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Factors Determining Customers' Intentions Toward the Use of Full-Fledged Islamic Banks in Ethiopia

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Abstract: This investigates the factors influencing customers' intentions to use full-fledged Islamic banks in Ethiopia. To achieve this aim, the study adopted a sequential explanatory mixed-methods design. A sequential explanatory mixed-methods design was employed. Quantitative data were collected through a Likert-scale questionnaire administered to 393 bank customers and analyzed using the least squares method in SPSS (version 25). To complement this, 20 semi-structured interviews were conducted with purposively selected customers to capture deeper insights. The results show that awareness, relative advantage, and trust significantly and positively determine customers' intention to use Islamic banks. Conversely, social influence does not exert a significant effect. Additional barriers to continuous usage include limited Sharia compliance clarity, insufficient product transparency, inadequate consumer education, geographic constraints, and the lack of digital services. To enhance the adoption of Islamic banking in Ethiopia, banks should prioritize public awareness campaigns and collaborate with religious and community organizations to bridge the knowledge gap on Islamic banking principles. Expanding accessibility through both physical branches and digital banking platforms will address accessibility barriers, especially for customers in rural areas. Additionally, fostering trust through transparency, ethical practices, and clear communication about Sharia compliance will encourage long-term customer engagement and loyalty.

Keywords: Islamic bank, customer intention, awareness, Sharia, and Ethiopia

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Introduction

Islamic finance, rooted in Sharia principles, has evolved from a niche practice into a globally recognized pillar of the financial system. It emphasizes risk-sharing, ethical investment, and the prohibition of riba (interest), thereby positioning itself as part of the broader movement toward ethical and sustainable finance (Ahmad, Zafar, and Perveen 2024; Hamadou, Hamidi, and Yumna 2024). Over the past two decades, Islamic finance has demonstrated remarkable resilience even during global financial crises, and its ability to attract both Muslim and non-Muslim customers underscores its relevance beyond purely religious boundaries (Jawaid et al. 2023). The global Islamic finance industry was valued at approximately USD 6 trillion in 2024, with projections to reach USD 9.7 trillion by 2029, of which Islamic banks account for over 72% (LSEG 2025). This growth is most pronounced in the Middle East, Southeast Asia, and selected African markets, where supportive legal frameworks and rising demand have facilitated the introduction of diverse Sharia-compliant financial products (Irfany et al. 2024).

Africa represents an emerging frontier for Islamic finance. While North African countries such as Sudan and Egypt have a longer history with Islamic banking, Sub-Saharan Africa has only recently begun to embrace the system. Islamic finance is increasingly seen as a tool for advancing financial inclusion by serving populations excluded from conventional banking systems due to religious or ethical concerns (Ibrahim, Hussein, and Kulmie 2024). Moreover, given the continent's development priorities, Islamic finance is being positioned as a potential catalyst for infrastructure financing, small- and medium-sized enterprise (SME) growth, and poverty alleviation (Youssouf and Mostafa 2024).

Within this broader context, Ethiopia provides a compelling and underexplored case. Despite a significant Muslim population, estimated at 34.6% of the total, Islamic banking was legally absent until 2008, when the National Bank of Ethiopia (NBE) allowed conventional banks to operate Islamic "windows." This represented a cautious step that provided limited access to Sharia-compliant products. A more transformative shift occurred in 2019, when the NBE authorized full-fledged Islamic banks, four of which, Zamzam, Hijira, Shebelle, and Rammis bank are now operational (NBE 2024). This milestone represents more than a regulatory adjustment: it reflects a strategic recognition of untapped market potential and the need to align Ethiopia's financial architecture with the diverse demands of its population. Yet, significant barriers persist. Regulatory restrictions, such as the 10% cap on equity-based financing, hinder the ability of Islamic banks to deploy core profit-and-loss sharing instruments (mudarabah, musharakah), while demand-side constraints, including low levels of financial literacy and product awareness, remain pressing challenges (H. Amin et al. 2011; Habib 2022; NBE 2015).

Despite the recent expansion of Islamic banking in Ethiopia, scholarly inquiry remains underdeveloped. Previous studies have largely focused on Islamic banking windows within conventional banks (Debebe 2015; Gebregiorgies 2022; Habib 2022; Seid 2021). While informative, these works suffer from three limitations: (i) they examine a transitional form of Islamic finance rather than independent full-fledged banks; (ii) they are geographically narrow, often confined to Addis Ababa or other limited settings; and (iii) they rely primarily on descriptive approaches with minimal theoretical grounding in consumer behavior frameworks. Consequently, there is an incomplete understanding of behavioral and perceptual factors influencing customer intentions in Ethiopia's evolving Islamic banking landscape.

This lack of theory-informed, context-specific research leaves regulators, policymakers, and financial institutions without the evidence base required to design effective strategies for Islamic banking adoption. Window-based evidence does not reflect the competitive realities faced by fully operational Islamic banks, which require customers to actively switch from conventional institutions. Without a clear understanding of customer intentions and their determinants, the sector risks stagnation, underutilization, and regulatory misalignment. Addressing this issue requires not only empirical data but also the application of established concepts from consumer behavior theory, including awareness, relative advantage, social influence, and trust (Azizon et al. 2024; Hassan and Abbas 2020; Mohd Thas Thaker et al. 2019; Mustapha et al. 2023).

Amid this background, the present study examines the factors influencing customers' intentions to adopt full-fledged Islamic banks in Ethiopia, focusing specifically on Dire Dawa, where demand for Islamic financial services is growing. The contribution of this study is threefold. First, it is one of the earliest theory-driven and comprehensive analyses of customer adoption of full-fledged Islamic banks in Ethiopia, addressing a significant gap in the literature. Second, it introduces a comparative aspect, contrasting insights on full-fledged institutions with previous findings on Islamic windows to highlight differences in customer behavior. Third, it offers practical implications by providing evidence-based insights for regulators, policymakers, and practitioners aiming to promote financial inclusion, improve consumer confidence, and support the growth of a strong Islamic finance ecosystem in Ethiopia.

The remainder of this paper proceeds as follows: Section 2 reviews relevant theoretical and empirical literature; Section 3 outlines the methodology and data collection; Section 4 presents results; Section 5 discusses findings and implications in light of prior research; and Section 6 concludes with recommendations for policy, practice, and future research.

