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Interacting with Muslim Customers for Developing New Shariah-Compliant Financial Services in a Multicultural Country

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Abstract

Offering successful new services to the market is a priority for many service firms worldwide because a firm's growth and prosperity depend on regularly introducing new services to a diverse group of customers. Additionally, developing successful new services requires firm-customer interaction because a customer can provide valuable insights into the design and content of many new services. This concept of customer interaction holds even greater significance in emerging countries with a sizable Muslim population, particularly when they are in the minority. Against this backdrop, our article examines the importance of customer interaction with Muslim customers in developing new Shariah-compliant financial services in the emerging market of India. Utilizing a multiple-case study methodology, we gathered data through in-depth interviews with service managers and Muslim customers. For data triangulation, we consulted several documents and archival records related to the new service development efforts by the participating financial service firms. By doing so, the article addresses two key research gaps in the literature. First, there is a lack of NSD (New Service Development) research within emerging markets, and second, there is a dearth of studies on the roles of Muslim customers in developing new services globally. Drawing from the case study data, we contend that developing new services that meet Muslim customer needs and comply with Shariah principles poses a challenge for many service firms. To meet this challenge, a firm must establish a system that integrates the requirements of Muslim customers into creating new services. To this end, we propose several modes and methods of customer interaction and analyze the problems involved in the interaction process with Muslim customers. Our findings suggest that contrary to the notion often found in the literature, Muslim customers are willing to collaborate with service firms to develop new services which can serve as a valuable source of information for generating service ideas. This article holds implications for financial service firms seeking to market new Shariah-compliant financial services to Muslim customers in emerging markets. Furthermore, this article has theoretical implications for literature related to the marketing of Islamic finance.

Keywords: Islamic Finance, Emerging Markets, Muslim Customers, Customer Interaction

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1. Introduction

Given the significance of New Service Development (NSD) for the growth and prosperity of a firm, numerous studies have focused on NSD research over the past two decades (Carlborg et al., 2014; Mahavarpour et al. 2023; Ostrom et al., 2015). This expanding body of literature suggests that the failure rate for new services is rather high. A primary reason for such failures is that many service firms need to engage with their customers and solicit input from them while developing new services or products (Cooper, 2019). Consequently, firms must interact with their customers during NSD to comprehend their needs (e.g., Alam, 2002; Melton & Hartline, 2010; Morgan & Anokhin, 2023). Although abundant literature links customer interaction to the success of new products and services (Mathing et al., 2004; Alam, 2006, 2013; Cui & Wu, 2017), two significant research gaps are evident in the existing literature.

The first gap in the literature concerns NSD studies within emerging markets. Emerging markets have begun to play a key role in the global economy, presenting considerable opportunities for uncovering novel perspectives in marketing and NSD. As Seth (2011) contends, the vast consumer bases in countries like India and China have transitioned emerging markets from the periphery to the heart of global competition. However, the current literature needs to have more attention to the intricacies of customer interaction in NSD within these emerging markets (Chang & Taylor, 2016). The second major gap pertains to the role of minority customers, particularly Muslim customers, in the development of new services in emerging markets (Alam & Seifzadeh 2020). Many nations, whether developed or developing, are culturally diverse, housing significant Muslim populations (Hati et al., 2021; Grier & Deshpande, 2001; Oullet, 2007). Despite this, research on the consumption behaviors of Muslim customers in non-Muslim-majority emerging countries remains scant (Hall et al., 2023; Biancone & Radwan (2015). For instance, marketing Shariah-compliant financial services to Muslim minority customers has become a pressing managerial concern in India's emerging market. This shift originates from the Reserve Bank of India (RBI) contemplating the provision of interest-free banking services to the Muslim clientele (Alam & Bhatti, 2023). As a result, numerous firms are eager to leverage the growing openness of India's capital market. Yet, to our knowledge, there has been a limited focus on exploring customer interaction processes when developing new services tailored for Muslim minority customers in India.

Building upon the preceding discussions, this research aims to outline a process for customer interaction when developing new business-to-business (B2B) Shariah-compliant financial services tailored for Muslim customers in India. In doing so, our study addresses a pivotal yet underexplored question: How do Muslim customers interact with service firms to develop Shariah-compliant financial services within emerging markets like India? We have selected financial services as our research focus because they have garnered significant attention in the literature owing to deregulation and technological advancements (Alam, 2013; Lyons et al., 2007). While B2B transactions within the service industry are rising, most existing studies predominantly concentrate on business-to-customer (B2C) services (Homburg et al., 2014). Moreover, given the pivotal role of small businesses in GDP growth within emerging and developing economies, there is a pressing need for more comprehensive research on B2B services (Chowdhury, 2011; Karadag, 2016). Also, B2B services are inherently knowledge-intensive and necessitate significant customer input (Menguc et al., 2014). Therefore, we have chosen to focus on B2B services for this research. Our findings suggest that contrary to the notion often found in the literature, Muslim customers are willing to collaborate with service firms in developing new services and can serve as a valuable source of information for generating new service ideas. This article holds implications for financial service firms seeking to market new Shariah-compliant financial services to Muslim customers in emerging markets. Furthermore, our research has theoretical implications for literature related to the marketing of Islamic finance. First, our research responds to the call for more scholarly attention on the principles and practices underlying Islamic finance in emerging markets (e.g., Alam and Seifzadeh 2020). Second, by focusing on India, our research attempts to enrich the extant literature about the needs of Muslim customers for Islamic finance in a multicultural and non-Muslim majority country.

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The rest of the article is organized as follows. First, we review the literature to assess the strength of Muslim customers in India and discuss the need for new services for them. Next, we review the literature related to NSD and customer interaction. Third, we present the methodology used in this research. Fourth, we discuss the implications for literature, practitioners, and policymakers. We conclude the article by discussing research limitations and future research directions.

2. Literature Review

Considering the multi-disciplinary nature of our research, we tap into the literature about marketing, finance, international business, and cultural studies to unearth key research issues related to interaction with Muslim customers for developing new B2B services in an emerging market.

2.1 Growing Needs for Muslim Customers in India

While numerous articles underscore the significance of minority customers globally, many predominantly focus on Muslim minorities in Europe (e.g., Antoniazzi, 2022; Biancone & Radwan, 2016; Bulmer & Solomons, 2010; Kamdzhalov 2022; Maliepaard et al., 2010) and Africa (Moosa & Kashiramka 2023; Tegambwage & Kasoga 2023). However, the emergence of multi-ethnic societies with influential minority groups is not just European or African, but a global trend (Andespa et al. 2024; Hilmi et al. 2023). India, characterized by its multireligious, multilingual, multiethnic composition and burgeoning economy, stands at the forefront of this growing trend (Holtbrugge & Friedman, 2016). Despite India's pivotal role, scholarly attention regarding the importance of Muslim customers within this emerging and multicultural nation remains limited. Notably, Muslims constitute the largest minority group in India, representing the second-largest ethno-religious community after Hindus. With a population exceeding 160 million, Muslims make up approximately 13.4 percent of India's total population. Remarkably, India hosts the largest concentration of Muslims outside the member countries of the Organization of the Islamic Conference (OIC) and ranks second globally, following Indonesia. However, despite their substantial numbers and political influence, the socio-economic conditions of this significant ethnic minority are notably impoverished (Fasih, 2012).

Due to growing demands from Muslim minority customers, there have been discussions and efforts to introduce Islamic banking principles into the existing banking system. Efforts have been made to increase awareness and understanding of Islamic finance principles among Muslims and non-Muslims in India (Yatoo & Muthu 2013). However, the development of Shariah-based services in India has faced challenges, and the progress has been relatively slow compared to some other countries with significant Muslim populations (Siddiqui et al., 2021). Regulatory issues, political reasons, concerns about legal frameworks, and the need for broader acceptance of Islamic finance principles among stakeholders have been some of the factors hindering the growth of Shariah-compliant services in India (Kurpad 2016). A comprehensive examination of the economic, social, and educational circumstances of minorities in India, conducted by a high-level prime ministerial committee chaired by Justice Rajinder Sachar, highlighted the alarmingly low penetration of banking and financial services within the Muslim minority community (Sachar Committee Report, 2006). Moreover, a recent report by the Reserve Bank of India (RBI) indicates that public sector banks have inadequately addressed the financial needs of the Muslim population.

