

**DETERMINANTS OF CUSTOMERS' INTENTION TO
USE ISLAMIC BANKING PRODUCTS: A STUDY OF
CONSUMERS IN KOTA KINABALU, SABAH**

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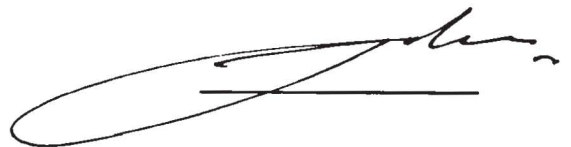
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ABSTRACT

The purpose of this research is about to examine the determinants of intention to use Islamic banking product. This research focused on Sabah customers who are banking with selected banks which are CIMB Bank Berhad, Malayan Banking Berhad (Maybank), RHB Bank Berhad, and Public Bank Berhad. From that, the researcher conduct this research in objective to examine the intention to use Islamic banking products selected banks located in Kota Kinabalu, Sabah. In this research, the independent variables are attitude, social influence, religious obligation, government support and the pricing of Islamic banking products. A total of 131 sets of questionnaire were collected from target respondents and this data were analyzed by used the Statistical Package for Social Science (SPSS) version 20 and Smart Partial Least Square (SmartPLS) version 2. The data collection method using convenience sampling technique that distributed to selected banks in Kota Kinabalu, Sabah. The contribution of this research was divided to two categories which are theoretical contribution and practical contribution. The result in this research showed interesting findings where independent variables attitude, government support and social influence was supported. Pricing of Islamic banking products and religious obligation was not supported. Limitation and implication result from this research and future research suggestion also included in this paper.

ABSTRAK

Tujuan kajian ini adalah tentang mengenal pasti faktor penentu tujuan untuk menggunakan produk perbankan Islam. Kajian ini memberi tumpuan kepada pelanggan di Kota Kinabalu Sabah yang menggunakan perbankan dengan bank-bank terpilih seperti CIMB Bank Berhad, Malayan Banking Berhad (Maybank), RHB Bank Berhad, dan Public Bank Berhad. Kajian ini dijalankan dengan objektif untuk menilai tujuan menggunakan produk perbankan Islam. Dalam kajian ini, pembolehubah bebas adalah sikap, pengaruh sosial, agama, sokongan kerajaan dan harga produk perbankan Islam. Sebanyak 131 set soal selidik telah dikumpulkan daripada responden dan data ini dianalisis dengan menggunakan Statistical Package for Social Science (SPSS) versi 20 dan Smart Partial Least Square (SmartPLS) versi 2. Kaedah pengumpulan data menggunakan teknik persampelan mudah yang diedarkan kepada bank-bank terpilih di Kota Kinabalu, Sabah. Sumbangan kajian ini dibahagikan kepada dua kategori iaitu sumbangan teori dan sumbangan praktikal. Hasil kajian ini menunjukkan hasil keputusan dimana pembolehubah bebas sikap, sokongan kerajaan dan pengaruh sosial disokong. Harga produk perbankan Islam dan kewajipan agama tidak disokong. Had dan hasil implikasi daripada kajian ini dan cadangan kajian juga dibincangkan dalam kajian ini.

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TABLE OF CONTENTS

	Page
TITLE	i
DECLARATION	ii
<i>PENGAKUAN</i>	iii
CERTIFICATION	iv
ACKNOWLEDGEMENT	v
ABSTRACT	vi
<i>ABSTRAK</i>	vii
TABLE OF CONTENTS	viii
LIST OF TABLE	xii
LIST OF FIGURE	xiv
LIST OF ABBREVIATION	xv

CHAPTER 1: INTRODUCTION

1.1	Introduction	1
1.2	Background of Study	1
1.3	Problem Statement	3
1.4	Purpose of Study	5
1.5	Research Question	6
1.6	Research Objective	6
1.7	Scope of Study and limitation	7
1.8	Definition of term	8
	1.8.1 Intention	8
	1.8.2 Attitude	8
	1.8.3 Social Influence	9
	1.8.4 Pricing of Islamic Banking Products	9
	1.8.5 Religious Obligation	9
	1.8.6 Government Support	10
1.9	The Organization of This Dissertation Format	10

