

The intention to adopt Islamic financing in emerging economies: evidence from Uganda

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Abstract

Purpose – The purpose of this paper is to establish whether there is a relationship between religiosity, religious preferences, firm age and intention to adopt Islamic financing in an emerging economy like Uganda which is a secular state and adopting Islamic financing for the first time.

Design/methodology/approach – This study uses a cross-sectional and mixed-methods design. The authors administered closed-ended questionnaires and these were supplemented by semi-structured interviews.

Findings – Results indicate that religiosity is significantly associated with intention to adopt Islamic financing. Further, religious experience as a dimension of religiosity is significantly associated with intention to adopt Islamic financing unlike ideology. Religious preferences and firm age are also significantly associated with intention to adopt Islamic financing. A one-way analysis of variance (ANOVA) reveals that there are significant differences in between religions whereby Muslims are more ready for Islamic financing than the Christians are.

Research limitations/implications – This study's main limitation is that it uses evidence from Uganda's micro businesses which account for 70 per cent of Uganda's total businesses. It is unclear on whether this study results can be generalized to the remaining 30 per cent of the businesses and if results of this study can be generalized to other national settings.

Originality/value – Islamic financing being an emerging phenomenon on the African continent especially in the Sub-Saharan Africa where most countries are secular states, there are few empirical studies exploring religiosity, religious preferences, firm age and intention to adopt Islamic financing in an emerging economy perspective. To the best of the authors' knowledge, this is the first paper that provides some insights into religiosity, religious preference, firm age and intention to adopt Islamic financing from a Ugandan perspective using a mixed methods research design.

Keywords Islamic banking, Religiosity, Intention, Uganda, UTAUT model, Islamic financing, Firm age, Religious preference

Paper type Research paper



1. Introduction

The global financial crisis and other economic downturns demand for a stable banking sector where money is not a commodity but rather a medium of exchange and store of value.

This calls for Islamic financing where money is just a medium of exchange and not a commodity, and profit on trade of goods or charging on providing services is on the basis of earning profit and losses are shared between the financier and the recipient of finances. Islamic financing prohibits not only *riba* (usury) but also involvement in other activities such as speculation, liquor and gambling which are deemed unethical (Hanudin *et al.*, 2011). Whereas a number of studies have been carried out on Islamic banking and sometimes on Islamic financing, the current debate is on whether religiosity can have an influence on one's intention to patronize Islamic financing in secular states of emerging economies. Also, one may wonder whether firm age and religious preference can have an effect on intention to adopt Islamic financing given that several studies such as those of Bananuka *et al.* (2019), Lujja *et al.* (2016) among others have been conducted but in some countries such as Uganda, the uptake of Islamic financing has remained low. Hanudin *et al.* (2011) while studying the determinants of customers' intention to use Islamic personal financing found that religious obligation was not a predictor of customers' intention to use Islamic personal financing. Contrary, Kaawaase and Nalukwago (2017) found out that religiosity is important and matters in patronizing Islamic banking among existing bank customers in Uganda.

Several countries both developed and developing have adopted Islamic financing or banking. However, in some other countries such as Uganda, there is slow progress on the uptake of Islamic financing even though the legal framework for the operationalization of Islamic banking was finalized in 2018. It is surprising to note that other than Tropical Bank Uganda, no other bank was known to have applied for an Islamic Banking license as of June, 2018 (Bananuka *et al.*, 2019; Uganda Business News, 2018) and yet the Uganda's Financial Institutions' Act of 2004 was amended far back in 2016 to pave way for Islamic banking. Up to now (2019), Ugandans are still wondering why Islamic financing has not taken off. Literature suggests several explanations for adoption of Islamic financing or banking. For example, in their study of the determinants of intention to adopt Islamic banking using the case of Uganda, Bananuka *et al.* (2019) found that religiosity, attitude and subjective norm have a significant effect on Islamic banking. Bananuka *et al.* (2019) used a quantitative approach as opposed to this study's research design and also did not test the effects of religiosity dimensions (ideology and religious experience) on intention to adopt Islamic financing. Also, Kaawaase and Nalukwago (2017) found that religiosity is significantly associated with Islamic banking but used a questionnaire survey of existing conventional bank customers in Uganda. Also, Lujja *et al.* (2016) found that attitude and social norms are associated with Islamic banking. Bananuka *et al.* (2019) found that attitude mediates the relationship between religiosity and intention to adopt Islamic banking using evidence from Uganda.

Presently, it is quite confusing that Islamic Banking or financing has not gained momentum in Uganda when all the enabling laws are in place. Several studies have also been conducted and results are clear that attitude, religiosity and subjective norm are predictors of intention to adopt Islamic financing. However, there is a possibility that there are other reasons why Islamic financing has not taken off in Uganda. For this reason, we add on the existing studies our study results on the relationship between religiosity, religious preference, firm age and intention to adopt Islamic financing. There are arguments that firm age has an effect on the financing decisions of firms. For example, Al Balushi *et al.* (2019) argue that firms use different financing strategies at different stages of the growth cycle. In the same study, Al Balushi *et al.* (2019) found that firm age is not significantly associated with the decision to adopt Islamic finance. For religious preference, Muhammed *et al.* (2017), in their study in Malaysia on whether religion and service quality determine customers preference in selecting an Islamic bank, found that religion is a strong

determinant of customers' preference for an Islamic bank. Using a mixed method design (questionnaire survey and semi structured interview guide) on a sample of owner managed businesses with bank accounts and those without bank accounts, we report that religiosity, religious preference and firm age are significantly associated with intention to adopt Islamic financing in Uganda. We further report that religious experience as a dimension of religiosity is significantly associated with intention to adopt Islamic financing unlike ideology.