Review of Theoretical Literature

Islamic banking, also known as participation banking, is a financial system that operates according to Sharia principles and Islamic economics (Sonko 2020). Islamic banks aim to integrate Islamic ethical values into financial intermediation and promote permissible and socially responsible business initiatives (Boubker, Douayri, and Ouajdouni 2021). The Islamic finance sector has experienced substantial growth, with assets increasing by 9.4% in 2022 and projected overall growth of over 10% in 2023–2024. While the Gulf Cooperation Council (GCC) nations remain the primary drivers of this expansion, non-Muslim-majority countries such as the United Kingdom, Luxembourg, South Africa, and Hong Kong have also shown increasing interest in Islamic finance (Ezeh and Nkamnebe 2022). In several Muslim-majority countries, Islamic banking assets are expanding faster than conventional banking assets.

Islamic banking (IB) is grounded in Sharia law, which emphasizes justice, fairness, and ethical financial practices (P. C. P. C. Ezeh and Nkamnebe 2021). Central to IB is the prohibition of riba (interest), requiring profits to be derived from tangible economic activities rather than money lending. Instead, IB relies on profit-and-loss sharing (PLS), where financiers and entrepreneurs share risks, fostering equitable trade and aligning with Islamic values of fairness and social justice (Ezeh and Nkamnebe 2018). IB also prohibits gharar (excessive uncertainty) and maisir (unethical activities like bribery and gambling), ensuring transparency and eliminating practices that could harm fairness and social welfare. All financial transactions must be linked to real assets, protecting consumers from exploitation (P. C. P. C. Ezeh and Nkamnebe 2021).

Islamic banking differs from conventional banking in key areas. Unlike conventional banks that primarily profit from interest, Islamic banks generate income through profit-loss-sharing arrangements. Operating within a Sharia-based legal framework, IB emphasizes ethical objectives alongside financial goals. Its innovative products such as Mudarabah (capital partnership), Musharakah (joint ventures), and Murabaha (cost-plus financing) adhere to Islamic principles while promoting social welfare and financial inclusion, positioning IB as a vital alternative in the global financial landscape (Mbawuni and Nimako 2017).

Theoretical Foundation

The Theory of Reasoned Action (TRA) explains how a person's intention to perform a behavior is influenced by two key factors: attitude toward the behavior and the subjective norms. This relationship is summarized can be expressed as Behavioral Intention (BI) = Attitude (A) + Subjective Norm (SN). TRA posits that behavioral intention is the most immediate predictor of actual behavior, with a positive attitude toward the behavior and favorable beliefs about its outcomes increasing the likelihood of forming an intention to act (Ezeh and Nkamnebe 2020; Kaakeh, Hassan, and Van Hemmen Almazor 2019; Maryam, Mehmood, and Khaliq 2019). Subjective norm reflects perceived social pressures from significant others, such as family or colleagues, that shape behavioral choices.

Applying TRA to the context of Islamic banking helps explain how beliefs, attitudes, and subjective norms shape customers' intentions to adopt Sharia-compliant financial services, particularly in markets where such services remain underdeveloped. This framework posits that awareness, trust, and perceived benefits influence customers' attitudes toward Islamic banking. TRA emphasizes that an individual's attitude, shaped by awareness, trust, and perceived benefits, influences intentions. For instance, customers who view Islamic banking as more ethical or beneficial are likely to have positive attitudes. Subjective norms, such as community support for Islamic banking, also shape intentions, with individuals more inclined to adopt services if their social circle approves. Moreover, TRA asserts that behavioral intention predicts actual behavior, suggesting that understanding customer intentions can help forecast adoption rates and behaviors in the Ethiopian market. This theoretical lens thus provides a robust foundation for predicting consumer behavior toward Islamic banking services (Kaakeh et al. 2019; Sadia, Hina, and Shehla 2021).

The History and Current Status of Islamic Banking in Ethiopia

Islamic banking in Ethiopia has evolved through persistent community advocacy and gradual regulatory transformation. Efforts to establish Islamic financial institutions (IFIs) began with advocacy from the Ethiopian Muslim community, which formally petitioned the government in 2007 for permission to establish Islamic banks (Gebregiorgies 2022). In 2008, Proclamation No. 592/2008 incorporated interest-free financing into Ethiopia's financial system, granting the Central Bank authority to supervise banking operations involving non-interest-bearing deposits. In 2010, Zamzam Bank initiated the sale of shares to establish a full-fledged Islamic bank, successfully raising capital nearly double the required amount (Gebregiorgies 2022; Hailu and Bushera 2020).

However, these efforts faced significant regulatory setbacks. In 2011, the NBE issued a directive restricting interest-free services to conventional banks, allowing them to offer such services only through dedicated "Islamic windows" rather than independent full-fledged Islamic banks (Hailu and Tekdogan 2023). Despite this limitation, Oramia International Bank became the first to offer interest-free banking services at the window level, and soon, most private and commercial banks followed suit. A major breakthrough occurred in 2019, when the NBE issued Proclamation No. 1159/2019, which allowed the establishment of full-fledged Islamic banks (Hailu and Tekdogan 2023; Legass and Durmuş 2024). As a result, four banks Hijra Bank, Zamzam Bank, Rammis Bank, and Shebelle Bank, are now fully operational, collectively holding over 3.5 billion Birr (63.9 Million USD) in capital as of 2023 (NBE 2024)..

The Development Strategy for Islamic Banking in Ethiopia requires a comprehensive and coordinated strategy that addresses both supply-side and demand-side constraints. The strategy focuses on establishing a clear vision for the industry, enhancing the brand image to resonate with universal values, conducting in-depth market analysis to effectively cater to diverse customer segments, and developing innovative products that align with Islamic principles. It emphasizes service improvement through the development of skilled human resources and the use of advanced technology, ensuring both customer satisfaction and adherence to Sharia compliance. The strategy is implemented in several critical phases, starting with the establishment of a new vision for Islamic banking. It includes initiatives to improve brand image, refine market segmentation, diversify banking products, enhance service quality, and promote public awareness and education. One of the key aspects of this approach is customer segmentation, which identifies different categories of Islamic banking clients: Pure Sharia Customers, Participatory Customers, Benefit-driven Customers, Obligatory Customers, and Pure Conventional Customers. This segmentation allows for tailored strategies aimed at attracting and retaining customers with varied motivations, ensuring a more customer-centric and inclusive banking system (Hailu and Gambia 2021; NBE 2021).