CHAPTER 2: LITERATURE REVIEW

2.1	Introduction	11
2.2	The Development of Islamic Banks in Malaysia	11
2.3	Principles in Islamic Banking Products	12
2.4	Theory of Reasoned Action	13
	2.4.1 Attitude and Its Relationship with Intention	14
	2.4.2 Social Influence and Its Relationship with Intention	15
	2.4.3 Religious Obligation and Its Relationship with Intention	16
	2.4.4 Government support and Its Relationship with Intention	18
	2.4.5 Pricing and Its Relationship with Intention	19
2.5	Summary	20

CHAPTER 3: RESEARCH METHODOLOGY

3.1	Introduction	21
3.2	Research Framework	21
3.3	Research Hypothesis	22
3.4	Research Design	23
3.5	Research Method	23
	3.5.1 Sample	23
	3.5.2 Data Collection	24
3.6	Research Instrument	25
	3.6.1 Measurement of Attitude	26
	3.6.2 Measurement of Social Influence	27
	3.6.3 Measurement of Religious Obligation	28
	3.6.4 Measurement of Government Support	28
	3.6.5 Measurement of Pricing of Islamic products	29
	3.6.6 Measurement of Intention to use Islamic Banking Products	30
	3.6.7 Data Analysis Method	30
3.7	Population and Sampling	31
	3.7.1 Target Population	31
	3.7.2 Sample Size	31

3.7.3 Sampling Technique	31
3.8 Data Analysis Technique	32
3.8.1 Convergent validity	32
3.8.2 Discriminant validity	32
3.8.3 Cross Loading	32

CHAPTER 4: DATA ANALYSIS FINDINGS

4.1 Introduction	34
4.2 Data Collection and Response Rate	34
4.3 Profile of Respondents	34
4.4 Measurement Model	36
4.4.2 Convergent Validity	39
4.4.2 Discriminant Validity	41
4.4.3 Cross Loading	41
4.5 Structural Model	45
4.5.1 Coefficient of determination (R^2)	45
4.5.2 Path Coefficient	46
4.5.3 Hypothesis Testing	46

CHAPTER 5: DISCUSSION AND CONCLUSION

5.1 Introduction	48
5.2 Recapitulation of the study findings	48
5.3 Discussion of Findings	49
5.3.1 The relationship between attitude and the intention to use Islamic banking products	49
5.3.2 Examine the relationship between social influences in the intention to Islamic banking products	50
5.3.3 The relationship between religious obligation and the intention to use Islamic banking products	50
5.5.4 The relationship between government support and the intention to use Islamic banking products	51

5.5.5 The relationship between pricing of Islamic banking products and the intention to use Islamic banking products	51
5.6 Implication	51
5.6.1 Theoretical Contributions	52
5.6.2 Practical Contributions	53
5.7 Limitation	53
5.8 Conclusion	54

References	55
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Appendix	
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LIST OF TABLES

Table 3.1	Measurement item for Attitude	26
Table 3.2	Measurement Items for Social Influence	26
Table 3.3	Measurement Items for Religious obligation	27
Table 3.4	Measurement Items for Government Support	28
Table 3.5	Measurement Items for pricing of Islamic products	29
Table 3.6	Measurement Items for Intention to use Islamic Banking products	30
Table 4.1	Profile of Respondent	34
Table 4.2	Measurement Model	38
Table 4.4	Discriminant Validity	41
Table 4.5	Cross Loading	41
Table 4.6	Measurement Structure	43
Table 4.7	Hypothesis Testing	46

LIST OF FIGURES

	Page
Figure 2.1: Theoretical Framework by Fishbein & Ajzen	13
Figure 3.1 Theoretical framework of the study Adopted and Adapted (Amin <i>et al.</i> 2011)	22
Figure 4.1 PLS Model Graph (Algorithm)	36
Figure 4.2 PLS Model Graph (Bootstrapping)	37