In summary, the marginalization of Muslim minority customers has profound implications for their socio-economic progress and the broader nation. Recognizing the adverse effects of this marginalization, as evidenced in the literature (e.g., Lee et al., 2011; Russell & Russell, 2010), the RBI has initiated measures to alleviate barriers hindering credit access for the Muslim customers. Two primary obstacles contributing to the limited banking service penetration among Muslim customers include the community's educational gaps and the inadequacy of both public and private sector banks in offering products that suit their needs (Sachar Committee Report, 2006). Furthermore, many ethnic minority groups express their beliefs and identity through specific product and service consumption patterns (Deshpande & Stayman, 1994). Consequently, they exhibit favorable responses to marketing strategies addressing their minority status (Grier & Deshpande, 2001). Such regulatory challenges and minority group behaviors give financial institutions opportunities to delve deeper into this market niche. In a recent study, Penaloza (2018) underscores the imperative to enrich ethnic minority literature by gaining a more profound and comprehensive understanding of ethnic minority customers across diverse global regions.

2.2 India's Financial Service Industry

In this study, we concentrate on India's growing financial service sector. Like other emerging markets, India is having a disruptive impact on marketing practice and theory (Pereira et al. 2024; Seth 2011; Bello et al. 2016). With its GDP expanding by over 9% annually, India has become the world's fifth-largest economy. Financial service firms have adeptly capitalized on the escalating demand for credit products, witnessing an annual growth rate that exceeds 40%. Yet, many firms exhibit reluctance in venturing into niche markets of ethnic minority customers due to regulatory complexities and several inherent risks. This reluctance prompts a crucial question: why should financial service firms devote resources for expanding economic opportunity in a developing country and enter the niche market of Islamic banking and finance? The answer to this question can be gleaned from earlier reports, such as those by Price Waterhouse Coopers (2007) and Jain (2013), suggesting that the large and growing population of ethnic and minority customers in emerging markets provides a large platform for using new services. Additionally, a more recent study by Dariyoush & Nazima (2016) underscores the expansive and growing ethnic customer base in emerging markets offers a substantial platform for introducing new services. Furthermore, Islamic banking and finance proliferation extends beyond national borders, representing a global trend (Chaudhury & Bhatti, 2017). Consequently, scholars advocate for a more aggressive development of this burgeoning market niche (Basov & Bhatti, 2016).

Given the growth rate in the financial service sector and the need for a large capital requirement, India has the potential to become the largest market for Islamic finance worldwide. With this phenomenon in mind, recently, a panel of economists recommended the introduction of interest-free banking in India, and the RBI, on principle, gave approval for developing new financial services exclusively for minority Muslim customers. These developments point towards the initial steps the Indian policymakers have adopted in allowing the banks to offer financial products specifically for minority customers to further boost the country's financial service sector. If financial institutions are searching for new ways to grow, reaching Muslim customers should be their priority (Alam & Seifzadeh 2020). They should assess the appeal of the Indian financial service sector and investigate the possibility of developing new financial services for Muslim customers. In addition, the cultural and social changes in India and its customers have led to an increased demand for a range of new services such as transportation, hospitality, and financial services (Davidson et. al 2018). In summary, industry trends, changing citizen expectations and government mandates promoting financial services to an underserved population present a worthwhile opportunity (Sutton & Jenkins 2007) that service firms can explore by developing new services. Therefore, in the next section, we review the literature on NSD and customer interaction.

2.3 Customer Interaction in New Service Development Process

Scholars have argued that a structured process should be followed to develop new services, and several studies have proposed models for developing new services (Bowers 1989; Scheuing & Johnson 1989). After over a decade, Alam & Perry (2002) proposed a model containing 10 development stages, including strategic planning, idea generation, idea screening, business analysis, formation of cross-functional team, product design and process/system design, personnel training, product testing and pilot run, test marketing, and commercialization. However, challenging the applicability of the above model in the current era of technological advancement and social media, Alam (2014) proposed a simplified model containing only four phases of NSD: initiation phase, comprehension phase, corroboration phase and execution phase. He claims that these four phases are the better representation of the NSD process because they consider the influence of social media, digital technologies and emerging markets and their consumers on the marketability of the new services. This latest NSD model also considers the role of customers in NSD more seriously by identifying various customer activities in the four phases of the NSD model. Consequently, in this research, we use this model to analyze the customer interaction process.

Another stream of research in the NSD area pertains to the success factors of new service that suggests that the new service failure rate is very high and customer interaction in NSD is a key success factor (Storey & Hughes, 2013; Storey et al., 2016). Also, there has been a growing recognition among scholars and practitioners that customer interaction during new product or service development represents a source of competitive advantage (Yoo et al. 2012; Cui & Wu 2017). Therefore, several empirical studies have investigated the benefits of customer interaction in both new product and service development and reported that customer input might lead to high-quality innovations (e.g., Alam 2002; 2006; Gruner & Homburg 2000). For instance, Alam (2002) suggested that the intensity of service producer-customer interactions during the idea generation stage should be higher than all other stages. He also noted that customer interaction results in important benefits such as reduced cycle time and superior service innovations. Extending his research on customer interaction, Alam (2006) further reports that customer interaction during the fuzzy front end, i.e. the first three stages of idea generation, idea screening, and concept development are more important than other later stages. Moving on to the issue of customer interaction in emerging markets, Chang & Taylor (2016) found that in emerging markets, many firms do not interact with their customers and thereby miss a significant opportunity to develop successful new products and services. They assert the need for more research on customer interaction in emerging countries.

Although there is increasing attention on the benefits of customer interaction, there is evidence that many customers are unable to provide workable input (Frankie et al. 2009), and therefore, there is a question on the value of customer interaction during the NSD process (Chatterjee & Fabrizio 2014; Heirati et al. 2016). Hoyer et al (2010) have also argued that reconciling customers' preferences and a firm's objectives is another key challenge in customer interaction. Yet, some scholars claim that customer interaction helps firms understand what customers appreciate most because customers' needs are sticky and transferring them to firms is rather complex (e.g. Perks et al. 2012). In conclusion, the above literature points to three key research issues that are the focus of this research: (1) What is the process of customer interactions for developing shariah-compliant services? (2) What is the overall approach to customer interaction? and (3) What risks are involved in customer interaction during developing a shariah compliant new service.

3. Methodology

Given the nascent literature on Muslim minority customers in India, our research is exploratory. This necessitates an inductive qualitative research approach, allowing existing theories to be extended. Recognizing that customer interaction in NSD is a complex social system, employing multiple theoretical lenses is appropriate. Consequently, we adopted the multiple case study method, examining various cases concerning the development process of new services targeted at Muslim customers by financial institutions in India. Authors such as Bonoma (1985), Eisenhardt (1989), Perry (1998), Yin (2002), and Miles et al. (2014) have advocated for the use of multiple case studies over a singular case to foster new knowledge and theory development. Additionally, Leonard-Barton (1990) contends that employing multiple case studies enhances the external validity of research. Our research methodology also aligns with the qualitative research design proposed by Pettigrew (1990) and used by Kravets & Sandikci (2014).

We conducted these case studies in Mumbai, India, during December 2022 to January 2023, which was the post-COVID period. We selected Mumbai as our research site for two primary reasons. First, Mumbai serves as the

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financial capital of India Second, the city boasts a substantial population of business owners from the Muslim community. Employing a theoretical sampling method, we chose respondents who possessed intimate knowledge of the phenomenon under investigation. This sampling approach has been effectively utilized in recent studies, as demonstrated by Johnson & Sohi (2016). Utilizing the business directory Kompass, we identified 47 domestic Indian financial service firms active in NSD. After preliminary screening, we narrowed our focus to 21 financial service firms, examining one NSD project within each entity. These firms were specifically chosen because they were in the midst of developing new services for Muslim customers, leveraging recent alterations in the RBI's regulations as an opportunity. Furthermore, these firms had previously engaged with their customers to gather insights into their new services. Their offerings encompassed a range of services, including business loans, mutual funds, stock brokerage, investment services, mortgages, pension funds, business insurance, and cross-border payments, among others. A stipulation for a firm's participation in our research was confidentiality regarding the specifics of the new services and the identities of the participating organizations. Hence, in compliance with this condition, we have refrained from divulging extensive details about these new services within this article. The key informants' details are summarized in Table 1.