This study results contributes to the scant literature on the relationship between religiosity, firm age, religious preference and intention to adopt Islamic financing in a secular emerging economy. The study also, provides more insights on what is the current situation on the current practice of Islamic financing in Uganda. The study results alerts existing banks on the available opportunities to provide Islamic financing services to Ugandans. Existing conventional banks may use this study results to promote Islamic financing services and explore any other available Islamic financing investment opportunities. Other potential investors may also consider their investments in Uganda's financing sector. Government may encourage potential investors from elsewhere to invest in Uganda by offering incentives for investing in Islamic financing.

The rest of the paper is organized as follows. Section 2 is study setting and this is followed by literature review. In Section 3, the theory informing our study is discussed and a review of existing literature is done to arrive at the hypotheses. In Section 4, the research design is outlined, and results are presented in Section 5. Section 6 and 7 provide discussion of results followed by summary and conclusion.

2. Study setting

This study was conducted in Uganda. Uganda is an emerging economy located in East Africa in the Sub-Saharan Africa with a population of 34.6 million in 2014 where Catholics are the largest religious denomination constituting 39.3 per cent, Anglicans follow with 32 per cent and Muslims with 13.7 per cent. Together these denominations account for 85 per cent of the total population (UBOS, 2016). The remaining 15 per cent comprises born again Christians constituting 11 per cent, seventh day Adventists (1.7 per cent), other religions, and those with no religion constitute only 2.3 per cent of the total population. In the neighboring countries Kenya and Tanzania, Kenya Commercial Bank and Amana bank, respectively, have already started offering Islamic financing services unlike in Uganda where the law to permit Islamic banking was finalized in 2018 but since then, there has been slowing progress on the uptake of Islamic financing.

3. Literature review

3.1 Theoretical foundation

In this study, we use the unified theory of acceptance and use of technology (UTAUT) in explaining the relationship between religiosity, religious preferences, firm age and intention to adopt Islamic financing in emerging economies. The UTAUT was developed in 2003 after a thorough investigation of the theory of reasoned action (TRA) (Fishbein and Ajzen, 1975), theory of planned behaviour (TPB) (Ajzen, 1991), the technology acceptance model (TAM) (Davis, 1989), the Combined-TAM-TPB model (C-TAM-TPB) (Taylor and Todd, 1995), the motivational model (MM) (Davis *et al.*, 1992) and the innovation diffusion theory (IDT) (Rogers, 1995). The UTAUT model proposes that performance expectancy, effort expectancy, and social influence predict behavioral intention towards the adoption of a given product. The theory further proposes that facilitating conditions and behavioral intention predicts use behavior in the acceptance of a given technology. Whereas the TRA

and the TPB identify attitude, subjective norm, moral obligation and self-control, the UTAUT model identifies more factors like performance expectancy of a given product and effort expectancy to influence behavioral intention towards acceptance of a given product. The UTAUT model was developed by Venkatesh *et al.* (2003) and has so far proved robust in explaining consumer acceptance of a given product.

Both theories uphold social influence as a predictor of behavioral intention towards acceptance of a product. Managers of small businesses need to be sensitized about Islamic banking and religious leaders are very important in spreading information regarding Islamic financing. Religious leaders while talking to their followers may either support or oppose Islamic financing. However, according to UTAUT model, if an individual believes that using Islamic financing will help him or her to attain his or her business goals (performance expectancy) and if there is ease of use of Islamic financing products (effort expectancy), then such an individual may adopt Islamic financing products. For social influence which is not directly considered in this study, we consider that one's attachment to a specific religion may be as a result of those who surround him or her. For example, some people are Muslims are a result of associating with Muslims or are Christians as a result of associating with Christians. Those believers who are so much inclined to the teachings of either Christianity or Islam are likely to adopt those behaviors of their preachers. Depending on the commitment to religion (religiosity) one has, may determine whether he or she can adopt Islamic financing or not. So, this study uses the UTAUT model to explain that one's religious affiliation (preference) and one's commitment to the teachings of his or her religion (religiosity) has an effect on deciding whether to adopt Islamic financing or not. Firms that have been in existence for some time have established managers who become part of various networks and this makes them to access information on the available financing options including Islamic financing as compared to those newly formed firms.

3.2 The concept of Islamic financing and Islamic financing products

Islamic financing refers to the provision of financial services in accordance with Islamic teachings (*Shariah*) (Kammer *et al.*, 2015, p. 9). *Shari'ah* bans interest (Riba) or usury, products with excessive uncertainty (Gharar), gambling (Maysir), short sales, as well as financing of prohibited activities that it considers harmful to society. This is further evidenced by the following excerpt from the Quran in Surat Baqara verse 274:

Those who charge usury (riba'/interest) are in the same position as those controlled by the devil's influence. This is because they claim that usury is the same as commerce. However, God permits commerce and prohibits usury. Thus, whoever heeds this commandment from his Lord and refrains from usury, he may keep his past earnings and his judgment rests with God. As for those who persist in usury, they will incur Hell, wherein they abide forever.

"Usury", a term used in the Holy Bible (King James Version), to mean interest is also prohibited by God as can be found in Deut. 23 verse 19:

Thou shalt not lend upon usury to thy brother; usury of money, usury of victuals, usury of anything that is lent upon usury.

Islamic economic *shariah* also requires parties to honor principles of fair treatment and the sanctity of contracts. Transactions must be underpinned by real economic activities, and there must be sharing of risks in economic transactions (Sulaiman and Datin, 2013).