Despite the growing presence of Islamic banking in Ethiopia, several limitations in digital services hinder adoption and financial inclusion. The regulatory framework largely mirrors conventional banking laws, lacking provisions for Sharia-compliant digital products, which can reduce operational efficiency and customer trust. Underdeveloped digital infrastructure, low internet penetration, and unreliable mobile connectivity, especially in rural areas, limit access to digital banking. Low digital literacy and financial awareness further constrain adoption, while skepticism regarding Sharia compliance and transparency reduces trust. Accessibility barriers, particularly for women and marginalized communities, and a limited range of innovative products, also restrict growth. Addressing these challenges requires regulatory support, digital infrastructure investment, financial literacy programs, trust-building initiatives, and customer-centric innovations to promote inclusive and sustainable Islamic banking (Legass, Mekonnen, and Yusuf 2025).

Empirical Literature

Previous studies have examined different factors affecting customers' intention to use Islamic banks in different parts of the world. Key determinants include religious sentiment, perceived relative advantage, trust, compatibility, group opinion, awareness, and facilitating conditions, which are crucial in shaping consumers' use of interest-free banking products and services. Additionally, service quality attributes, such as staff courtesy, compliance with Islamic law, responsiveness to service issues, switching costs, perceived risks, physical appearance, ATM accessibility, internet banking availability, branch location, reliability, and service charges, have been identified as significant drivers of customers' decisions to engage with Islamic banks (Hanudin Amin et al. 2011; Amin, Abdul-Rahman, and Abdul-Razak 2013; Boubker et al. 2021; Getachew 2018; Janah, Medias, and Pratiwi 2020; Kishada and Wahab 2013; Saeed et al. 2014; Saiti, Ardo, and Yumusak 2019; Suryani and Chaniago 2009).

Several empirical studies have consistently highlighted trust, religiosity, and awareness as the primary determinants of Islamic banking adoption. Ezeh & Nkamnebe, (2021) and Mahdzan et al., (2024) found that trust in Islamic banks, alongside religious motivation, significantly affects customers' decisions. Ezeh & Nkamnebe, (2020), Hoque et al., (2022), and Kamiyama & Kashiwagi, (2019) all highlight that Islamic ethics and awareness of Islamic banking products are fundamental in shaping customers' choices, particularly in pluralistic societies. In terms of attitudes and social influences, Lajuni et al., (2017), Alzadjal et al., (2022), and

Hamadou et al., (2024) demonstrated that attitude and subjective norms have a significant impact on the intention to adopt Islamic banking, although the influence of subjective norms can vary across contexts. Product features and service quality were found to play a substantial role in customers' decisions, as evidenced by Awan & Bukhari, (2011) and Nugraheni & Widyani, (2021), who emphasized that customers prioritize product characteristics and service quality over religious beliefs in selecting a bank. The importance of Sharia compliance and bank reputation was highlighted by Kaakeh et al., (2019) and Kamiyama & Kashiwagi, (2019), who noted that customers are more likely to engage with banks that they perceive as compliant with Islamic law and have a positive reputation. Studies like those of Dean et al., (2022), Junaidi et al., (2023), and Nugraheni & Widyani, (2021) further emphasize that brand image and trust are crucial factors that affect customer engagement, with social media influencers also playing a significant role in shaping perceptions, particularly among younger generations. Government support, financial literacy, and facilitating conditions were found to be important in fostering Islamic banking adoption, as shown by Ezeh & Nkamnebe, (2021), Mahdzan et al., (2024), and Hamadou et al., (2024), who underscored that a favorable regulatory environment and increased financial literacy can promote the use of Islamic banking services. Additionally, profit-sharing rates and economic motives were found to influence customer decisions, as seen in the work of Mahdzan et al., (2024) and Hati et al., (2020), although economic factors were found to discourage adoption in some cases. Finally, religiosity was found to significantly impact decision-making, with Ahmad et al., (2024) and Alzadjal et al., (2022) indicating that religiosity positively affects consumer choices, often mediated by factors such as brand image and materialism.

Recent empirical studies has also expanded to include Islamic and conventional FinTech adoption, offering nuanced insights into consumer behavior across diverse contexts. Idrees & Ullah (2024), revealed that in Pakistan, education moderates the link between performance expectancy and intention to adopt FinTech, with notable differences between Islamic and conventional banking users. In Malaysia, Alsmadi et al. (2024), applied the Theory of Planned Behavior to Islamic FinTech, emphasizing the roles of attitude, norms, and control in crowdfunding and P2P lending. Similarly, Shaiku (2025) found that trust, awareness, and perceived benefits significantly shaped adoption of interest-free banking in Ethiopia, while risk had minimal influence. Complementing this, Mahdzan et al. (2024), and Michael & Osaretin (2023) demonstrated that religiosity, social influence, and cultural norms strongly predict Islamic banking adoption in Africa and Nigeria, respectively.

Studies by Alzadjal et al. (2022) and Yi et al. (2024) highlighted awareness and perceived benefits as consistent drivers of adoption in emerging markets, whereas Legass, Mekonnen, and Yusuf (2025) further confirmed that digitalization enhances customer satisfaction through improved compliance, reliability, and service quality in Ethiopia. Post-COVID-19 research, including Uford & Mfon (2023) and Aladwani, (2024), further revealed the pandemic accelerated digital adoption in Islamic and conventional banking, reshaping expectations around accessibility, transparency, and service quality. Collectively, these findings underscore the centrality of awareness, religiosity, perceived benefits, and digital transformation in shaping consumer adoption and satisfaction within Islamic and conventional FinTech landscapes.

Previous Studies in the Context of Ethiopia and Research Gap

In the Ethiopian context, empirical research on Islamic banking adoption remains limited but is gradually expanding. Seid (2021) identified customer awareness, perceived risk, and religious belief as statistically significant determinants of the intention to use interest-free banking, while perceived financial cost showed an insignificant effect. Habib (2022) found that relative advantage and compatibility have a significant positive impact on the attitude toward interest-free banking products and services in commercial banks in Ethiopia. Similarly, the complexity of Islamic banking products has no obvious influence on attitude, whereas perceived trust and customer awareness have a negative influence on attitude. Similarly, Gebregiorgies (2022), revealed that relative advantage, complexity, awareness, and compatibility have a positive relationship and statistically significant correlation with customers' intentions. Contrary to the Gebregiorgies (2022), Perceived risk has a significant negative relation to customers' intentions. According to Debebe, (2015) revealed that customers' intentions to use interest-free banks are positively and significantly influenced by attitude, subjective norms, and perceived behavioral control. However, media exposure was found to have a negative effect on subjective norms, and complexity insignificantly determines attitude. Moreover, facilitating conditions were shown to negatively affect perceived behavioral control, indicating the existence of structural barriers that limit the usability and accessibility of Islamic banking services.