Table 1. Detail of Respondents (Company Managers)

No. of Service Firms	Respondents	Total experience (No. of years)	Experience in NSD (No. of years)
3	Product Managers	16	4
3	Client Relation Managers	9	6
3	Area Marketing Managers	10	3
2	Vice-president Marketing	4	4
3	New Product Managers	6	2
2	Customer Service Managers	13	12
2	Brand Product Managers	11	7
2	Assistant Product Managers	7	5
1	Managers- New Customer Acquisition	5	6
Total (21 firms)		**Average (9 years)**	**Average (5.4 years)**

The data collection occurred in two phases through an in-depth interview method. Initially, during the first phase, we gathered data from key informants who served as managers of the service firms. Subsequently, in the second phase, we conducted interviews with business customers engaged in the NSD process. After conducting preliminary interviews for screening purposes, in-depth interviews were executed with 46 managers at their respective offices across various locations in Mumbai. This sample size aligns with the recommendations for qualitative research, as outlined by McCracken (1988). Given that the informants were intricately involved in planning and designing the NSD process, they possessed substantial knowledge of the subject matter. Using the qualitative research approach of Alam (2005) and Perry (1998) we developed an interview protocol. The extant literature informed the interview protocol and provided us with several open-ended interview questions to be posed to both the managers and customers. More specifically, the recent review article of Islamic finance (Alam & Seifzadeh 2020), several studies of NSD (e.g., Stevens & Dimitriadis 2004; Carlborg et. al 2014; Storey & Hughes 2013) and the studies related to NSD, and customer interaction conducted in emerging markets (e.g., Alam 2002; Alam 2013; Bello et al. 2016) raised the key issues involved in developing and marketing shariah compliant financial services. These interview questions were formed based on the issues discussed in the foregoing literature base: (1) Why did you engage with Muslim customers

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for your NSD projects? (2) During which of the four phases of NSD reported in the literature did you engage with the Muslim customers, and what prompted this engagement? (3) How did you determine which type of Muslim customers to interact with? (4) Describe your overall process and interaction methods, customer selections, and so forth?

Additionally, we incorporated several follow-up and probing questions to ensure thoroughness and prevent "active listening" (McCracken 1988). Beyond addressing the outlined questions, we provided the respondents ample opportunities to delve into other pertinent aspects they deemed crucial. On average, each interview spanned approximately two hours. To maintain accuracy, all interviews were recorded and subsequently transcribed.

During the second phase of our research, we interviewed 26 business customers to gather their insights on their involvement in the NSD process. A pivotal objective of this phase was to juxtapose the information provided by the firms with that from the participating customers. This approach aligns with the data triangulation method advocated by Yin (2002) and Leonard-Barton (1990). We sourced the names of these business owners and customers directly from the participating firms, as these managers had previously solicited input from them for their NSD initiatives. Initially, we approached all 49 customers recommended by the firms; however, only 26 consented to partake in our study. These customers, from the Muslim minority community, represented a diverse range of professions such as retail shop owners, garment exporters, carpenters, leather goods manufacturers, building contractors, and travel agents, among others. The combined sample of 42 managers and 26 customers aligns with recommendations by Pettigrew (1990) and Perry (1998). Notably, a recent qualitative study by Kravets & Sandikci (2014) also employed a comparable sample size. Detailed information regarding the customer respondents is presented in Table 2.

Table 2. Details of the Respondents (Muslim Customers)

Occupation of the customers	Number of participants
Convenience Store Owners	5
Small Factory Owners	4
Garment Exporters	2
Leather Goods Manufacturers	4
Carpenters	2
Travel Agents	3
Building Contractors	4
Vegetable and Fruits Warehouse Owners	2
Total	**26**

Since the author speaks native language of the Muslim customers, he conducted the interview in their native languages of Hindi and Urdu. All interviews were recorded and lasted about two hours. The recordings were transcribed in Urdu and Hindi and translated into English. Throughout the interviews, we took extensive field notes. The customer informants were in their 40s and 50s, and their education ranged from undergraduate to completing higher secondary standard (equivalent to high school in the US schools). All informants had been engaged in business for more than 5 years at the time of the interview.

For more data triangulation, we reviewed several documents and archival records to identify why, when and which type of customers were involved in NSD. These documents included office memos, brochures, meeting minutes, NSD checklists, etc. related to the NSD initiatives in the respective firms. The case study database contained 212 pages of

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interview transcripts and 80 pages of archival records and documents. The data analysis was interpretive and involved reading the transcripts, observational notes, and archival documents to gain insights into how customers interacted with the managers. We used different levels of coding and an iterative back and forth process between the emerging themes and categories, literature, and archival records to make sense of data and emerging themes related to customer interaction. We used the Nvivo 14 qualitative research software to identify the key themes in the qualitative data. The themes that emerged from the data were grouped into several categories. The purpose of the theme categorization was to look for commonalties and distinct patterns in data. The Nvivo software also allowed us to examine relevant "quotes" from different respondents. After the completion of data analysis, we sent the data reports to the participating firms for respondent validation. Most of the respondents returned the data reports with minor modifications.

4. Results and Discussion

We formulated several pivotal constructs concerning NSD and interactions with Muslim customers in an emerging market by leveraging interviews with managers, customers, company documents, and field notes. We conducted a cross-case analysis to discern emerging themes within the data, aligning with the approach outlined by Miles et al. (2014). The data pattern that emerged from the cross-case analysis is related to the interview questions discussed in the methodology section. These interview questions were related to three key constructs of (1) the process of customer interaction at four NSD phases, (2) customer interaction approaches, and (3) risks and challenges involved in interaction with Muslim customers. The discerned data patterns related to these research constructs are succinctly summarized in Table 3 and discussed in detail below.

4.1 Process of Customer Interaction at Four NSD Phases

Throughout the research, multiple respondents highlighted that a significant portion of their Muslim customers typically (a) refrain from investing in mutual funds and employee pension funds with a debt component, (b) avoid purchasing shares of companies associated with alcoholic products, (c) allocate interest earned on their business and other accounts to charitable donations, and (d) opt for zero-interest current accounts over high-yield, interest-bearing alternatives. These observations underscore that numerous Muslim entrepreneurs and business owners devise unique methods to address their diverse financial service requirements. Consequently, service managers should adopt a proactive approach, fostering collaboration with Muslim customers to better comprehend their needs and perspectives. The significance of Muslim customers is further emphasized by comments from a respondent: "We've contemplated the Muslim customer segment extensively. Evolving regulations from the Reserve Bank (RBI) and sustained growth within this market segment influenced our strategic direction. I'm pleased that our firm has chosen this trajectory."

To grasp customers' needs and perspectives, managers engage with them at various stages of NSD. However, they predominantly emphasize the early phases, given that idea generation and screening for Shariah-compliant services are pivotal activities during this period. The initiation phase is particularly crucial for gaining profound insights into the distinct requirements of Muslim minority customers, which significantly differ from those of mainstream customers. Consequently, service managers intensively engage with Muslim minority customers during the early stages of the NSD process, as highlighted by a respondent: "Good ideas serve as the cornerstone of successful innovations. We endeavor to source ideas for new Shariah-compliant services from our customers at the earliest opportunity and subsequently refine them based on their feedback throughout the process." Conversely, the later stages also warrant significant customer interaction, as firms must ascertain crucial information regarding the potential, feasibility, and other marketing aspects of the new services before their official launch. However, the intensity of interaction diminishes during the intermediate stages of the NSD, encompassing comprehension and corroboration phases. A respondent echoes this sentiment: "While every stage of NSD holds importance, we prioritize the initial phases due to the criticality of discerning viable ideas for Shariah-compliant services early on. Delaying analysis until the concluding stages may prove detrimental."

Data gathered from customer interviews indicate that Muslim customers actively engage in many activities and offer valuable insights across various stages of the NSD process. These contributions encompass articulating their needs, highlighting challenges, proposing solutions, assessing existing services by voicing preferences and concerns, pinpointing market gaps, curating a wish list for new services, collaboratively devising service blueprints, engaging in simulated and mock service delivery processes, providing feedback on new service marketing plans, evaluating the market potential of new offerings, trialing new services, and disseminating word-of-mouth recommendations to potential users. A product manager succinctly conveyed his perspective on this interaction approach: "Initially, we had reservations about the tangible benefits of customer engagement in this project. However, our apprehensions proved unfounded. Customers imparted invaluable insights into their needs, elucidating potential solutions via innovative product ideas." Furthermore, the data underscores that while motivation and incentives remain pivotal considerations in customer interactions, many customers willingly contribute insights and collaborate with service firms. A respondent echoes this sentiment: "I am committed to assisting the company in any capacity, provided the resultant services address my concerns. I've collaborated with numerous firms in the past, facilitating their endeavors, and the experience was rewarding."