Islamic finance products are contract-based and may be classified into three broad categories (Hussain *et al.*, 2014): first, debt-like financing structured as sales, which could be sales with mark up and deferred payments (Murabahah) or purchases with deferred

delivery of the products (Salam for basic products and Istisna' for manufactured products) and lease (Ijarah) with different options to buy. Pure lending is allowed only when compassionate (Qard, which is often used for current deposits). Second, profit-and-loss-sharing (PLS)-like financing with two modalities:

- (1) Profit-sharing and loss-bearing (Mudarabah) whereby the financier provides capital and the beneficiary provides labor and skills (profits are shared, but losses would be borne by the financier who does not have the right to interfere in the management of the financed operation, unless negligence, misconduct, or breach of contract can be proven); and
- (2) Pure profit-and loss-sharing (Musharakah) where the two parties have equity-like financing of the project and would share profits and losses.

The other Islamic financing product is the provision of services such as safekeeping contracts (Wadi'ah) as for current deposits, or agency contracts (Wakalah), which are also increasingly used for money market transactions.

3.3 The relationship between religiosity and intention to adopt Islamic financing

Religiosity was defined by [Khayruzzaman \(2016\)](#) as the degree to which an individual uses or adheres to his or her religious values, beliefs, practices and uses them in daily living. Studies that link religiosity to Islamic financing are uncommon. Available scant studies have linked religiosity and Islamic banking adoption. For example, [Bananuka et al. \(2019\)](#) in their study of establishing whether attitude mediates the relationship between religiosity and intention to adopt Islamic banking found that religiosity is significantly associated with intention to adopt Islamic banking in Uganda. Further, [Kaawaase and Nalukwago \(2017\)](#) while investigating the relationship between religiosity and existing bank customers' propensity to patronize Islamic banking found that religiosity is significantly associated with customers' propensity to patronize Islamic banking in Uganda among existing bank account holders with the existing conventional banks. In another study, [Khayruzzaman \(2016\)](#) found that religiosity is one of the most important and pervasive forces to influence consumer behavior. Also, [Rehman and Shabbir \(2010\)](#) that religiosity had an impact on Muslim consumers' likes and dislikes and they consider buying products if the products do not violate or contradict their religious belief.

[Vitell and Paolillo \(2003\)](#) conclude that due to the fact that religiosity is a significant determinant of both idealism and relativism, it is indirectly a significant determinant of consumer ethical beliefs and practices. Further, [Bley and Kuehn \(2004\)](#) while examining conventional versus Islamic Finance found out that, the preference for Islamic banking is primarily driven by religious beliefs and not the financial knowledge that is, the stronger the religious commitment the greater the preference for Islamic banking services. In studying whether religiosity is an important factor in influencing the intention to undertake Islamic home financing in Klang valley, [Alam et al. \(2012\)](#) confirmed that religiosity level of customers play a significant role in influencing their intention. Although the above studies show that religiosity can influence intention to adopt Islamic banking, its effectiveness is yet to be proved as [Chen and Tang \(2012\)](#) studying the bright and dark sides of religiosity among university students found that religiosity was negatively related to unethical behavioral intentions. As [Haron and Azmi \(2008\)](#) argue that religious belief has a possibility of playing an important role in the banking decisions of Muslim customers in Malaysia, [Hanudin et al. \(2011\)](#) found that religiosity is not a significant predictor of intention to use Islamic personal financing in Malaysia. So, results on the relationship between religiosity and Islamic financing are mixed and this creates a research gap. In this study, we try to

confirm whether indeed there exists a significant relationship between religiosity and intention to adopt Islamic financing using evidence from Uganda. We also test whether the religiosity dimension of religious ideology and religious experience have an impact on intention to adopt Islamic financing. We therefore test the following hypotheses:

H1. Religiosity is associated with intention to adopt Islamic financing.

H1a. Ideology is positively associated with intention to adopt Islamic financing.

H1b. Religious experience is positively associated with intention to adopt Islamic financing.

3.4 Religious preferences and intention to adopt Islamic financing

There are minimal studies that link religious preferences and intention to adopt Islamic financing. The available few studies indicate that religious preference is associated with Islamic financing. For example, the qualitative results in the study of [Echchabi and Olaniyi \(2012\)](#) reveal that, the religious affiliation has much to do with the choice of bank that is selected. This means that, Muslims are likely to opt for Islamic banks than the non-Muslims because of the teachings of Islam. [Muhammed et al. \(2017\)](#), in their study in Malaysia on whether religion and service quality determine customers preference in selecting an Islamic bank, found that religion is a strong determinant of customers' preference for an Islamic bank. [Muhammed et al. \(2017\)](#) further argue that religion and customers' preference for Islamic banking services are strongly associated. Further, [Sayani and Miniaoui \(2013\)](#) found that religious preferences are the most considerations to selecting an Islamic Bank or conventional bank among bank customers in the United Arab Emirates. In this study, it is expected that religious preferences (i.e. whether a potential customer is a Muslim or Christian or any other) have an effect on the intention to adopt Islamic Financing. Given that previous scholars have documented a significant impact of religious preference on the intention to adopt Islamic financing, we test whether; it is the same case for Uganda and hypothesize that:

H2. Religious preference is positively associated with intention to adopt Islamic financing.