Hypothesis Development and Conceptual Framework

The conceptual framework of this study includes four major independent variables: awareness, relative advantage, social influence, and trust, aimed at explaining customers' intentions to use Islamic banks.

Awareness is among the key determinants influencing customers' intention to use Islamic banks. When customers possess adequate knowledge and understanding of Islamic banking principles, products, and services, it positively influences their intentions to use Islamic banks. Awareness enables customers to assess the relevance of Islamic banking to their financial goals and religious beliefs, which in turn enhances their intention to choose Islamic banks. Additionally, familiarity with Islamic banks' reputation, credibility, and ethical conduct fosters confidence and trust, thereby enhancing customers' adoption intentions. Customers who are aware of both the benefits and risks associated with Islamic banking are more likely to make informed decisions, which contributes to increased adoption (Akhtar et al. 2016; Ezeh and Nkamnebe 2018; Kaakeh et al. 2019; Pratiwi, Affandy, and Karman 2020; Reza Jalilvand, Shahin, and Nasrolahi Vosta 2014; Seid 2021).

Customers' knowledge and comprehension of Islamic banks, including their guiding principles, offerings, and methods of operation, is referred to as awareness. A greater degree of knowledge implies that customers are well-informed about Islamic banks, which may have a favorable effect on their decision to utilize them.

H1: Awareness of customers has a positive significant impact on customers' intention to use Islamic Banks.

Relative advantage refers to the perceived superiority or benefits of using Islamic banks compared to conventional banks (Everett 1983; Flight, D'Souza, and Allaway 2011; Matiwos 2019). It includes aspects of the innovation that offer financial gain, ease of use, savings of time and effort, low initial expenses, social standing, and other possible advantages for the customer. Relative advantage is a strong predictor of the rate at which innovations are adopted, according to several studies (Brown et al. 2003; Tung, Chang, and Chou 2008). Relative advantage is perceived by adopters in terms of financial gains, expenses, and social standing advancements. Time and effort, discomfort reduction, economic profitability, and other factors are sub-dimensions of relative advantage (Echchabi and Aziz 2012; Gebregiorgies 2022).

The concept of relative advantage pertains to the alleged advantages of utilizing Islamic banks in contrast to traditional banks. This covers elements such as revenues from halal sources, Sharia-compliant merchandise, and moral congruence. Customers are more likely to want to utilize Islamic banks if they believe they provide more advantages (Ezeh and Nkamnebe 2018, 2020).

H2: Relative advantage has a positive significant impact on customers' intention to use Islamic Banks.

Social influence or subjective norms have been extensively studied in relation to the adoption of Islamic banking products (Amin et al., 2011). Research by Amin et al., (2009); Kamiyama & Kashiwagi, (2019) and Taib et al., (2008) has shown that subjective norms play a significant role in motivating the usage of banking products. Individuals tend to conform to social norms even if they differ from their personal preferences, particularly when faced with strong social pressure (Venkatesh and Davis 2000). Furthermore, the intention to use Islamic banking products is influenced significantly by the opinions of Ulamak (the panel of chief religious leaders), Sharia board members, family members, and peers (Taib et al. 2008).

When analyzing customers' intention to use Islamic banks, social influence takes into account the effects of social networks and cultural norms. Family, friends, and neighbours who support or utilize Islamic financial services can also have an impact in this way. Customers' opinions and intentions about Islamic banks are influenced by societal and cultural variables as well (Ezeh and Nkamnebe 2020).

H3: Social influence has a significant impact on customers' intention to use Islamic Banks.

Trust reflects an individual's willingness to place reliance on a financial institution based on its perceived integrity, competence, and ethical behavior (Mayer, Davis, and Schoorman 1995). Numerous studies have consistently identified trust as a crucial predictor that positively influences the adoption of various innovations, products, and services and their use by customers. Service providers should recognize the significance of trust, as customers are likely to be hesitant to use services if they do not feel a sense of security (Bomil Suh 2002; Debebe 2015; Gefen 2000).

Trust is a critical factor in gauging customers' faith and dependability in Islamic banks. The reputation of the bank, moral conduct, openness, and employee skills are all included. Positivity toward using Islamic banks is correlated with higher levels of trust.

H4: Trust has a positive significant impact on customers' intention to use Islamic Banks.

The conceptual framework of this study posits that customers' intention to use Islamic banks is jointly influenced by awareness, perceived relative advantage, social influence, and trust. Increases in these factors are expected to lead to greater intention to adopt Islamic banking services. Understanding these relationships can assist policymakers and practitioners in developing targeted marketing and regulatory strategies to enhance Islamic banking participation and financial inclusion.

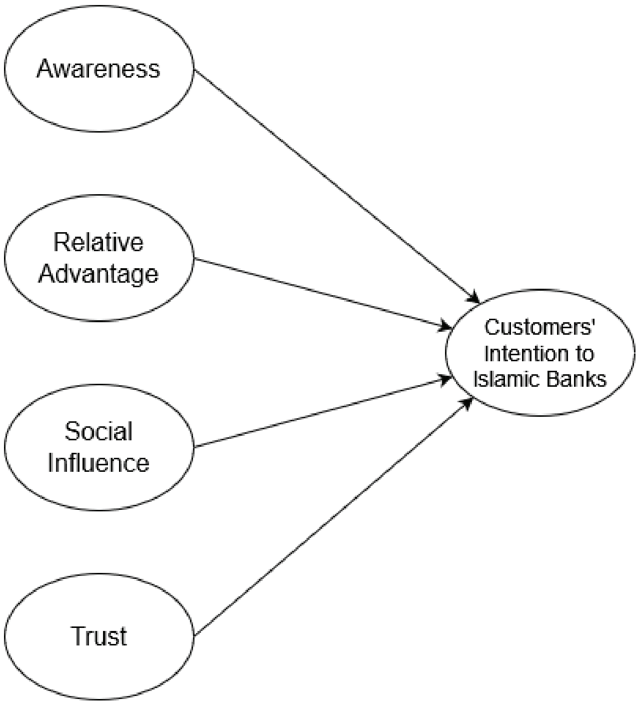

Figure 1: Conceptual framework

Note: Author's own illustration based on the literature review (2025).