LIST OF ABBREVIATION

PLS-SEM	A Primer On Partial Least Squares Structural Equation Modeling
AVE	Average Variance Extracted
BIMB	Bank Islam Malaysia Berhad
AT	Attitude
SI	Social Influence
R	Religious Obligation
GS	Government Support
P	Pricing of Islamic banking products
R^2	Coefficient of determination
CR ^b	Composite Reliability
ATM	Automated Teller machine

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter will briefly touch on the topic of the study, the background of study, state problem, the purpose of the study as well as the objectives, the research questions being addressed, the significance of the study to several parties, and lastly define the main terms regarding the study for better comprehension of this write up.

1.2 Background of Study

For the past 30 years, the Islamic bank has emerged as one of the rapid growing industries in the worldwide (Dusuki & Abdullah, 2006). Islamic banking has spread worldwide and it received widely acceptance by both Muslim and non- Muslim (Iqbal & Molyneux, 2005). According to Henry and Wilson, (2004); Iqbal and Mirakhor, (2007), the Islamic bank perform the same essential functions as conventional bank system does, except Islamic Bank need it is crucial for them to carry out transaction that follows with the rules and principles of Islam. Islamic Banking strictly prohibit the excess interest charge also called *riba (usury)* and the involvement in unethical activities such as speculation, gambling, and liquor (Amin, Rahman, Sondoh & Hwa, 2011).

As mentioned earlier Islamic Banking are already wide acceptance worldwide, Islamic Banks specifically in Malaysia has provide with variety and diverse banking products to carter financial need to both Muslim and non-Muslim customers (Amin *et al.*, 2011). Personal financing is considered the well popular products being offered to customer by both Islamic financial institution and conventional financial institution. Current situation showed that, the increase numbers of customers' demands for Islamic financing in general, it is interesting to investigate "determinants of the intention to use Islamic personal financing by customers"

(Amin *et al.*, 2011). This paper focused on the intention to use the Islamic banking products offered by the financial institution called Islamic bank.

Past studies by Taib, Ramayah, and Razak, 2008; Yuserries, Noresma, and Ramayah, (2004), found that there are valid construct to make it clear about the individual's accepting the Islamic product which is "attitude" and "social influence". Others independent variables such as government support, religious obligation and pricing of Islamic personal financing are also expected to gives a significant effect on the intention to use Islamic personal financing (Amin *et al.*, 2011). System of bank Islam is one of the fast growing system in Malaysia this proves the exits of government support, in addition government has allow the establishment of Bank Islam Malaysia Berhad (BIMB) without any competitor for ten years before allowing others Islamic bank in 2003 (Amin *et al.*, 2011). Previous research also shows that the most of banking customers prefer Islamic banks due to religious influences (Haron, Ahmad, & Planisek 1994; Haron *et al.*, 1992). In a similar to the study done by Amin, (2008); , Rosly, (1999); Haron *et al.*, (1992) in which goes to say that pricing is a key point when it comes to selecting their bank in which at the end of the day customers can fully utilize its service offered by bank.

Current study broadens the past research done by adopting the theory framework that had been carried and expended by Fishbein and Ajzen (1975) reasoned action (TRA). Study adopted the model of TRA and included five independent variables which is "attitude", social Influence", "religious obligation", "government support", and "pricing of Islamic personal financing". This adjusted framework examined on customers based in Kota Kinabalu Sabah.

The organization of this paper as follows: Chapter 2 presents the literature Islamic banking in Malaysia, discussed on literature related to the TRA and research objectives. In chapter 3 which will discuss more about the framework of also construction of hypotheses. Chapter 4 presented the research model, followed by discussion of research method and further this paper show the outcome of the research in chapter 5 and also provides the

conclusion and discusses restraint of the study and also will discussion for the improvement of future study.