3.5 Firm age and intention to adopt Islamic financing

Existing empirical studies have not made it clear on whether firm age has an association with Islamic financing. Available studies tend to link firm age with leverage ([Zare et al., 2013](#)), dividend ratio ([Tamimi et al., 2014](#)) among others and not Islamic financing. However, there are arguments that the financing decisions of a firm largely depends on the business growth cycle stages ([Al Balushi et al., 2019](#)). [Al Balushi et al. \(2019\)](#) documents that small businesses depend heavily on internal financing sources as compared to those firms that have been in existence for quite some time. According to [La Rocca et al. \(2011\)](#), small businesses make their finance decisions based on firms' life cycle. It is a practice that for a business to obtain financing from a financial institution, the small business should have been in existence for some time and accumulated some assets. In terms of Islamic financing, small businesses seeking for Islamic financing services should have been in operation so that their performance shows a consistent trend. In other studies, [Zare et al. \(2013\)](#) found a positive relationship between firm age and financial leverage that is to say as the firm continues existing, it uses more debt to acquire additional assets (trading on equity) and this

implies that firms that have been in existence for long seek for more debt financing unlike those firms that are newly established. Similarly, in their study, [Tamimi et al. \(2014\)](#) found out a positive relationship between firm age and dividend ratio but a negative association between financial leverage and dividend ratio. Given the foregoing discussion, it can be hypothesized that:

H3. Firm age is positively associated with intention to adopt Islamic financing.

4. Methodology

4.1 *Research design, population and sample*

The study adopts a cross-sectional and mixed methods design to examine the relationship between religiosity and intention to adopt Islamic financing in emerging economies using evidence from Uganda – an African emerging economy. The use of mixed methods is recommended by [Creswell \(2014\)](#) for studies that use both the qualitative and quantitative research approaches. The study population was 272,848 owner managed businesses ([UBOS, 2011](#)) from which a sample size of 382 was determined based on Krejcie and Morgan Table 1970. We collected data from managers of their own micro businesses since micro businesses constitute 70 per cent of the total number of businesses in Uganda ([UBOS, 2011](#)). According to [UBOS \(2011\)](#), Microbusinesses are those with an annual turnover of less than Ugx. 5m, while Small businesses have an annual turnover of between Ugx. 5m to Ugx. 10m, medium-sized enterprises have an annual turnover of more than Ugx. 10m but less than 50 employees while large businesses are those with an annual turnover of more than Ugx. 10m and more than 50 employees.

Usable questionnaires were received from 258 respondents representing a response rate of 68 per cent. The male respondents were 123 (or about 48 per cent) and the female respondents were 135 (or about 52 per cent), and this means that in Uganda, the female are more into micro businesses compared to males. Majority of the respondents were aged 30 years and below representing 72 per cent of the respondents and only 28 per cent were aged above 30 years. The implication of such a finding is that in Uganda, the youth are more into micro businesses than other Ugandans are. The sources of funding for micro businesses are equity, debt and sometimes both; 50 per cent of the respondents use their own savings as compared to 12 per cent who use debt as a source of funding for a micro business. Respondents who use both debt and equity are 38 per cent. The fact that micro businesses require less capital, majority of the respondents (50 per cent) use equity as a source of finance. In terms of religious preference, Muslims were more anxious to respond to questionnaires than the Christians were. There were 131 (or about 51 per cent) Muslims who responded to the questionnaire as compared to 117 (or about 45 per cent) Christians. Other denominations accounted for only 4 per cent.

4.2 *Data collection procedure*

This study used a self-administered questionnaire and an interview guide for data collection. The questionnaires were hand delivered to managers of their own micro businesses to elicit voluntary participation. The survey was conducted between April and June 2017. Respondents were not required to disclose their names or any information that can be identified with a particular individual. The questionnaire also contained a statement that “the information supplied in this questionnaire will be treated with utmost confidentiality”. Therefore, respondents were assured of anonymity and confidentiality of the information supplied in the questionnaire.

4.3 Data collection instruments and measurement of variables

This study uses both a questionnaire survey and a semi structured interview guide. The questionnaire contains both closed and open-ended questions. The questionnaire is designed on a five-point Likert scale. This study used a questionnaire with close-ended questions because it aimed at calculating the mean ratings of the extent of agreement with the statements given. The questionnaire had three sections where section A was about respondents' background information, firm age and religious preferences, section B collected data on religiosity and section C collected data on intention to adopt Islamic financing. Questions in section B were designed on a five-point Likert scale ranging from strongly disagree (1) to neutral (3) and to strongly agree (5). Questions on intention to adopt Islamic financing were adopted from the works of [Kaabachi and Obeid \(2016\)](#) whose study was to identify the main factors that influence the adoption of Islamic banking services in Tunisia. [Kaabachi and Obeid \(2016\)](#) for example used five-item scales such as "You are aware about the differences between conventional banking system and Islamic banking system", "The features and benefits of the Islamic banking products offered by Islamic banks are known to you" to evaluate awareness of Islamic banking services. [Kaabachi and Obeid \(2016\)](#) further used five-item scales such as "Islamic banks operates according to Islamic principles (Sharia)" to measure relative advantage. More item scales were adopted from previous studies like [Hanudin *et al.* \(2014\)](#), [Hanudin *et al.* \(2011\)](#) and [Kaawaase and Nalukwago \(2017\)](#). In this study, the dependent variable is intention to adopt Islamic financing which we operationalized using measures such as perceived benefit and awareness level as adopted from previous studies ([Kaabachi and Obeid, 2016](#); [Hanudin *et al.*, 2014](#); [Hanudin *et al.*, 2011](#); [Kaawaase and Nalukwago, 2017](#)). [Mariatul and Rosidah \(2014\)](#) defined awareness as a condition of having or showing realization, perception or knowledge of a situation or fact. [Davis \(1989\)](#) defined perceived benefit (usefulness) as the degree to which a person believes that using a particular system makes him or her enjoy its benefits. Religiosity was operationalized using religious experience and ideology as has often been used in previous studies ([Nizar and Marzouki, 2015](#); [Hanudin *et al.*, 2014](#); [Stefan and Odilo, 2012](#); [Kaawaase and Nalukwago, 2017](#)). Questions on religiosity were adopted from the works of [Nizar and Marzouki \(2015\)](#) whose study aimed at investigating the impact of religiosity on consumer attitudes and purchase intentions toward Islamic banks. [Nizar and Marzouki \(2015\)](#) used 19 items to operationalize religiosity and these items were grouped into four dimensions such as fear of divine punishment where questions such as "I am afraid that Allah is going to punish me in some way", religious involvement where five questions such as "I attend religious sermons at the Mosque", religious belief which comprised of four items such as "I believe in the application of sharia" and the last dimension was susceptibility to give in to temptations where three items were included such as "I am a believer but sometimes I have a tendency to sin". In this study, we use 11 items to operationalize religiosity and these items are grouped into two dimensions that is to say religious experience and ideology. For operationalization of firm age and religious preference, see [Table I](#). The interview guide was used to back up the questionnaire. The interviews are used in this study primarily to gain an in-depth understanding of the subject matter under study and has been used in previous studies ([Abou-Youssef *et al.*, 2015](#); [Kaawaase *et al.*, 2016](#); [Katamba *et al.*, 2012](#); [Ebaid, 2011](#); [Soh and Martinov-Bennie, 2011](#); [Jamali *et al.*, 2010](#)).