Methodology

This study adopted a sequential explanatory mixed-methods design, integrating quantitative and qualitative approaches to comprehensively examine the factors influencing customers' intentions to use Islamic banking services in Ethiopia. Given that Islamic banking is a relatively nascent phenomenon in the country, combined with a highly diverse and geographically varied population, a singular methodology would have offered only a partial perspective. Consequently, the quantitative phase was first executed to establish statistical generalizability and empirically test the hypothesized relationships between constructs and customer intention, thereby capturing the necessary breadth of perspective. Subsequently, the qualitative phase was crucial in providing the requisite depth and contextual richness. This qualitative component enabled participants to articulate the underlying rationales for adoption or hesitation, particularly concerning non-quantifiable issues, which extended beyond the predefined scope of the survey instrument. By triangulating the statistically verified patterns with rich narrative data, this integrated approach significantly enhances the internal validity and practical relevance of the findings, ensuring the derived conclusions are reliably grounded in both empirical evidence and the lived experiences of Ethiopian banking customers.

Quantitative Strand

The structured questionnaire was designed to measure the four independent variables (awareness, relative advantage, social influence, and trust) and the dependent variable (customer intention). Items were adapted from previously validated scales in Islamic banking and consumer behavior research, including Amin et al. (2011b), Debebe (2015), Kaakeh et al. (2019), Kas (2023), Harahap et al. (2023), Hoque et al. (2022), and Lajuni et al. (2017). Minor modifications in wording were made to reflect the Ethiopian context. In total, the questionnaire consisted of 20 items (6 items each for Awareness and Relative Advantage, 3 items each for Trust and Social Influence, and 2 items for Customer Intention). All items were measured on a five-point Likert scale, ranging from 1 ("strongly disagree") to 5 ("strongly agree"), which is widely applied in behavioral intention studies. To ensure content validity, the initial questionnaire was reviewed by three academic experts specializing in Islamic finance and survey methodology. Based on their feedback, minor adjustments were made to improve clarity and alignment with the study objectives. Following this, a pilot test was conducted with 30 customers of Islamic banks in Dire Dawa, which helped identify ambiguous wording and response difficulties. As a result, two items were simplified for easier comprehension. The final version of the questionnaire was prepared in both English and Amharic to accommodate participants' language preferences and minimize misunderstanding. The instrument was administered in person at branch offices of four full-fledged Islamic banks in Dire Dawa, with the assistance of trained enumerators. Participation was voluntary, confidentiality was assured, and the average completion time was approximately 10 minutes.

The study sample consisted of 400 customers from four full-fledged Islamic banks operating in Dire Dawa city, using purposive (convenience) sampling. Purposive sampling was chosen to target individuals with direct experience and knowledge of Islamic banking services. Although this method may limit statistical generalizability, this limitation was mitigated by distributing the sample evenly across all four banks (100 respondents per bank), capturing diverse perspectives, and enhancing robustness. Of the 400 questionnaires returned, 393 were completed correctly and were suitable for analysis. To minimize potential response bias, participants were assured of anonymity and confidentiality. Questions were phrased neutrally, and translation into Amharic reduced comprehension-related biases. Dire Dawa was selected as the study area because it is one of the most ethnically and religiously diverse cities in Ethiopia, with a significant Muslim population and access to all four full-fledged Islamic banks. This diversity provides a microcosm of Ethiopia's broader demographic and socioeconomic landscape, making it an appropriate setting for studying customer intentions toward Islamic banking. The sample was evenly distributed across all four banks and included respondents with varying ages, education, and income levels, ensuring coverage of diverse customer segments. This carefully designed sampling approach enhances the representativeness of the data, allowing the findings to be considered broadly generalizable to other urban centers in Ethiopia where Islamic banking services are available.

Qualitative Strand

In addition to the questionnaire, 20 semi-structured interviews were conducted with some customers to explore their perspectives on topics not fully addressed by the predefined variables. This method allowed for flexibility, as the interviewer followed a set of predetermined questions but also probed deeper based on participants' responses, enabling a more nuanced understanding of their views. The insights gathered from these interviews were analyzed alongside the quantitative data from the questionnaire to provide a comprehensive view of customers towards the use of Islamic banking.

Interviews were conducted with five customers from Hijra Bank, five from Zamzam Bank, five from Shebelle Bank, and five from Ramiis Bank. Among these customers, 16 are males and 4 are females. Their ages range from 40 to 55. Participants were purposively selected based on their extensive Islamic banking experience, from Islamic window service in conventional bank to full Islamic banking services, since the inauguration of window service in the country. A purposive sampling strategy was used to ensure variation in age, gender, educational background, and banking experience, capturing diverse perspectives. Interviews were conducted face-to-face at bank branches. Each interview lasted about 20–25 minutes and was conducted in Amharic and Afaan Oromo, depending on the participant's preference. Before each interview, participants were briefed on the study's purpose and provided informed consent. With permission, interviews were audio-recorded and transcribed into English to ensure accuracy and facilitate analysis. The interview guide included open-ended questions focusing on perceptions of Sharia compliance, trust in Islamic banks, awareness of services, accessibility challenges, and barriers to adoption. While guided by a structured framework, flexibility was maintained to explore emergent issues raised by participants..

Quantitative Results

Model Specification and Analysis

Table 1 presents the frequency and percentage distribution of the demographic data of the participants. According to the results, most of the participants were male (62.1%) and between the ages of 31 and 45 (47.1%). In addition, about half of the participants (46.1%) have a bachelor's or higher degree. About 42% of the participants work in the public sector and about 68.7% have an income of Birr 20,000 or less.