4.2 Customer Interaction Approaches

Our research identified support for various customer interaction approaches highlighted in existing literature (Alam 2002; Mathing et al. 2004). Specifically, these approaches encompass observations, management retreats, focus groups, brainstorming sessions, in-depth interviews, and team meetings. Notably, six customer interaction strategies emerge as paramount for formulating an effective interaction strategy: (1) Conducting initial face-to-face interviews and team meetings during the initiation phase of the NSD process; (2) Organizing innovation retreats, summits, and mini-conferences aimed at fostering new service concept development, potentially revealing customers' latent or unarticulated needs; (3) Amplifying communication and informal interactions between front-line employees or bank officers and Muslim customers; (4)
Cultivating close relationships with expert and innovative customers; (5) Hosting periodic progress update meetings to remain abreast of emerging developments and evolving needs. While the inaugural meeting lays the foundation for trust and rapport, sustained communication efforts reinforce and broaden these behaviors essential for effective NSD, and (6) Leveraging customer interaction strategies to educate customers about new services and cultivate long-term relationships. Service managers possess the flexibility to employ any combination of these approaches in their customer interactions for NSD projects, as highlighted by a respondent: "Diverse avenues exist for gathering insights from the Muslim customers. No singular approach proves universally effective. The efficacy largely hinges on individual circumstances. We experimented with multiple strategies, each yielding invaluable insights."

4.3 Risks Involved in Interaction with Muslim Customers

Key respondents highlighted several risks associated with developing new Shariah compliant services based on input from Muslim minority customers, reinforcing concerns articulated in existing literature (Hoyer et al. 2010). Firstly, there's a risk of over-customizing services when too closely aligned with customer feedback. Emerging market trends should be juxtaposed against individual customer suggestions to mitigate this risk. Consequently, new service concepts necessitate validation with a broader customer base representative of the Muslim population. Secondly, identifying suitable Muslim customers for interaction presents challenges, necessitating in-depth market knowledge and customer connectivity. Thirdly, potential discrepancies between managerial objectives, primarily profit maximization, and customer objectives, focusing on tailored service delivery, can lead to customer reluctance, as expressed by a

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respondent, "Securing customer cooperation posed significant challenges. However, emphasizing mutual benefits associated with new services and innovations facilitated collaboration." Fourthly, certain Muslim customers may require added motivation for active participation. Respondents indicated the efficacy of both monetary and non-monetary incentives in fostering collaboration: "Augmenting incentives can amplify customer engagement and enhance the quality of insights shared." Managers deploy incentives, such as reduced interest rates and promotional offers, to incentivize business customers. Selecting customers with pre-existing strong relationships further mitigates these challenges as affirmed by a respondent, "Discernible disparities in attitudes and behaviors were evident between familiar and unfamiliar customer groups."

Table 3. Data Pattern for Interaction with Muslim Minority Customers

Research Issues	**Key Findings**
Process of Customer Interaction	• Muslim customers create their own methods to satisfy their needs. • Customer collaboration is a key strategy to gain insight into customer needs. • Managers are unaware of the stepwise process of NSD, yet a structured process containing 4 phases of initiation, comprehension, corroboration, and execution is needed. • Interaction with customers during all the 4 phases of NSD is important. • "Initiation phase" of the process is most important phase because idea generation and idea screening are the key activities in NSD. • The intensity of interaction is low at the two middle phases of comprehension and corroboration. • Muslim customers are willing partners in NSD • Muslim customers can perform these activities: describing the needs, problems and solutions, evaluating existing services, identifying gaps in the market, providing a new service wish list, jointly developing service blueprints, participating in a simulated service delivery process, providing feedback on various aspects of marketing of the new services, examining the overall sale-ability of a new service, adopting the service as a trial and recommending to other potential users.
Customer Interaction Approaches	Six customer interaction approaches are: 1. Conducting several initial face-to-face interviews and team meetings during the initiation phase of the NSD process. 2. Conducting innovation retreats and summits to assess customers' needs. 3. Increasing the amount of communication and informal interactions among the front-line employees and the ethnic customers. 4. Developing a close relationship with innovative and expert customers. 5. Holding periodic progress update meetings to remain up to date on new developments and emerging trends. 6. Using customer interaction strategy to educate customers about the new services or to develop a long-term relationship.
Risks in Customer Interaction	• Listening to customers too closely may create a risk of over-customization of new services. • Locating appropriate Muslim customers for interaction is rather challenging.

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	• Customers may be disinclined to cooperate because of the conflicting objectives and intents of managers versus customers. • Some ethnic customers may need extra motivation for their cooperation.

Source: Authors' elaboration

In conclusion, the insights delineated above and summarized in Table 3, underscore the pivotal role of customer interaction and manager-customer relationships. Echoing this sentiment, a respondent articulated, "Sustaining and fostering customer relationships remains paramount for upcoming projects. The journey has just commenced, and we remain optimistic about harnessing customer insights for innovative product ideation."

5. Research Implications and Conclusions

Our study delves into three key business issues: (a) the role of Muslim customers within a multiethnic country, (b) the significance of India's burgeoning market, and (c) the dynamics of interaction with Muslim customers in the NSD process adopted by financial service firms. Drawing from the analysis of these research issues, we present important implications for marketing scholars, practitioners, and policymakers. In doing so, our study offers two primary contributions.

Firstly, we address the growing demand for research on emerging markets, as advocated by both scholars and practitioners (e.g., Banerjee et al., 2015; Seth, 2011). Secondly, the extant literature on Muslim customers in India's emerging market predominantly remains conceptual or anecdotal. Furthermore, the intricate mechanisms governing service firms' interactions with Muslim customers across India and other emerging economies remain largely unexplored. To the best of our knowledge, this study is the first to analyze the dynamics of interaction with Muslim customers for NSD, thereby addressing the gap in existing research.

All firms encounter uncertainties in NSD, particularly when introducing a novel service tailored for specific demographics, such as new offerings for Muslim customers. A structured 4-phase NSD model, as proposed by Alam (2014), can substantially mitigate these uncertainties. However, even with a structured NSD model, questions may arise concerning the precise formulation and characteristics of the new services. Engaging Muslim customers and incorporating their insights into service development can address these uncertainties effectively. Customers can play a pivotal role in refining service concepts, critically assessing service delivery blueprints, and shaping final offerings tailored to their unique requirements, as delineated in Table 3.

Service managers can leverage this customer engagement framework as a comprehensive checklist for their NSD initiatives. Engaging with Muslim customers offers dual benefits: (1) it fosters customer relationships, as minority customers exhibit heightened receptivity to the offerings tailored explicitly for them (Grier & Deshpandé, 2001), and (2) it mitigates the perceptions of exclusion and marginalization, which is prevalent among Muslims and other ethnic minorities globally (Knight et al., 2009; Wilson & Liu, 2011). Consequently, we advocate for a systematic approach to properly engage minority customers in NSD. As the demographic and economic influence of minority customers grows, firms must proactively address their unique service requirements. Successful development of services catering exclusively to minority groups engenders mutual benefits for businesses and customers.

Our findings should interest Indian policymakers as well, underscoring the need to liberalize regulatory frameworks and incentivize service firms to develop offerings exclusively for Muslim minority customers. Such initiatives would facilitate enhanced inclusion of economically marginalized minority communities. Additionally, given the global proliferation of Muslim customer segments, our research insights hold relevance for other parts of world with sizeable Muslim population.

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In conclusion, our findings, coupled with existing literature, underscore the critical importance for managers to recognize and address the needs of Muslim customers through cstomized service offerings. Overlooking this demographic and marginalizing minority groups can result in missed opportunities, given that minority customers represent a significant and expanding market segment (e.g., Burton 2002; Jamal 2003; Knight et al. 2009; Lee et al. 2011). Moreover, scholars and industry practitioners increasingly acknowledge the influence of previously overlooked ethnic minority customer groups. This heightened influence stems from the rapid demographic growth of these populations across diverse global regions (Basov & Bhatti 2016; Pires et al. 2011; Pires & Stenton 2015; Penaloza 2018). Consequently, firms aspiring for growth and sustained prosperity must proactively target and engage this burgeoning market segment. Our research endeavors to promote this key strategic imperative.

6. Limitations and Future Research Agenda

Several limitations to our study highlight opportunities for further research. First, our data are derived from practices of purposefully selected financial service firms within a single emerging market. We opted for this singular national context to mitigate the variability in macroeconomic conditions across countries. While many emerging markets share cultural similarities, distinct findings might emerge in countries with a significant Muslim customer base. Therefore, expanding research to other nations is imperative to enrich the literature on customer interaction for developing Shariah compliant new services. Regarding the generalizability of our results, although India presents a unique scenario where religion and ethnicity intertwine, we posit that our research findings can be generalized to countries with comparable socioeconomic backgrounds. Second, our study focused on the services sector, characterized by intangibility, perishability, heterogeneity, and variability. Consequently, there's a need for research examining how marketers of tangible products can engage with Muslim customers. Third, as our study adopts a B2B perspective, future research might explore customer interactions within a business-to-consumer market framework. Fourth, it's essential to exercise caution when generalizing the findings of our study due to its limited sample size. Subsequent research endeavors could employ a large-scale empirical quantitative research design to validate our study's conclusions. Lastly, the cross-sectional nature of our study limits its insight into the dynamic processes of customer interaction for developing Shariah compliant new services compared to what a longitudinal design could offer. Therefore, employing a longitudinal research design in future studies could significantly enhance our comprehension of this key research domain. Scholars like Papastathopoulou & Hultink (2012) have also advocated for more longitudinal NSD research in global markets.