4.4 The model

The regression analysis was used to determine the predictive strength of the predictor variable on the criterion variable. We specifically, tested the model below ([Table I](#)):

$$IF = \beta_0 + \beta_1 AGE + \varepsilon_j \tag{1}$$

$$IF = \beta_0 + \beta_1 AGE + \beta_2 REP + \varepsilon_j \tag{2}$$

$$IF = \beta_0 + \beta_1 IDEA + \varepsilon_j \tag{3}$$

$$IF = \beta_0 + \beta_1 REE + \varepsilon_j \tag{4}$$

$$IF = \beta_0 + \beta_1 AGE + \beta_2 REL + \beta_3 REL + \varepsilon_j \tag{5}$$

Where:

- IF = Intention to adopt Islamic Financing;
- AGE = Firm age;
- REP = Religious preference;
- IDEA = Ideology;
- REE = Religious experience;
- REL = Religiosity;
- β_0 = A constant; and
- ε_j = The error term.

5. Results

5.1 Factor analysis

Factor analysis (as presented in [Tables II and III](#)) was run basically to find out how much of the variance present in the data is common variance. Exploratory factor analysis was used to have those factors that explain better the study constructs through data reduction. According to [Field \(2009\)](#), exploratory factor analysis is used first, to understand the structure of a set of variables, secondly, to construct a questionnaire to measure an underlying variable and thirdly, to reduce a data set to a more manageable size while retaining as much of the original information as possible. Exploratory factor analysis was done by running a rotated component matrix thereby reducing the questions to those that are more relevant to the study variables. Before executing the principal component analysis for our scales, we assessed the suitability of the data for factor analysis based on sample size adequacy, the Keiser–Meyer–Olkin (KMO) and Bartlett tests. The KMO and [Bartlett’s \(1954\)](#) test of sampling adequacy was computed to ensure that factor analysis yields different and reliable factors ([Kaiser, 1974](#)). [Field \(2009\)](#) explains that KMO and Bartlett tests values range from 0 to 1. The results show that the KMO values for the predictor and outcome variables are all above 0.5 which is acceptable. As suggested by [Hair et al. \(2010\)](#), only those factors

Variable	Acronym	Variable description
<i>Criterion variable</i>		
Intention to adopt Islamic financing	IF	Measured by average rating on a five-point Likert scale of questions on awareness and perceived benefit
<i>Predictor variable</i>		
Religiosity	REL	Average score of questions on religious experience and ideology
Religious preference	REP	A dummy variable coded as 0 if the respondent is a Christian; 1 if the respondent is a Muslim; 2 if the respondent is others
Firm age	AGE	A dummy variable coded as 0 if the firm is aged below 5 years and 1 if the firm is aged 5 years or more
	ε_j	Error term

Table I.
Description of the model

Table II.

Rotated component
matrix for religiosity

Statements	Component	
	Religious experience	Ideology
You always experience a situation that God is in your presence and watching whatever action you are taking	0.846	
I feel happy when someone performs good deeds concerning my religion	0.844	
All human activities must be done for the sake of God the creator and sustainer of earth and heavens	0.825	
I do believe that God or something of divine exists in all aspects of life	0.825	
God's rules fulfill all His creatures' needs	0.799	
I have a feeling that God or something divine intervenes in my life	0.686	
I always try to avoid minor and major sins in my religion	0.659	
I will choose Islamic banking because it does not contradict with my religion	0.554	
Religious leaders should have influence over the decisions of government	0.524	
Religious practice is a private matter and should be separated from social and economic life		0.846
Investing with Islamic banking or financing conflicts with my religious beliefs		0.824
Eigen values	5.021	1.386
Percentage of variance	45.028	13.221
Cumulative percentage	45.028	58.249
KMO	0.892	
Bartlett's test of sphericity	1,264.852	