Table 1

Demographic information of respondents

		Frequency	%
Gender	Male	244	62.1
	Female	149	37.9
Age	Below 30	53	13.5
	31 – 45	185	47.1
	46 – 60	95	24.2
	Above 60	60	15.3
Education	Primary School	14	3.6
	High School	106	27
	Diploma	92	23.4
	BA Degree	85	21.6
	Masters	85	21.6
	Above Masters	11	2.8

Occupation	Public Sector	165	42
	Private Sector	107	27.2
	Self Employed	121	30.8
Income Level	Below Birr 10,000	111	28.2
	Birr 10,001 - 20,000	159	40.5
	Birr 20,001 – 30,000	68	17.3
	Birr 30,001 – 40,000	31	7.9
	Above Birr 40,000	24	6.1

Note: Author's own computation based on survey data (2025).

Validity and Reliability Analysis

To examine the underlying factor structure of the scales used in the questionnaire, exploratory factor analysis (EFA) was conducted. EFA is essential for assessing the construct validity of a questionnaire developed by adapting items from multiple prior studies. Prior to performing the factor analysis, the suitability of the data was evaluated using the Kaiser–Meyer–Olkin (KMO) measure of sampling adequacy and Bartlett's Test of Sphericity. The KMO value of 0.876 and the statistically significant Bartlett's test result ($\chi^2 = 2736.715$, $p < 0.001$) indicate that the data were appropriate for factor analysis..

Table 2

Rotated component matrix

Variables	**1**	**2**	**3**	**4**
AWE5	0.797			
AWE4	0.796			
AWE6	0.708			
AWE2	0.678			
AWE1	0.624			
AWE3	0.619			
RADV5		0.724		
RADV2		0.692		
RADV3		0.684		
RADV4		0.682		
RADV6		0.638		

RADV1		0.638		
TR2			0.810	
TR1			0.783	
TR3			0.769	
SINF2				0.786
SINF1				0.768
SINF3				0.758

Note: Extraction method: Principal component analysis. Rotation method: Varimax with Kaiser normalization. Author's own computation based on survey data (2025).

Table 2 indicates that all items load positively and sufficiently on their respective factors, with factor loadings ranging from 0.619 to 0.810, demonstrating a strong association between the observed variables and their underlying constructs. Accordingly, all measurement scales were deemed to have satisfactory construct validity.

To assess reliability, Cronbach's alpha coefficients were calculated for each scale. As reported in Table 3, the coefficients range from 0.672 to 0.862, while the overall Cronbach's alpha for all items is 0.870. Following the criteria suggested by Hair et al. (2014), values above 0.6 indicate acceptable reliability and values between 0.8 and 1.0 reflect good reliability. Therefore, all scales employed in the study are considered reliable.

Table 3

Reliability test results for study variable

	Cronbach's Alpha
AWE	0.862
RADV	0.810
TR	0.796
SINF	0.672
Overall Cronbach Alpha	0.870

Note: Reliability was assessed using Cronbach's alpha. Author's own computation based on survey data (2025).

Regression Analysis

A multiple regression analysis was performed to examine the effects of the independent variables (AWE, RADV, TR, and SINF) on customers' intention to use Islamic banks (INT).[1] The results reveal a statistically significant overall model, as indicated by a high F-statistic ($F = 144.001$, $p < 0.001$). The model explains a substantial proportion of the variance in INT, with a coefficient of determination (R^2) of 0.598 and an adjusted R^2 of 0.593, indicating that approximately 60% of the variation in customers' intention to use Islamic banks is accounted for by the independent variables. This reflects a reasonably strong model fit.

Multicollinearity among the independent variables was also assessed. As reported in Table 4, tolerance values range from 0.584 to 0.996, while variance inflation factor (VIF) values range from 1.004 to 1.712. Since tolerance values below 0.20 and VIF values above 5 indicate potential multicollinearity concerns, the results suggest that multicollinearity is not a serious issue in the model. Accordingly, each predictor contributes distinct explanatory power without substantial redundancy.

Table 4

Test of multicollinearity

Variables	**Tolerance**	**VIF**
AWE	0.584	1.712
RADV	0.652	1.533
TR	0.710	1.408
SINF	0.996	1.004

Note: Author's own computation based on survey data (2025).

1 $INT = \beta0 + \beta1\ AWE + \beta2\ RADV + \beta3\ SINF + \beta4\ TR + \varepsilon$
Where:
INT = Customers' intention (Dependent variable)
$\beta0$ = Constant
$\beta1 - \beta4$ = Coefficient of independent variables
AWE = Awareness
SINF = Social Influence
RADV = Relative Advantage
TR = Trust
ε = Error term

Table 5 presents the results of the multiple regression analysis examining the effects of awareness (AWE), religious advertisement (RADV), trust (TR), and social influence (SINF) on customers' intention to use Islamic banks. The constant term is negative and statistically significant ($B = -1.220$, $p < 0.001$), indicating the baseline level of intention when all predictors are held at zero.

Among the independent variables, awareness (AWE) has a positive and statistically significant effect on intention ($B = 0.301$, $\beta = 0.233$, $t = 5.532$, $p < 0.001$), suggesting that higher awareness is associated with stronger intention to use Islamic banks. Religious advertisement (RADV) emerges as the strongest predictor, showing a positive and highly significant effect ($B = 0.631$, $\beta = 0.447$, $t = 11.198$, $p < 0.001$), indicating that exposure to and perceptions of religious advertising substantially increase customers' intention. Trust (TR) also has a positive and significant influence on intention ($B = 0.315$, $\beta = 0.253$, $t = 6.610$, $p < 0.001$), highlighting the importance of confidence in Islamic banks in shaping customers' behavioral intentions.

In contrast, social influence (SINF) does not have a statistically significant effect on intention ($B = 0.069$, $\beta = 0.044$, $t = 1.366$, $p = 0.173$), implying that social pressure or opinions from others do not meaningfully predict customers' intention to use Islamic banks in this model. Overall, the results indicate that awareness, religious advertising, and trust are significant determinants of customers' intention to use Islamic banks, with religious advertising exerting the strongest effect.

Table 5

Regression output

	Unstandardized Coefficients		Standardized Coefficients		
	B	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	-1.220	0.249		-4.901	0.000
AWE	0.301	0.054	0.233	5.532	0.000
RADV	0.631	0.056	0.447	11.198	0.000
TR	0.315	0.048	0.253	6.610	0.000
SINF	0.069	0.050	0.044	1.366	0.173

Note: Author's own computation based on survey data (2025).

