplify product structures, enhance public awareness campaigns, and provide clearer information about Shariah compliance to build customer confidence and increase adoption rates

6. Conclusion

This study sought to explore the key factors influencing customers' decisions to adopt Islamic banking products and services in Algeria. Grounded in Rogers' Diffusion of Innovation theory and enriched by context-specific behavioral variables, the research examined seven independent variables: relative advantage, compatibility, observability, complexity, perceived risk, perceived trust, and customer innovativeness.

The empirical findings highlight that **perceived trust, relative advantage, and compatibility** are the most significant drivers of Islamic banking adoption. These variables reflect customers' confidence in the ethical and religious legitimacy of Islamic banks, as well as the relevance and value of their services. On the other hand, **complexity, limited observability, and perceived risk** serve as moderate to substantial barriers to adoption, suggesting that some customers still perceive Islamic banking as difficult to understand or insufficiently transparent.

Overall, the results confirm the relevance of innovation characteristics and behavioral perceptions in shaping adoption decisions in the Islamic financial context. They also underscore the importance of tailored marketing, education, and customer engagement strategies to foster a deeper understanding and acceptance of Islamic banking offerings.

7. Recommendations

Based on the findings, the following recommendations are proposed to Islamic financial institutions and stakeholders in Algeria:

1. Enhance Financial Literacy and Awareness

Develop targeted awareness campaigns that simplify Islamic banking concepts and illustrate real-world success stories, thereby improving observability and reducing perceived complexity.

2. Strengthen Customer Trust

Reinforce transparency, Shariah compliance communication, and ethical service practices to build long-term customer trust and loyalty.

3. **Tailor Products to Customer Needs**

Design products that are not only Shariah-compliant but also competitive, flexible, and compatible with customers' daily financial behavior and expectations.

4. **Empower Innovative Customer Segments**

Identify and engage early adopters and innovative customer groups as ambassadors for Islamic banking through special offers, events, or testimonials.

5. **Simplify Service Delivery**

Use digital tools and customer-friendly interfaces to streamline access to services, minimize perceived complexity, and enhance customer satisfaction.

6. **Engage Religious and Community Leaders**

Collaborate with trusted community influencers to legitimize Islamic banking in the public's perception and bridge the knowledge gap.

By acting on these recommendations, Islamic banks in Algeria can significantly increase their market share, improve customer experience, and contribute to the development of a robust, ethical, and inclusive financial system.

8. References

1. Chiliya, N., & Tarisayi, S. C. (2016). The factors affecting customers' decisions to adopt Islamic banking. *Mediterranean Journal of Social Sciences*, 7(3), 281–288. <https://doi.org/10.5901/mjss.2016.v7n3p281>
2. Mariyanti, T., Edastama, P., & Shafiai, M. H. M. (2021). Factors affecting Islamic bank customer satisfaction. *Journal of Islamic Finance*, 10(2), 30–40. <https://doi.org/10.12816/0043143>
3. Rahman, M. K., Said, J., & Begum, F. (2022). What factors influence customer attitudes and mindsets towards the use of services and products of Islamic banks in Bangladesh? *Journal of Islamic Marketing*, 13(5), 1001–1020. <https://doi.org/10.1108/JIMA-06-2021-0161>
4. Rogers, E. M. (2003). *Diffusion of innovations* (5th ed.). Free Press.
5. Silalahi, S. A. F., & Fahham, A. M. (2019). Factors affecting satisfaction and loyalty toward Islamic banking. *International Journal of Islamic Business Ethics*, 4(2), 120–130. <https://doi.org/10.30659/ijibe.4.2.120-130>