1.3 Problem Statement

Theory of Research action (TRA) by Fisbein and Ajzen (1975) has been used as the model of studies by various academic researchers since the theory is well-matched to examine and predict particular behaviour. Although there are abundance of studies that extend the understanding on customer preferences towards Islamic bank in Malaysia, only few of these studies using this theory. Two components of TRA which are attitude and social influence had been used as factors to study "Islamic home financing" (Taib, Ramayah & Razak, 2008), "Islamic personal financing" (Amin *et al.*, 2011), Islamic credit cards (Amin, 2012; Amin, 2013). These researchers had narrowed their research on particular Islamic products rather than study the Islamic banking product as a whole. It is important to investigate the intention to choose Islamic banking product in general in the first place. Why it is important to investigate customers' intention to use Islamic products, it is because base on customers' acceptance towards general products will lead their intention to use the banking product. This study used modified model of TRA as a baseline theory in predicting the determinants which influence the customer' intention to use Islamic banking products in the midst of a competitive business environment.

Previous study by Amin *et al.* (2011), found that the stronger the attitude the more the usage of Islamic personal financing, study done in Labuan and also East Malaysia. The study have the similar findings with Alam *et al.*, (2012); Alam, Janor, Zanariah, Che Wel and Ahzan, (2012) in examine undertake of the Islamic home financing and the findings was significantly related to attitude customers based in Klang valley. Study by Gopi and Ramayah (2007) identified attitude as a key predictor the use of online banking. However, there is limited empirical evidence in the area of Islamic banking products in general as to whether attitude is a possible determinant for customers based in Kota Kinabalu to use Islamic Banking Products.

Besides, previous study social influence showed significant result in selecting banks and intention to purchase. Social influence from the referent group has affected the intention to use diminishing partnership home financing (Taib *et al.*, 2008). Social influence was found to be the most important that effect on behavioural intention to adopt mobile banking (Khatimah & Halim, 2016). Thus, this study examined on mass customer base in Kota Kinabalu on social influence in determinant intention to use Islamic banking products.

Religiosity was found to be tridimensional according to Souiden and Rani (2013), the result from their study shows that the more an individual fear of divine punishment, the more an individual will develop a favourable attitude towards Islamic banks. In addition, the stronger the person believes in the law with regards to Islam, the more favourable an individual attitude towards Islamic banks. On the other side, religious obligation were found not significant in effecting the intention to use Islamic personal financing (Amin *et al.*, 2011). In this current study, the intention to use Islamic products is not restricted to only Muslim but also to consumers with different belief background. This study was focused on customers in Kota Kinabalu how religious have determined their intention to use Islamic banking products.

Government has been in the first place giving full support when Islamic banking was introduced in Malaysia. Interference by government support has shown that strength growth of dual banking system applied in Malaysia, where Islamic banking practised parallel with its counterpart in the conventional banking system (Amin *et al.*, 2011). In the study by Amin *et al.* (2011) were found to be no relationship with the intention to use Islamic personal financing. Result study done by Gumel, Othman and Yusof (2015), government support was found to be insignificant to their findings. Contradict with the study done in Pakistan government support was found to be significant with the intention to use Islamic personal financing. Current study has included government support to be one of the independent variable, as a predictor to the intention to use Islamic bank products.

Lower monthly payment is one of the positive trigger for customer to deal with Islamic bank, pricing is also variable for the intention to select Islamic personal financing (Amin, 2008). Lower cost compare to the conventional bank products will be more attractive, this is the factor that perceived by corporate customers in selecting their banks Ahmad and Haron, (2002). The lower the price of Islamic personal financing the most likely customers going to use the product (Amin *et al*, 2011). Past study by Amin (2008), Abdullah and Dusuki (2006) and Rahman (2005), found that pricing to be the important indicator to the Islamic banks' patronage on a particular banking product. Even though previous study has confirm that lower pricing found to be significant customers in selecting Islamic products, Kota Kinabalu has different outcome in this study, the different demographic and the existence of statutory body that provide financial help influence on Kota Kinabalu customers in purchasing Islamic banks' products.