Notes: Extraction Method: Principal Component Analysis; Rotation Method: Varimax with Kaiser Normalization

with eigenvalues greater than 1 and factor loading greater than 0.50 were retained for further analysis. This step resulted in ten-item scales retained for perceived benefit and two-item scales for awareness, which formed two factors, representing 56.13 cumulative percentage of variance in intention to adopt Islamic financing. For religiosity, factor analysis resulted in nine-item scales retained for religious experience and two-item scales for ideology and together explain up to 58.24 cumulative percentage of variance in religiosity. The KMO values for Religiosity were 0.89 while that for intention to adopt Islamic financing was 0.92. Bartlett's test of sphericity in all scales also reached statistical significance that is to say significant value was 0.000 for each scale. In terms of communalities, the average communalities for religiosity were 0.58 while that for intention to adopt Islamic financing was 0.56. Field (2009) suggests that communalities of 0.5 and above for sample sizes of between 100 and 200 are good enough and as per the criteria suggested by Kaiser (1974), communalities of 0.6 and above for sample sizes of 250 and above are good enough to explain the original data. In addition, Field (2009) suggests that the closer the communalities are to 1, the better our factors are at explaining the original data. This study's average communalities are close to 0.6 implying that they are good enough to better explain our original data.

5.2 Descriptive statistics

We present descriptive statistics results in Table IV. We generated means and standard deviations to summarize the observed data since according to Field (2009), means represent a summary of the data and standard deviations show how well the means represent the data. The mean score for the dependent variable (intention to adopt Islamic financing) is 3.95 while the standard deviation is 0.78. This means that on average, Ugandans will adopt Islamic financing products in the event that they are introduced. However, given that the dependent variable is measured on a five-point Likert scale, the minimum score of 1.25 indicates that there are some

Table III.
Rotated component
matrix for intention
to adopt Islamic
financing

Statements	Component	
	Perceived benefit	Awareness
Islamic banking can work as a complementary to conventional banking	0.774	
I am aware that Islamic financing institutions provides finances to micro and SMEs	0.743	
Islamic financing will boost entrepreneurship in Uganda through provision of finances on the basis of profit or loss sharing	0.712	
Islamic banks provide wide range of products and services and sufficient innovations to best serve the consumers all the time	0.644	
Islamic financing institutions can provide loans to micro businesses with no fixed interest rates	0.638	
Islamic financing institutions provides loans to those who do not have securities at disposal and better credit rating	0.636	
I have ever heard about Islamic banking and Islamic financing and am ready to accept it	0.632	
Ugandan economy would benefit from inflow of funds from Arab investors	0.626	
Islamic financing provides a solution to contemporary financial problems	0.603	
Islamic financing products and services are acceptable among all Muslims and non-Muslims	0.518	
Islamic financing is compliant to the Islamic Law		0.811
Islamic financing products and services are different from those of Conventional banking		0.768
Eigen values	5.871	1.866
Percentage of variance	36.676	19.458
Cumulative percentage	36.676	56.134
KMO		0.924
Bartlett's test of sphericity		1,328.941

Notes: Extraction Method: Principal Component Analysis; Rotation Method: Varimax with Kaiser Normalization

Ugandans not willing to adopt Islamic financing products should it be introduced. The mean and standard deviation for religiosity is 3.31 and 0.67, respectively. The standard deviation for both intention to adopt Islamic financing and religiosity are small as compared to their mean values and thus the statistical means are a good fit of the observed data.

To add to the existing knowledge, we try to test whether the religious preferences (religious affiliation) influences religiosity and intention to adopt Islamic financing, a one-way analysis of variance (ANOVA) was used to determine the impact of religious preference on religiosity and intention to adopt Islamic financing. The results of the one-way ANOVA presented in Table V show that the *p*-value for religiosity is above 0.05 while that for intention to adopt is below 0.05; also, the actual difference in mean scores between the groups on religiosity are reasonably small, indicating that the various group differences between religions is not significant. However, for intention to adopt, there were significant differences in between religions given that the mean for Muslims was 3.73 while that for Christians is 4.16. This finding implies that, Muslims are more ready for Islamic banking than the Christians are.

5.3 Correlation analysis

We evaluated whether linear relationships exist between the predictor variables and the outcome variable by running Pearson correlation coefficient analysis. Pearson's correlation coefficient, *r*, was used because it is a parametric statistic and requires interval data for both variables (Garson,

2012). As a result, bivariate-correlation analyses were performed and Pearson correlation coefficients were generated to measure the direction and size of the relationship between the study variables (Field, 2009). From Table VI, results indicate that there is a significant relationship between religiosity and intention to adopt Islamic financing in Uganda ($r = 0.264^{**}$, $p < 0.01$). This result substantiates *H1* which states that religiosity is associated with intention to adopt Islamic financing. The implication of this finding is that an improvement in religiosity means an improvement in the adoption of Islamic financing products. Table VI results further indicate that only religious experience as a dimension of religiosity is positively and significantly associated with intention to adopt Islamic financing ($r = 0.613^{**}$, $p < 0.01$) and thus *H1b* which states that religious experience is positively associated with intention to adopt Islamic financing is substantiated. Ideology as a dimension of religiosity is not significantly associated with intention to adopt Islamic financing and thus *H1a* which states that ideology is positively associated with intention to adopt Islamic financing is not substantiated. Age of the business (firm) is positively and significantly associated with intention to adopt Islamic financing ($r = 0.141^*$, $p < 0.05$) implying that as the firm gets more old say five years and above, the need for debt financing increases and Islamic financing is the better option. Similarly, religious preference is positively and significantly associated with intention to adopt Islamic financing ($r = 0.195^{**}$, $p < 0.01$) implying that one's type of religion matters a lot in the adoption of Islamic financing. These results substantiate *H2* and *H3*. *H2* states that Religious preference is positively associated with intention to adopt Islamic financing and *H3* states that Firm age is positively associated with intention to adopt Islamic financing. However, the correlation analysis results provide preliminary evidence on whether the study hypotheses are supported or not. We therefore perform further analyses (regression analysis) to confirm the study hypotheses.