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Islamic microfinance as a panacea for poverty alleviation

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Abstract

Islamic microfinance is a tool for promoting financial inclusion and reducing poverty levels. Countries such as Nigeria has scanty empirical investigations in this regard. This calls for a more robust analysis. This study, therefore, investigated the influence of the Islamic microfinance system on poverty alleviation in Kwara State, Nigeria. Non-probability, purposive sampling was adopted to select traders and small business owners from the weekly-market setting of selected towns/villages in the three senatorial districts of Kwara State. Five (5) markets were selected from each of the three (3) senatorial districts. Data were collected with a structured questionnaire and analyzed with descriptive and inferential statistics. Ordered Logistic Regression was conducted. It was found that qard al hasan (0.91, $p<0.05$) murbah (0.72, $p<0.01$), mudharaba (0.51, $p<0.1$) musharaka (0.17, $p<0.05$) had a positive, significant effect on income level. It was also found that qard al hasan (0.38, $p<0.05$) murbaha (0.63, $p<0.01$), mudharaba (0.15, $p<0.05$) musharaka (0.59, $p<0.01$), zakat (0.45, $p<0.01$) and sadaqa (1.35, $p<0.01$) had a positive, significant effect on the productivity level. The study concluded that micro-credit, micro-equity and charity (social finance) products significantly influenced poverty alleviation. An adequate supply of shariah-compliant micro-credit, micro-equity and charity financial resources was recommended to boost the productivity and income levels of low-income earners and small business owners in the State. Also, the Central Bank of Nigeria (CBN) is encouraged to provide enabling environment for formal non-interest microfinance to promote financial inclusion and reduce poverty in the Country.

Keywords: Islamic Microfinance, Microcredit, Micro-equity, Nigeria, Social finance, Poverty alleviation.

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1. Introduction

The level of poverty in less developed countries like Nigeria is increasing at an alarming rate in recent times. In 2020, the National Bureau of Statistics (NBS) reported that about 40.1% of Nigerians are poor (National Bureau of Statistics, NBS, 2020). The aftermath effect of the COVID-19 pandemic and current economic conditions across the globe would have worsened and increased the rate from the 2020 report. The observed poverty level in Nigeria indicates that only some financial inclusion strategies, including microfinancing, towards alleviating poverty have yet to achieve the desired objectives. The essence of microfinance is to bridge the vacuum created by accessing financial resources from conventional banks by low-income earners and small business owners who could not meet the loan requirements. Thus, microfinance was introduced to bring low-income earners into the financial system and promote financial inclusion.

However, the socio-economic objectives of microfinance could not be said to have been adequately realized as sizeable number of Muslim populations in the country are still being indirectly excluded. The exclusion may be because certain low-income populations may freely choose not to use microfinance even in the presence of financial services due to religious beliefs (Maulana et al., 2018). On the other hand, the government has been facing challenges in implementing its poverty alleviation programmes. For instance, the TraderMoni, a Government Enterprise and Empowerment Programme (GEEP) Initiative, was introduced to provide a collateral loan of N10,000, with interest, to help small traders boost their trading activities. As good as this scheme sounds, some are automatically excluded due to poor design, formulation and implementation, and the charging of interest. Shaikh (2017) asserts that poverty is more effectively alleviated through profit-sharing-based (Islamic) microfinancing than interest-based microfinance. Thus, to ensure financial inclusion, Islamic microfinance based on interest-free loans is advocated (Ali, 2017). Islamic microfinance will provide adequate financial inclusion for low-income earners and small business owners (Ali, 2017; Alaro & Alalubosa, 2019). Increased financial inclusion tends to ensure the efficient allocation of resources, reduces inequalities and provides opportunities for the poor (Demirguc-Kunt, Beck & Honohan, 2008). There is also a need for the government to efficiently and leak-proofly transfer resources to improve the socio-economic life of citizens. Against this background, this study examined the influence of the Islamic microfinance system on financial inclusion and poverty alleviation in Kwara State, Nigeria.

The current microfinance arrangement could not address the socio-economic needs of low-income earners because it is interest-based. To resolve these issues, microfinancing must give access to interest-free financing. Islamic financial institutions follow Shariah principles and prohibit interest, making conventional interest rates ineffective in controlling credit demand (Drissi & Guerguer, 2023). This allows underserved low-income earners and small business owners to be financially included. Rather than give out loans in cash where repayment could at times be difficult, the asset-based financing model of Islamic microfinance could be introduced where funds are released only for real economic activities. The model also ensures effective monitoring and supervision of how the funds are utilized.

Although several studies have identified Islamic microfinance as a tool for bringing underserved poor people into the financial system to reduce poverty, empirical investigations are still scanty. This calls for a more robust analysis that will inform implementable policy recommendations. Furthermore, some of the previous studies such as Adnan and Ajija (2015), and Ibrahim and Murtala (2018) considered *mudharabah*, *musharakah*, *murabahah*, *ijarah* and *qard al-hasan* while ignoring *zakat*, *sadaqah*, *waqf* and *salam*. These neglected assets finances are important because they do not require repayment and can be used for a long time to help alleviate poverty. In addition, previous studies on poverty alleviation neglected the possible impact of income accruable to potential beneficiaries of Islamic microfinance. The justification for the income of beneficiaries of Islamic microfinance emanated from the theory of the vicious cycle of poverty that assumes that the bane of poverty is low income. These neglected areas constituted the need for this study. This study, therefore, examined the influence of the Islamic microfinance system on poverty alleviation in Kwara State, Nigeria.

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2. Literature Review

2.1 Concept of Microfinance

Microfinance is an arrangement through which financial services like savings, loan extension, payment services, money transfers and insurance services are provided to the poor, low-income earners and their microeconomic activities (Babu, Naratejaswini & Umakanth, 2019). According to the Reserve Bank of India (2000), microfinance is an arrangement that comprises the provision of money, credit, and other financial services to raise the standard of living and economic well-being of the underprivileged and small business owners in rural, semi-urban, and urban areas. Kurmanalieva et al. (2003) stated that microfinancing targets economically disadvantaged individuals by offering microcredit and other small-scale financial services. This is to improve their socioeconomic wellbeing. Microfinance is, therefore, a strategy for promoting financial inclusion. Supporting this assertion, Adnan and Kumar (2021) posited that microfinance offers banking services to those typically shut out of the traditional banking system. The arrangement is essential for ensuring the financial inclusion of those who are financially disadvantaged (Adnan & Kumar, 2021).

Discussing the importance of microfinance, Rohman et al. (2021) projected microfinance as a veritable tool for solving poverty-related problems as it can provide micro-loans to micro and small businesses. Despite the observed role of microfinance institutions, conventional microfinance institutions have fallen short of expectations and cannot solve the poverty problems. Rohman et al (2021) stated that conventional microfinance institutions could have more effectively addressed the problem of poverty because they still operate on interest. It is on this basis that Islamic microfinance was adopted to bridge this gap by promoting financial inclusion and alleviating poverty among low-income earners (Shinkafi, Yahya & Sani, 2019; Alaro & Alalubosa, 2019).

2.2 Islamic microfinance

Islamic microfinance is an arrangement that aims at improving the socioeconomic well-being of the poor, micro and small businesses who were financially marginalized by providing them with Sharıʿah-compliant financing (Akbar & Siti-Nabiha, 2022; Dusuki,2008). Rohman et al. (2021) viewed Islamic microfinance as an institution that operates on certain Islamic values like the application of *shariah maqasid*, prohibition of usury, elimination of injustice and gambling elements. As a subset of Islamic finance, Islamic microfinance adheres to Shari'ah law and forbids transactions based on interest known as *riba* (Hassan, et al, 2021). Therefore, Islamic microfinance operates its programs following the principles of Islamic Shariah which include prohibition of interest, risk sharing, avoidance of gharar or ambiguity and ensuring falah (welfare) for all members of the society (Nabi et al, 2017).