Qualitative Results

Perceptions of Islamic Banking

Respondents' views reflect that full-fledged Islamic banking in Ethiopia shows promising development, although it is still in its early stages. Among the key factors influencing willingness to use it are trust in their ethical practices and alignment with religious values. If the banking products are genuinely Sharia-compliant and transparent, they would be open to using them. However, any ambiguity regarding the products, or limited awareness and understanding of Islamic banking principles could lead to hesitancy.

From the respondent's perspective, Islamic banking in Ethiopia is viewed as a developing yet promising sector. The respondent appreciates the ethical principles behind Islamic banking, particularly its focus on offering Sharia-compliant financial products. However, there's a clear indication that the lack of awareness and trust in these services remains a challenge. The respondents emphasize the importance of transparency and the need for banks to demonstrate their commitment to Sharia compliance. This highlights the educational gap and the necessity of building consumer confidence through clear communication and consistent practices. An interesting aspect to note is that geographical accessibility significantly influences respondents' willingness to engage with Islamic banks. The limited availability of Islamic banking branches, especially outside urban centers, emerges as a barrier to adoption. Consequently, location and convenience are critical factors. The role of digital banking and online platforms also appears as a potential solution, suggesting that digitalization could mitigate the geographical limitations in Ethiopia. Similar patterns have been observed in Uganda and Ghana, where trust and clarity in product offerings are decisive factors for adoption in emerging markets (Alzadjal et al., 2022).

Anticipated Challenges and Facilitating Factors

The biggest challenge customers anticipate is limited accessibility, both in terms of branch locations and digital banking options. If Islamic banking services are restricted to major cities, it would be inconvenient for people living outside urban areas. Additionally, unfamiliarity with the products and concerns about whether they are truly Sharia-compliant may discourage potential customers. To make it easier, Islamic banks should ensure a robust digital presence, including mobile apps and online services.

Respondents highlight that limited accessibility remains a barrier for customers outside major cities, whether due to branch location or digital tools. This finding is significant as it suggests that accessibility, whether physical or digital, remains a barrier for customers outside major cities. Additionally, the respondent mentions the lack of familiarity with Islamic banking products as a reason for hesitance, indicating that many potential customers might feel uncomfortable or unsure about the offerings. There is, however, a clear opportunity to address these concerns by focusing on digital banking solutions such as mobile apps, online banking, and effective customer support services. The respondent identifies these solutions as vital for improving convenience and reducing barriers to access. Thus, the study highlights a clear opportunity for Islamic banks to invest in customer education and digital platforms. Doing so would not only attract customers but also build long-term trust and engagement. Post-COVID shifts in consumer behavior indicate a growing reliance on digital banking platforms for convenience and safety, suggesting that investing in digital infrastructure could significantly enhance adoption (Aladwani 2024; Uford and Mfon 2023).

Expected Benefits of Islamic Banking

Most customers expect Islamic banking to offer benefits like profit-sharing on deposits rather than interest, which aligns with their religious beliefs. This structure feels more equitable and transparent to them. For financing, the idea of risk-sharing and ethical investment practices is highly appealing compared to conventional loans, which are based on interest rates and sometimes hidden fees. Islamic banking would provide more ethical options, and the risk-sharing aspect makes it fairer, especially since they won't be burdened with high-interest payments. While conventional banking may offer more immediate solutions, Islamic banking, with its transparency and fairness, seems like the better choice for them in the long run.

Respondent's view on Islamic banking highlights a strong preference for financial practices that are both ethical and aligned with religious principles. The profit-sharing model, rather than interest-based returns, aligns with their values by avoiding riba and promoting fairness. Ethical considerations appear to be a major factor influencing the choice of Islamic banking, consistent with findings from similar studies in regions where such banking is available. Regarding financing, the respondent emphasizes risk-sharing and equitable profit-and-loss distribution, contrasting with conventional banks that impose interest and repayment burdens on borrowers. Preference for transparent, asset-backed financing underscores a desire for security and fairness in transactions. These insights indicate that Islamic banking's ethical and transparent models could be a key differentiator in Ethiopia's competitive banking sector. Products that avoid interest and adhere to ethical principles are likely to attract customers, particularly in religiously conscious communities. Overall, respondents' perspective reflects a growing demand for financial solutions that combine religious compliance, fairness, and transparency, positioning Islamic banking as a socially and economically appealing alternative to conventional financial systems. Comparatively, studies in Nigeria and Kenya show that ethical and transparent financial products are increasingly preferred by consumers in emerging markets, particularly post-COVID, as trust and perceived fairness become stronger determinants of adoption (Shaiku 2025).

Discussion

Awareness and Intention of Customers

The multiple regression results indicate that customer awareness has a significant positive effect on customers' intention to use Islamic banks. This finding suggests that individuals with higher levels of awareness are more likely to express an intention to use Islamic banking services. In particular, awareness of the distinctive structure of Islamic banks and their Sharia-compliant products appears to strengthen usage intentions. These results are consistent with prior studies (Akhtar et al. 2016; Ezeh and Nkamnebe 2018; Habib 2022; Janah et al. 2020; Kaakeh et al. 2019; Reza Jalilvand et al. 2014; Seid 2021) all of which report a positive and significant relationship between awareness and intention to use Islamic banks. Moreover, evidence from African countries such as Nigeria and Kenya shows that awareness campaigns substantially increase the adoption of Islamic banking products, underscoring the broader importance of customer education in emerging markets (Uford and Mfon 2023). Accordingly, expanding the user base of Islamic banks requires systematic efforts to enhance potential customers' awareness, which can be achieved through collaborations with educational institutions, community organizations, and religious institutions to deliver workshops, seminars, and targeted awareness campaigns.

Relative Advantage and Intention of Customers

Relative advantage also significantly affects customers' intention to use Islamic banks. The advantages Islamic banks provide, such as proximity, easy implementation of religious obligations, high service quality, and understandable products, positively affect customers' intention to use Islamic banks. This finding is consistent with the study of (Echchabi and Aziz, 2012; Ezeh & Nkamnebe, 2022; Gebregiorgies, 2022; Habib, 2022), which assesses the effect of relative advantage on the intention of customers to use interest-free banks. Comparative studies in Ghana and Uganda similarly show that perceived benefits, including ethical investment practices and profit-sharing structures, significantly influence adoption intentions, emphasizing that relative advantage is a strong predictor across diverse African contexts. Therefore, Islamic banks should focus on elements that will give them a relative advantage over conventional banks, allowing them to reach more customers.