5.4 Regression analysis

We further conducted a regression analysis to ascertain the predictive strength of the predictor variables onto the criterion variables. Results in Table VII reveal that firm age, religious preference and religiosity predict 11.8 per cent of intention to adopt Islamic financing. The standardized β coefficient for the main study variables is reported. The standardized β coefficient for religiosity (standardized $\beta = 0.267$) is higher than the standardized β coefficient for firm age (standardized $\beta = 0.146$) and religious preference (standardized $\beta = 0.192$). The high-standardized β coefficient for religiosity implies that religiosity has more impact on intention to adopt Islamic financing. Further, religious preference with the next high-standardized β has an impact on intention to adopt Islamic financing than firm age. The standardized beta values use the number of standard deviations that the outcome will change as a result of one standard deviation change in the predictor (Field, 2009). In terms of religiosity dimensions, religious experience has a significant

Variable	<i>n</i>	Minimum	Maximum	Mean	SD
Intention to adopt Islamic Financing	258	1.25	5.00	3.95	0.78
Awareness	258	1.00	5.00	3.95	0.96
Perceived Benefit	258	1.00	5.00	3.95	0.79
Religiosity	258	1.00	5.00	3.32	0.69
Religious Experience	258	1.00	5.00	4.23	0.81
Ideology	258	1.00	5.00	2.40	1.25
duration of business existence	258	0.00	1.00	0.38	0.49
What is your religious preference	258	0.00	2.00	0.59	0.57

Source: Primary data

Table IV.
Descriptive statistics

Table V.
Religiosity, intention
to adopt Islamic
financing and
religious preference

Details	n	Mean	SD	95% Confidence interval for mean			Maximum	df	F	Significance
				Lower bound	Upper bound	Minimum				
<i>Religiosity</i>										
Christian	117	3.300	0.739	3.165	3.435	1.00	5.00	2	0.423	0.656
Muslim	131	3.345	0.653	3.232	3.458	1.00	5.00	255		
Others	10	3.153	0.653	2.685	3.620	2.50	4.28	257		
Total	258	3.317	0.692	3.232	3.402	1.00	5.00			
<i>Intention to adopt</i>										
Christian	117	3.737	0.793	3.592	3.882	1.25	5.00	2	10.22	0.000
Muslim	131	4.160	0.710	4.037	4.283	1.97	5.00	255		
Others	10	3.692	0.943	3.017	4.366	1.67	5.00	257		
Total	258	3.950	0.784	3.854	4.046	1.25	5.00			

Variable	1	2	3	4	5	6	7	8
Intention to adopt (1)	1							
Awareness (2)	0.916**	1						
Perceived Benefit (3)	0.873**	0.604**	1					
Religiosity (4)	0.264**	0.212**	0.266**	1				
Religious Experience (5)	0.613**	0.477**	0.637**	0.444**	1			
Ideology (6)	-0.103	-0.072	-0.116	0.818**	-0.153*	1		
Firm age (7)	0.141*	0.130*	0.122	-0.030	0.118	-0.110	1	
Religious preference (8)	0.195**	0.143*	0.214**	0.004	0.228**	-0.143*	0.015	1

Notes: **Correlation is significant at the 0.01 level (two-tailed); * Correlation is significant at the 0.05 level (two-tailed)

Source: Primary data

Table VI.
Correlation analysis results

Variable	Model I	Model II	Model III	Model IV	Model V
Constant	3.863	3.708	4.104	1.425	2.699
Firm age	0.141**	0.138**			0.146**
Religious preference		0.193**			0.192**
Religiosity					0.267**
Ideology			-0.103		
Religious experience				0.613**	
Model f	5.182**	7.731**	2.735	153.9**	12.488**
Adjusted R Square	0.016	0.050	0.007	0.373	0.118
R Square	0.020	0.057	0.011	0.376	0.129
Durbin Watson					1.823

Note: **Significant at the 0.01 level

Source: Primary data

Table VII.
Hierarchical regression analysis results

impact on intention to adopt Islamic financing in Uganda unlike ideology. We performed the hierarchical regression analysis to establish how each variable contributes to intention to adopt Islamic financing. In Models I and II, both variables entered are significant. In Model III, ideology as a dimension of religiosity is entered and found not significant. In Model IV, religious experience which is another dimension of religiosity was entered and found significant. Model V which is our final model is significant and all the study variables are significant. Therefore, *H1*, *H2* and *H3* are confirmed. However, *H1a* is not supported.

The above results are further supported by the excerpts below obtained from interviewing respondents:

[. . .] yes I have heard about Islamic financing and Islamic banking. What I can say is that I have had that Islamic banking is shariah compliant but the shariah going to be applied is only the economic shariah. I am a Muslim and my religion prohibits us from riba. I have no reason for rejecting Islamic financing products. It's not about what other people say but rather what my preachers recommend.

[. . .] I suggest that Government and those banks willing to offer Islamic financing products should partner with the media and carryout sensitization of Ugandans about Islamic banking.

[. . .] yes, I have heard about Islamic banking but I do not have complete information about it. My religion does not prohibit me from obtaining Islamic financing. Even my pastors have not preached

against Islamic financing but rather, Muslims are heard to deal with. For the reason above, I cannot obtain Islamic financing. Islamic financing is not bad but still I cannot take on Islamic financing”

[...] my business is still in its infancy and I cannot think of obtaining a loan now. [...] I feel uncomfortable to opt for Islamic banks and yet we have our own catholic bank. But in case, Islamic banking comes with better products, definitely I will go for it.