Islamic microfinance promotes financial intermediation and alleviates poverty. El-Komi and Croson (2013) observed that Islamic microfinance products, particularly microcredit, provide a platform for profit sharing and joint venture contracts, useful tools for mobilising funds for productive economic activities from Muslim and non-Muslim populations. This is because it can increase the pool of potential borrowers among Muslims and yield greater compliance rates among non-Muslims. Islamic microfinance has been linked with poverty alleviation through the moderating effect of financial inclusion (Ali, 2017). According to Shinkafi, Yahaya and Sani (2019), Islamic microfinance institutions can promote financial inclusion by providing Shariah-compliant financial services to solve grass-root problems relating to farming or agricultural financing.According to Rohman et al (2021), such services include buying and selling (*bay'u al-murabaha*), business cooperation (*al-musharakah, al-mudharabah*), lease-based (*al-ijarah*) and interest-free loans (*qardh al-hasan*). It is therefore advocated that Islamic microfinance institutions be situated for operation in rural areas to boost their productivity and financial inclusion (Al-Awlaqi & Aamer, 2019). This is necessary to alleviate poverty among people in rural communities, low-income earners, small business owners and petty traders (Shaikh, 2017). The role of Islamic microfinance in financial inclusion and poverty alleviation was also buttressed by Satar and Kassim (2020), who stated that Islamic microfinance is vital in enhancing financial inclusion among the poor, particularly in Muslim countries. Islamic microfinance institutions are in better positions for such responsibilities due to certain features like financial inclusion

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focus, collateral-free loans and low transaction cost, which differentiate them from other types of Islamic finance (Widiarto & Emrouznejad, 2015).

2.2.1 Islamic microfinance structures

Global Islamic Finance Report (2012) classified Islamic microfinance products into three structures: microcredit, micro-equity, and charity. Micro-credit involves using the business's assets based on a loan or lease, which absorbs the insufficient funds when a business opportunity arises. In the case of micro-equity factors of production are combined in a way that will make it possible for the profit or loss to be shared in the agreed ratio. The charity type of Islamic microfinance is when the institution or arrangement becomes an additional empowerment to people for safety and sustainability purposes (Nabi et al., 2017). According to Usman and Tasmin (2016), micro-credit products feature cards al-hasan, murabaha, ijarah, and salam, among others; micro-equity transactions come in the form of mudharaba and musharakah, while charity usually involves zakat, sadaqah and waqf. Apart from microcredit, micro equity and charity, which are the main financial services, Islamic microfinance also provides non-financial services like sensitization on Islamic ethical values, which aims at improving knowledge of Islamic religion, Islamic economics and finance (Senghor, 2023).

2.2.2 Microcredit products

Qardh al-hasan is an interest-free loan that is usually granted to accommodate target customers at times of emergency or shortage of liquidity and fosters good relationships between the institutions and their customers (Sadr, 2015). In Murabaha, an asset or a product is bought by the institution (such as a microfinance bank) and then sold at the cost-plus profit element to the customer (Ijaiya et al., 2021). In the case of ijarah, an agreement is reached between the owner or financier and the user to transfer the right to use an asset for a specified period in return for rental payments to the asset owner (Afkar, 2015). Salam is another Islamic finance contract that microfinance might adopt to serve small-scale enterprises. It is an agreement to sell some specified goods with known attributes like quantity and price, which are expected to be paid for at the time of the contract but delivered at a future date (IFSB, 2018).

2.2.3 Micro-equity products

Jimoh, Attah and Abdul (2021) view mudharabah as an Islamic financial contract under which capital is entrusted to an entrepreneur who invests the fund to make a profit, which is then shared between the financier and the entrepreneur. Microfinance institutions can also make funds available to small business owners to boost their businesses while sharing profit. Another profit-sharing-based micro-equity product is musharakah. According to Arshad and Ismail (2010), musharakah represents a partnership contract between two parties that both contribute funds to finance an identified project, and the profit or loss is then shared between the parties. Musharakah is also a product that might be suitable for alleviating poverty among low-income earners and small business owners if properly designed by microfinance institutions.

2.2.4 Charitable/Social Finance Products

Ahmed (2007) asserts that sadaqah, zakat, and waqf are some of the instruments that Islam has instituted to redistribute income and wealth and improve people's welfare in society. Zakat is a mechanism for redistributing income and wealth by collecting from the rich and distributing to the poor within the society to reduce inequality, foster socio-economic justice, and increase economic growth (Bilo & Machado, 2020; Manurung, 2013). Zakat and sadaqah are economic instruments through which the purchasing power of the needy is enhanced (Widiastuti et al., 2021). waqf is also a social financing instrument entailing the donation of movable or immovable assets by the owner for perpetual socio-economic benefits of the community (Widiastuti et al., 2022). Waqf funds can be made available for the construction of mosques, schools, hospitals and other social amenities and infrastructural developments (Sukmana, 2020). It is an Islamic economic

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tool that can respond to the economic needs of the poor and the poorest communities, thereby promoting economic growth (Widiastuti et al., 2022).
Structuring micro-credit, micro-equity, and social finance products under different models of Islamic microfinancing tends to boost financial inclusion and alleviate poverty in society.

2.2.5 Models for Islamic microfinancing

Nabi et al. (2017) noted that Islamic microfinance has some inclusive models to cater for small-scale businesses and the poor depending on the poverty level. The two financing models are charity-based and profit-based models. The charity-based model comprises zakat, sadaqa, and qard al-hasan, which serve the extreme and marginal poor just above the poverty line. According to Obaidullah (2008), the charity-based model that includes zakat, sadaqa and waqf is designed for the extremely poor, while charity based on zakat, waqf and qard al-hasan is meant for the marginal poor who are fairly above the poverty line.
The profit-based microfinancing model, however, consists of qard al-hasan and commercial funds to serve the needs of low-income earners (Nabi et al., 2017). Establishing Islamic microfinance institutions with models similar to these could increase financial inclusion and address the poverty level in society.

2.3 Concept of Poverty

Rothman (2013) defined poverty as the condition of not having sufficient or adequate money or other resources to meet the basic needs of human beings. It is an economic state where an individual or household cannot adequately cater to basic needs such as food, clothing, shelter, and other socio-economic obligations (Okpora, 2010). Poverty is multidimensional in nature, and different definitions could be provided in line with those dimensions. Gweshengwe and Hassan (2020) identified poverty's financial, economic and material dimensions.
According to Banerjee (2016), the financial dimension of poverty has to do with having no income at all or one that falls below a country's minimum wage, coupled with a lack of access to credit from financial institutions. Poverty is defined in the economic dimension when the resources required to have a decent life and good standard of living are not available (SIDA, 2017). Regarding the material dimension of poverty, it clarifies that people’s living conditions are characterized by material deprivation, such as having primarily low-quality goods and services (Terraneo, 2017). Poverty is also defined from social, seasonal, and environmental dimensions (Gweshengwe & Hassan, 2020).
Dogarawa (2008) observed that despite having a large deposit of natural gas and crude oil, Nigeria is still among the world’s 20 poorest nations, with many living in extreme poverty. This could be explained by a lack of access to funding to meet the basic necessities of life (Onakoyo & Onakoya, 2013). Despite efforts to lower the nation’s poverty rate over the years, the situation remained mostly unchanged. For instance, the NBS data from 202 states that 40.10% of Nigerians are still living in poverty.

2.4 Islamic microfinance and Poverty Alleviation

Islamic microfinance has enormous potential to reduce poverty since its Shariah-compliant products can be utilized as a financial inclusion strategy to reach the underprivileged who cannot access credit, particularly in rural areas. According to Haneef et al. (2015), Islamic microfinance institutions do not require collateral, so they have greater potential to help poor people through services like Qard hasan (interest-free loans) and profit-loss sharing plans based on contracts like mudharabah. Islamic microfinance has a comparative advantage over conventional finance, according to Siddiqi (2002). This is because Shariah-compliant products ensure a close link between Islamic finance and real economic activities, which adds value to financial activities. More jobs will be created, which will majorly influence unemployment and a long-term impact on economic growth and development (Onakoya & Onakoya,2013). Also, Asyraf (2010) sees Islamic microfinance as an alternative tool for addressing the poverty level among poor Muslims since conventional microfinance schemes have failed to achieve the same due to challenges of religious restriction and interest cost of credit. Alaro and Alalubosa (2019)

assert that, with the instrumentality of Islamic microfinance, poverty could finally be eradicated in Nigeria. Similarly, Dhaoui (2015) states that Islamic microfinance, a Shari'ah-compliant manner of providing finance to the marginally poor for their business, is one of the poverty alleviation schemes used to empower the poor and boost their productivity.
However, Mohamed and Fauziyyah (2020) opine that determining whether Islamic microfinance could effectively reduce poverty or improve people's living standards requires assessing the scheme's impact on their social and economic well-being. Although Islamic microfinance has yet to be formally adopted in Nigeria, its potential for alleviating poverty among the poor and small business owners could be evaluated (Onakoya & Onakoya, 2013). It is therefore necessary to assess Islamic microfinance as a tool for poverty alleviation in Nigeria.