Trust and Intention of Customers

Another key factor identified through multiple regression analysis is trust, which has a positive and significant effect on customers' intention to use Islamic banks. This finding aligns with evidence from other African nations, including Kenya and Nigeria, where building trust is critical to overcoming skepticism and promoting the adoption of Islamic banking products (Legass et al. 2025; Michael and Osaretin 2023). The positive association between trust and the intention to use Islamic banks suggests that trust plays a critical role in shaping individuals' perceptions and decisions regarding their choice of financial institutions. Trust can be built through various factors, such as the reputation of Islamic banks, the transparency of their operations, the ethical values they uphold, and the track record of delivering on their promises. When individuals trust Islamic banks, they feel more comfortable and secure in entrusting their financial needs to these institutions. Trust lowers perceived risks and uncertainties associated with using Islamic banks, leading to a higher intention to engage with their services. The findings of these studies are consistent with previous research (Bomil Suh, 2002; Debebe, 2015; Ezeh & Nkamnebe, 2022; Gefen, 2000), but contrary to Habib (2022). He found the negative effect of trust on the intention of customers to use banking products. Islamic banks must establish trust by fostering an environment of transparency, ethical principles, good reputation, and consistent reliability.

Social Influence and Intention of Customers

The analysis indicates that social influence does not have a significant effect on customers' intention to use Islamic banks. Social influence, typically exerted through family, peers, or community opinions, may be less impactful in Ethiopia due to the novelty of Islamic banking and low overall awareness among potential customers. This finding aligns with studies in emerging African markets where social influence was weak or context-dependent (Ali & Athambawa, 2008; Pratiwi et al., 2020). However, it contrasts with prior research (Amin et al., 2011; Ezeh & Nkamnebe, 2022; Taib et al., 2008), which found a positive effect of social influence on Islamic banking adoption. The inconsistency may be explained by differences in market maturity, customer knowledge, and cultural contexts. In Ethiopia, individuals appear to rely more on personal assessments of trust, transparency, and Sharia compliance rather than external social pressures. These findings suggest that in nascent markets, awareness campaigns and customer education may be more effective than relying on social networks to drive adoption. Additionally, the non-significance of social influence in our study may be due to Ethiopia's early stage of Islamic banking development, where customers rely more on personal knowledge and values rather than peer recommendations.

Theoretical Implication

The positive influence of awareness, trust, and perceived relative advantage on customers' intentions in Ethiopian Islamic banking aligns closely with the Theory of Planned Behavior (TPB). Higher levels of awareness contribute to more favorable attitudes towards Islamic banking, trust in the ethical conduct of Islamic banks shapes subjective norms, and perceptions of relative advantage impact perceived behavioral control, all key components of the TPB. While social influence did not significantly affect intentions in this context, the theory's flexibility in accommodating individual beliefs and perceptions underscores the nuanced interplay between TPB constructs and contextual factors. Understanding these relationships can guide targeted interventions to enhance customer attitudes and intentions, aligning strategies with the theoretical underpinnings of the TPB for effective implementation and sustainable growth in the Ethiopian Islamic banking sector.

Conclusion

The findings from the multiple regression analysis indicate several significant factors influencing customers' intentions to use Islamic banks. Awareness, relative advantage, and trust play crucial roles in shaping individuals' intentions toward these banks. A higher level of awareness positively impacts the intention to use Islamic banks, demonstrating the importance of Islamic financial literacy. The results imply that the intention to use Islamic banking increases as the level of knowledge and awareness about Islamic banking principles and products increases. Therefore, Islamic banks should conduct advertising campaigns to promote their products to the public better. In addition, Islamic banks can introduce Islamic banking principles and products to religious groups by collaborating with the leaders of religious groups.

Additionally, the willingness to use Islamic banking is largely influenced by the clarity of Sharia compliance, product transparency, and the need for greater consumer education. Geographic limitations, especially the lack of branches and digital banking options in rural areas, are identified as key challenges, with accessibility playing a crucial role in adoption. However, the ethical aspects of Islamic banking, such as profit-sharing on deposits and risk-sharing in financing, align with respondents' religious values and offer a more equitable alternative to conventional interest-based banking.

Policy recommendation

To enhance the adoption and growth of Islamic banking in Ethiopia, banks should prioritize public education and awareness campaigns to bridge the knowledge gap about Islamic banking's principles and benefits, collaborating with community and religious organizations to reach a broader audience. Emphasizing the ethical and religious value proposition, particularly the profit-sharing and risk-sharing models, while maintaining transparency in operations, will help build trust among potential customers. Expanding physical branches and incorporating digital banking solutions, such as mobile apps and online platforms, will address accessibility barriers, especially in rural and underserved areas. Additionally, banks should develop a diverse range of products to cater to varying customer preferences, whether driven by religious beliefs, ethical considerations, or convenience, ensuring broad market appeal. Building long-term trust through ethical conduct, transparency, and consistent communication about Sharia compliance will further foster confidence in Islamic banks. By integrating both physical and digital services, Islamic banks can create a more inclusive, accessible, and customer-focused ecosystem, ultimately encouraging greater adoption and sustained engagement with their offerings.

Policymakers should support the growth of Islamic banking in Ethiopia by promoting financial literacy programs, particularly in rural areas, to increase awareness and trust in Sharia-compliant financial products. Incentives for digital infrastructure development, such as improving internet connectivity and mobile banking accessibility in underserved regions, can help overcome geographic barriers. Regulatory frameworks should also encourage innovation in Islamic banking products tailored to rural communities, ensuring inclusive access and fostering broader financial participation.

Limitations of the Study and Directions for Future Studies

The study is limited to Dire Dawa City and selected four variables that are considered to be the most influential on the intention to use Islamic banks. Future research could use more variables, select more study areas, and conduct cross-cultural analyses to understand variations across diverse populations. Moreover, they can explore hidden motivations behind customer attitudes using qualitative methods and look for socio–economic and cultural factors that affect individuals' intention. The impact of the rate of return on deposits and financing, products and services range, accessibility to banking, technology, perceived risks, and segmenting user bases on Islamic banking adoption can be addressed in future studies in detail. Comparing Islamic and conventional banking choices and applying behavioral economics principles can provide deeper insights into customer behaviors and preferences, contributing to a more comprehensive understanding of factors influencing the adoption of Islamic banking services.

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