6. Discussion

This study's results suggest that religiosity is a strong determinant of intention to adopt Islamic financing in Uganda. In addition, religious preference and firm age significantly contribute to intention to adopt Islamic Financing. Whereas religiosity is an individual's commitment to a given religion, religious preference is a mere attachment to a given religion. The prediction of intention to adopt Islamic financing to the extent of 11.8 per cent by religiosity, firm age and religious preference among owner-managed firms is an indicator that those proponents of Islamic financing should be careful when introducing their product. This study's results agree with the assumptions of UTAUT model. If Islamic financing performs well and those members of society who are considered influential or are the drivers of networks, focus on the dissemination of positive information on Islamic financing, then it will be adopted. Whereas it is important to note that the benefits expected from Islamic financing can make it prosper, these benefits need to be packaged well to the extent that every Ugandan is aware. From the interviews, it is evident that some Ugandans are not ready for Islamic financing should it introduced at this time (see excerpt below):

[...] no. I have not heard about Islamic banking being sensitized on local radio stations I listen to. You see Muslims are not good people to deal with and Islamic financing is theirs. My religion even says Islam is not a good religion and therefore I cannot go for Islamic financing products. You see, they may pretend around and eventually end up killing me because Muslims are not easy people. I have a negative thought because I am just not interested to deal with Muslims

The present study results implies that one major tool to ensure Islamic financing is embraced among Ugandans is carrying out massive sensitization across the country using local medias like local radio stations, televisions and the newspapers. Politicians at one point may be used to promote Islamic financing but the worry is that politicians are perceived not to be straightforward and thus may not be a better tool for promoting Islamic financing though their effort toward promoting Islamic financing should not be underestimated. Religious leaders are seen as critical persons in promoting Islamic financing. These religious leaders may also have different mindsets and possibly may not know much about Islamic financing. The present study results contradict with those findings of [Hanudin *et al.* \(2011\)](#) who found out that religious obligation is not a significant predictor of customers' intention to adopt Islamic personal financing. However, the current results agree with those findings of [Kaawaase and Nalukwago \(2017\)](#) who found religiosity to be a strong predictor of existing bank customers' propensity to patronize Islamic banking. Also, the study results on religious preference agree with earlier studies such as those of [Sayani and Minoaoui \(2013\)](#) who found that religious preferences are the most considerations to selecting an Islamic Bank or conventional bank among bank customers in the United Arab Emirates. For firm age, the current study results confirm the argument for [Al Balushi *et al.* \(2019\)](#) who argued that businesses in their early age may not opt for external financing as compared to those that have been in existence for many years say 10 years.

The results of this study make it obvious that Ugandans appreciate the introduction of Islamic financing to Uganda with Muslims more willing and ready to adopt Islamic financing than Christians and other believers do. Based on the UTAUT model, Ugandans expect Islamic financing to be far much better in terms of performance and customer care. Given that Islamic

financing does not attract interest rates and there is the profit and loss sharing scheme, Ugandans are eagerly waiting for an Islamic bank opening its doors to all Ugandans with quality services. Ugandans expect Islamic banks to spread all over the country and be present even in those areas where conventional banks have not established branches. A section of Ugandans lament of high interest rates and thus their businesses do not graduate to the next level because of financing difficulties to some extent.

7. Summary and conclusion

The objective of this study was to establish whether a relationship between religiosity, religious preference, firm age and intention to adopt Islamic financing in an emerging secular state exists. Through a cross-sectional and mixed methods research design, a questionnaire survey of 258 respondents and an interview guide were used. Results indicate that religiosity, religious preference, firm age significantly contribute to intention to adopt Islamic financing in Uganda. Further, results indicate that there are significant differences in terms of intention to adopt Islamic financing among the various religious groups with Muslims more willing to adopt Islamic financing than Christians.

Overall, the findings of this study have important implications for academics, policy makers and the business community. For academics, our results suggest that religiosity, firm age and religious experience are important for intention to adopt Islamic financing products. The study also, provides more insights on what is the current situation on the current practice of Islamic financing in Uganda. The study results alerts existing banks on the available opportunities to provide Islamic financing services to Ugandans. Existing conventional banks may use this study results to promote Islamic financing services and explore any other available Islamic financing investment opportunities. Other potential investors may also consider their investments in Uganda's financing sector. Government may encourage potential investors from elsewhere to invest in Uganda by offering incentives for investing in Islamic financing.

Like any other study, our study is not without limitations. This study was limited to only micro businesses in Uganda and it is possible that these results may only be applicable to Uganda's micro businesses and yet there are other business classifications like the medium and large businesses. There is need for further studies using evidence from other types of businesses. This study can also be extended to other national settings or even, can be conducted in Uganda with more variables given that our study only contributes to 11.8 per cent of the variance in the intention to adopt Islamic financing. Firm age has not been ably discussed because of the scant literature on it. It is therefore recommended that future studies consider other firm characteristics in addition to firm age in establishing whether they have an effect on intention to adopt Islamic financing. In addition, the study was cross-sectional and thus changes in behavior over time are not monitored. Further studies are therefore welcome after some time has elapsed. All in all, the results of this study provide an initial empirical evidence of the existence of the relationship between religiosity, religious preference, firm age and intention to adopt Islamic financing in a developing economy in the Sub-Saharan African context. This study results are therefore useful in other environments similar to that of Uganda.

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