2.5 Theory of Vicious Cycle of Poverty

The vicious cycle of poverty theory was propounded by Nurkse (1953) as a circular constellation of forces that act and react on one another in a manner that keeps the poor in the shackles of poverty (Abdullatif et al., 2017). Poverty has resulted from three major causes: unequal resource ownership, differences in the quality of human resources, and lack of access to capital (Kuncoro, 2010). Unequal ownership of resources may lead to unequal income distribution, and unequal quality of human resources can cause low productivity. Low investment, low productivity, low level of savings and low income are attributable to a lack of access to capital (Rohima et al., 2013). Based on these three causes of poverty, Nurkse (1953) hinged the vicious cycle of poverty theory (Rodlyah, 2023).
According to the vicious cycle theory, a poor person is likely to stay that way unless his income level rises considerably enough to release him from the cycle of poverty (Ajakaiye & Adeyeye, 2001). The theory is based on the notion that while those in the lower income bracket cannot afford to save or invest and so cannot escape the cycle of poverty, those in the higher income bracket can do so and maintain their current status (Rohima, Manzilati, & Ashar, 2013). Abdullatif, Omar and Udin (2017) observed that for developing countries like Nigeria, the vicious cycle of poverty seems multidimensional in that low-level income tends to result in a low level of education, leading to low technical skills and resulting in low income. The proponents of the theory believe that unless governments undertake massive investment programmes to end the vicious cycle of poverty, underdeveloped countries will never be able to escape the cycle of poverty (Abdullatif et al., 2017).
Relating the theory to the study, Islamic microfinance provides a platform through which poor and low-income earners can access capital to improve their socio-economic well-being and break the vicious cycle of poverty. The government can also use the scheme of Islamic microfinance to make investment programmes targeting low-income and poor people to alleviate poverty, as opined by the proponents of the vicious cycle of poverty theory.

2.6 Empirical Review

Empirical studies on Islamic microfinance and its impact on poverty alleviation still need to be completed. Some of the studies were reviewed, and a literature gap was created. Akhter, Akhtar and Jaffri (2009) analysed the service performance of Islamic microfinance in Indonesia. The study found that the institutions serve those living below the poverty line and suggested that interest-free loans be used to fight against poverty in the country. Similarly, Rahman (2010) investigated the impact of Islamic microfinance on rural poverty alleviation in Bangladesh. The study selected 1020 respondents, and the results showed that household income, crop and livestock productivity, and employment improved with the adoption of shariah-compliant microfinance. It was then concluded that Islamic microfinance programmes help alleviate poverty in Bangladesh. Also, Mohamed and Fauziyyah (2020) systematically reviewed the literature. They concluded that Islāmic microfinance would play a significant role in achieving Sustainable Development Goals (SDGs), especially in poverty alleviation, through adopting shariah-compliant innovative products and instruments. Quraisy, Abdul Razak and Alhabshi (2017) found that Islamic finance helps reduce poverty. However, Asyraf (2010) revealed that microfinance has not successfully reduced poverty in Bangladesh. Khaled (2011) revealed that Islamic Microfinance is having difficulties with limited funds or raising external finance, thereby limiting the effect of the institutions in alleviating poverty. Some other

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studies have found a positive impact of Islamic microfinance, especially in improving the livelihood of people and poverty reduction (Adnan & Ajija, 2015; Rokhman, 2014).

In Nigeria, some research works pointed to the potential of Islamic microfinance as a poverty alleviation tool. Onakoya and Onakoya (2013) examined the fundamentals of Islamic finance and envisioned its workings to identify the connection between sustainable development and actual economies. The study used a survey design with a scope limited to Ogun State, Nigeria. The study revealed that religious differences do not hamper the adoption of Islamic microfinance. They also found that Islamic microfinance will help reduce poverty in Nigeria when combined with the appropriate monetary and fiscal policy framework. Alaro and Alalubosa (2019) assessed the implementation of Islamic microfinance in Nigeria using analytical and qualitative analysis methods. The study assessed four Sharīʼah implementation tools: musharakah, mudharabah, zakat and waqf. It was found that Sharīʼah tools are viable and sustainable microfinance options that guarantee the financial inclusion of a large percentage of Nigeria's poor population. Ibrahim and Murtala (2018) employed chi-square and independent sample t-tests for their studies, and it was revealed that Islamic microfinance has the potential to alleviate poverty in the Bauchi state of Nigeria. However, Salaudeen and Zakariyah (2022) examined the obstacles impeding Islamic microfinance's contribution towards financial inclusion in Nigeria. The semi-structured interview was used for data collection. Results of data analysis showed that regulatory obstacles, acceptability, misconceptions, and awareness are the major impediments to Islamic microfinance in Nigeria.

Previous studies (such as Adnan & Ajija, 2015; Ibrahim & Murtala, 2018; and Alaro & Alalubosa, 2019) concentrated on microcredit and micro-equity financing, such as Mudarabah, Musharakah, Murabahah, Ijarah, and Qard Hasan, while excluding the social financing model of zakah, sadaqah, and waqf. This study considered all three models of microfinancing for addressing poverty in Kwara State, Nigeria.

3. Methodology

This study made use of the survey research design. The study population includes small business owners and petty traders in Kwara State. Non-probability, purposive sampling was adopted to select traders and small business owners from the weekly-market setting of selected towns/villages in the three senatorial districts of Kwara State. Five (5) markets were selected from the three (3) senatorial districts, totalling 15. The markets include Ilesha Baruba, Kiama, Gbugbu, Lafiagi, and Patigi markets from Kwara North. In Kwara South, Ganmo, Owode-Offa, Ajase, Oro and Iyana Share markets were selected. The sample also included Bode Saadu, Aboto, Ipata, Oja-Oba and Alapa markets from Kwara Central Senatorial District.

Data were collected with a structured questionnaire to obtain relevant data from the poor rural area residents. 100 copies of the questionnaire were administered to respondents in the 15 markets selected for the study. The questionnaire was structured in such a way that the respondents were able to provide information about sources of financing for their businesses. The information was then used to classify the finances under different microfinancing models as long as they were Shariah-compliant. The data were analyzed with descriptive statistics and inferential statistics. The descriptive analysis includes the use of Tables. Ordered Logistic Regression was conducted for the main data analysis.

4. Results and Discussion

4.1 Demographic Characteristics of Respondents

Table 1 shows some demographic characteristics of respondents. One thousand five hundred (1500) copies of the questionnaire were administered, out of which one thousand two hundred and seventy-five (1275) copies, representing 91%, were returned and used for the analysis. The remaining 225 copies were wrongly filled out/ unreturned and not used for the study.

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Table 1: Questionnaire Retrieval Analysis

Questionnaire	Frequency	Percentage (%)
Returned copies	1275	85.00
Wrongly filed/unreturned copies	225	15.00
Copies administered	1500	100.00

Source: Field Survey (2024).

Confirmatory factor analysis was performed regarding construct validity in terms of convergent validity. Kaiser-Meyer-Olkin (KMO) and Bartlett's tests were performed. The KMO measures sampling adequacy and ranges between 0 and 1.0. The KMO test was used to measure sample adequacy and determine the level of partial correlation between variables. The KMO value ranges from 0 to 1. The KMO value should be as near to 1.0 as possible. A KMO value from 0.8 to 1 indicates the adequacy of the sample selected for the study. This means that a KMO of at least 0.80 indicates that the sample is suitable for the analysis and generalisation of study findings. According to Table 2, the KMO value of each construct is 0.804, indicating that the selected sample is adequate and suitable for analysis and generalization.
The hypothesis underlying Barlett's test of sphericity is that the correlation matrix for the variables is an identity matrix. An identity matrix means that all the variables are uncorrelated. The hypothesis should be rejected if the p-value is less than a 5% significance level, and the conclusion will be that the correlation matrix is not an identity matrix. Rejection of such a null hypothesis means the variables are good for factor analysis. The results of Barlett's test of sphericity, as displayed in Table 2, showed that the p-value is 0.001, which is less than a 0.05 level of significance. This implies that the variables are ideal for factor analysis and that all measurement items of each sample are significant at level 0.05 based on Barlett's test of sphericity.

Table 2: Validity Tests

Variables	KMO	Bartlett's Test of Sphericity		
		Chi-square	Df	P-value
Operational Questions	.804	964.023	285	0.001

Source: Field Survey (2024)

Finally, the reliability analysis results in Table 3 indicate that the instrument is stable and consistent in measuring the impact of Islamic microfinance on poverty alleviation. It can be seen that the Cronbach's alpha test of factors (qard al hasan, murbaha, mudharaba, musharaka, zakat and sadaqa) influencing income level display satisfactory levels of reliability with Cronbach's alpha values higher than the minimum threshold (Cronbach's alpha > .70).

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Table 3: Reliability Statistics

Variables	Cronbach's Alpha	No. of Items
Income level	0.89	2
Productivity level	0.78	2
qard al hasan	0.91	2
Murbaha	0.75	2
Mudharaba	0.84	2
Musharaka	0.77	2
Zakat	0.76	2
Sadaqa	0.82	2

Source: Field Survey (2024)

4.2 Regression results

Table 4 shows the ordered logit regression estimates for the factors influencing income level to measure poverty alleviation in Kwara State, Nigeria. Column 1 and Column 2 contain the ordered logistic regression and its marginal effect, respectively. The coefficient estimates of the regressions were used to examine the nature of the relationship and significance of the independent variables. In contrast, the marginal effect was used to evaluate the extent (magnitude or size) of the impact of the independent variables on the dependent variable. In the model, income level was the dependent variable while qard al hasan, murbaha, mudharaba, musharaka, zakat and sadaqa were the independent variables influencing income level of low-income earners and small business owners in Kwara State in Nigeria.

The result of the ordered logit regression in Columns 1 and 2 revealed that Islamic microfinance variables (qard al hasan, murbaha, mudharaba, and musharaka) are positively related to the income level of the selected low-income earners and small business owners in Kwara State, Nigeria. From Table 4, qard al hasan has a coefficient of 0.91 and a standard error of 0.39, indicating that an increase in the supply of qard al hasan will increase income level. The relationship between Qard al Hasan microcredit and income level was found to be statistically significant, as can be derived from the figures shown in Table 4 with standard error less than the value of the coefficient of Qard al Hasan. A similar result is reported for Murabaha microcredit financing of Islamic microfinance. The coefficient of Murabaha is 0.72, with a standard error of 0.20. Half of 0.72 is still greater than 0.20, implying the relationship is statistically significant. Similarly, the relationship between mudharaba and musharaka microequity financing and income level was also positive. Any increase in either micro-equity financing will increase the income level of low-income earners and small business owners. The relationships were statistically significant at 5% (musharaka) and 10% (mudharaba) levels of significance. The significance of each variable is shown in Table 4 by standard errors, which are less than half of the coefficient of the variables. The results imply that both micro-credit and micro-equity products of Islamic microfinance can boost the income level of low-income earners and small business owners and consequently reduce poverty among the poor people of Kwara State, Nigeria.

Conversely, the two charity products (zakat and sadaqa) had positive but insignificant effects on income level. The relationship between each of the two variables is indicated in Table 4 by the coefficients of 0.56 and 0.29, whose half is less than the standard errors of 0.49 and 0.18, respectively.

The coefficients of the cut parameters were used to examine the essence of the response categories (strongly agreed, agreed, undecided, disagreed and strongly disagreed). If the cut values were statistically significant, the categories were maintained in the interpretation; otherwise, insignificant categories were to be collapsed into a category. In Table 4 and 5,

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all the constant cut values except cut 3 were statistically insignificant; therefore, we can collapse all other categories apart from categories 3 and 4. This implies that the undecided, disagreed and strongly disagreed respondents did not distinguish responses, but strongly agreed and agreed responses were clearly defined.
The log-likelihood chi-square statistics were reported to examine the model's goodness of fit. The fitness statistics of the ordered logit are 79.52, with a P-value of 0.0000. Since the probability values of the fitness statistics are less than 5% significant, the model is a good fit. So, the model's result is viable for tenable conclusions and recommendations.

Table 4: Estimates of Ordered logit regression and the marginal effect

	Dependent variable is Income level	
INDEPENDENT VARIABLES	coefficients of ordered logit (1)	Marginal effect after ordered logit (2)
Qard al hasan	0.91**	1.54**
	(0.39)	(0.17)
Murbaha	0.72***	0.10***
	(0.20)	(0.03)
Mudharaba	0.51*	0.33*
	(0.23)	(0.14)
Musharaka	0.17**	0.48**
	(0.02)	(0.11)
Zakat	0.56	0.28
	(0.49)	(0.17)
Sadaqa	0.29	0.13
	(0.18)	(0.09)
Constant cut1	-0.0041	-0.0053
	(0.0019)	(0.0044)
Constant cut2	2.1298	
	(1.6210)	
Constant cut3	7.5533***	
	(2.6655)	
Observations	1275	1275
Fitness statistics	79.52	
Probability of fitness statistics	0.0000	

Source: Author's Computation (2024).
Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1 denotes 1%, 5%, and 10% significance level respectively.

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Table 5: Estimates of Ordered logit regression and the marginal effect

	Dependent variable productivity level	
INDEPENDENT VARIABLES	coefficients of ordered logit (1)	Marginal effect after ordered logit (2)
Qard al hasan	0.38**	0.47**
	(0.16)	(0.13)
Murbaha	0.63***	0.27***
	(0.22)	(0.11)
Mudharaba	0.15**	0.072**
	(0.04)	(0.01)
Musharaka	0.59***	0.88***
	(0.12)	(0.31)
Zakat	0.45***	0.74***
	(0.19)	(0.29)
Sadaqa	1.35***	0.85***
	(0.43)	(0.33)
Constant cut1	-10.394***	3.110***
	(3.2491)	(0.9526)
Constant cut2	-14.629***	
	(2.9551)	
Constant cut3	-2.1374	
	(0.7441)	
Observations	1275	1275
Fitness statistics	19.46	
Probability of fitness statistics	0.0000	

Source: Author's Computation (2024). Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1 denotes 1%, 5%, and 10% significance level respectively.

5. Discussion

To further investigate how Islamic microfinance affects the poverty level among low-income earners and small business owners in Kwara State, Nigeria, ordered logit regression was also estimated with productivity level as the dependent variable (Table 5).

The result shows that productivity level is positively related to all the variables (qard al hasan, murbaha, mudharaba, musharaka, zakat and sadaqa). That is, the higher the value of these factors, the more likely low-income earners and small business owners are to experience higher productivity. Regarding microcredit products, qard al hasan had a coefficient of 0.38, which means a 1% increase in qard al hasan financing will increase productivity by 0.38%. Similarly, the coefficient of Murbaha financing is 0.63, meaning that increasing Murabaha financing tends to increase productivity. The relationships were significant at 5% and 1% levels of significance, respectively. This implies that a positive and significant

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relationship exists between microcredit products of Islamic microfinance and the productivity of low-income, small business owners.

Both mudharaba and musharaka are micro-equity products with coefficients of 0.15 and 0.59, respectively. The higher the supply of the two financial products, the higher the productivity level, as the positive coefficients indicate. The effects of the two products were found to be significant at both 1% and 5% significance levels, respectively. Also, zakat and sadaqah (charity products) had a significantly positive relationship with productivity level. This is indicated by the reported coefficients of 0.45 and 1.35 for zakat and sadaqa, respectively. All the coefficients of the variables were statistically significant at 1% and 5%, given that the standard errors of the coefficients were less than half of the values of the coefficients. Hence, all the variables were significant determinants of productivity level. All the cut parameters (cut1, cut2 and cut3) were statistically significant. Thus, all the response categories (strongly agreed, agreed, undecided, disagreed and strongly disagreed) could be maintained.

To examine the model's goodness of fit, the log-likelihood chi-square statistics were reported. The fitness statistics of the ordered logit were 19.46, with a P-value of 0.0000. Since the probability values of the fitness statistics were less than 5% significant, the model had a good fit. So, the model's result is viable for tenable conclusions and recommendations.

6. Conclusion

Islamic microfinance has been identified as a tool for bringing underserved poor people into the financial system to reduce poverty. Empirical investigations are, however, scanty in this regard, calling for a more robust analysis. This will inform implementable policy recommendations. The study, therefore, investigated the influence of the Islamic microfinance system on poverty alleviation in Kwara State, Nigeria. Specifically, the study examined the effect of microcredit, micro-equity, and charity financing on the income and productivity levels of low-income and small business owners in Kwara State. It was found that microcredit, micro-equity, and charity products of Islamic microfinance are positively related to income levels. The variables also significantly affected poverty alleviation in Kwara State, Nigeria. Based on the findings, the study concluded that micro-credit, micro-equity and charity (social finance) products significantly influenced poverty alleviation in Kwara State, Nigeria.

The study, therefore, recommended an adequate supply of shariah-compliant micro-credit, micro-equity and charity financial resources such as qard al hasan, murbaha, mudharaba, musharaka, zakat and sadaqa. This will boost the productivity and income levels of low-income earners and small business owners in the State. It was also recommended that the Central Bank of Nigeria (CBN) provide an enabling environment for formal non-interest microfinance to promote financial inclusion and reduce poverty in the country. Finally, the study recommended further research that will increase the sample size and geographical coverage for higher generalizability of findings.

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