Based on the insufficiencies discussed, this study look on the influences of attitude, social influence on the intention to use Islamic banking products among the bank customers in Kota Kinabalu. It is interesting and also important to investigate determinants of the intention to use Islamic banking products, because over decades there is significant growing of customer demands for the product of the Islamic financing in overall (Amin *et al*, 2011). Beside result of this study fulfil the gap previous study and finding of this study will give valuable insight to the factors changing the bank customers' intention to use Islamic banking products, for the case Islamic banks. At the same time, this study will also look into moderating effect of pricing of Islamic bank products on the determinants and intention to use Islamic banking products.

1.4 Purpose of Study

The purpose of this study is to examine the determinants of intention to use Islamic banking products by customers based in Kota kinabalu Sabah. Islamic banks also to be expected in giving same products like conventional banks and products that to be delivered will also considered meets the needs of their customers. The current study look into the effects of the

following factors: social influence; attitude; government support; religious obligation and also the pricing, on the intention to use Islamic banking products.

1.5 Research Question

This study is planned to answer the following question.

1. Does attitude has a positive relationship with intention to use Islamic banking products among the bank customers in Kota Kinabalu?
2. Does social influence have a positive relationship with intention to use Islamic banking products among the bank customers in Kota Kinabalu?
3. Does religious obligation have a positive relationship with intention to use Islamic banking products among the bank customers in Kota Kinabalu?
4. Does government support have a positive relationship with intention to use Islamic banking products among the bank customers in Kota Kinabalu?
5. Does pricing have a positive relationship with intention to use Islamic banking products among the bank customers in Kota Kinabalu?

1.6 Research Objective

The study would like to achieve the following objectives throughout the study period.

1. To examine the relationship between attitude in the intention to use Islamic banking products.
2. To examine the relationship between social influences in the intention to Islamic banking products.

3. To examine the relationship between religious obligation in the intention to use Islamic banking products.
4. To examine the relationship between government support in the intention to use Islamic products.
5. To examine the relationship between pricing of Islamic banking products in the intention to use Islamic banking products.

1.7 Scope of Study and Limitation

The scope of study basically will be based on Kota Kinabalu Sabah, and the customer sample taken from different banks such as CIMB Bank Berhad, Malayan Banking Berhad (Maybank), RHB Bank Berhad, and Public Bank Berhad. Present study will examine the determinations of "customers' intention to use Islamic banking products" particularly in Kota Kinabalu Sabah. Questionnaires will be distributed to all walk in customers that doing transaction in the bank regardless their religion and which district of Sabah they came from. Present study showed that different races of respondents such as Sino-native, Indigenous Sabah such as Kadazan, Dusun, Murut, Runggus and Bajau other ethnic such as Chinese and Brunei. The study will take customers with age range between 20 to 50 years old. This study the respondents are in this case selected randomly. Study was taken part in Kota Kinabalu specifically because this will include customers all around Sabah region. Thus the result from this study might generalize to a wider population than in Kota Kinabalu itself. The result from this study only applicable for Kota Kinabalu, result might be differ from other district or states, other limitation was present study did not measure satisfaction of customers. Thus this limitation can be done in future research.

1.8 Definition of Term

1.8.1 Intention

Behavioural intention is considered a willingness to adopt, use or accept an act of behaviour (Ajzen & Fishbein, 1975). In addition, many studies have concluded that intention also reflects actual behavior and as such, it is sufficed to look only into either one of the said constructs (Putit & Johan, 2015). Ajzen and Madden (1986) in their study demonstrates that the stronger or dominant a person's intention, the more the person is expected to try, and hence the greater or the more the likelihood that the behaviour will actually be performed. In this study, intention demonstrates the consumers' intention to use on Islamic banking products. Few studies have done of Islamic banking products in general (e.g. Amin *et al.*, 2011) but it was a research on personal financing, there is very little research on gauge consumers' intention to use Islamic banking products. As such it is posited that intention is influenced by other factors such as attitude, social influence and pricing as independent variables in this study.

1.8.2 Attitude

Attitude according Fishbein and Ajzen (1975), it is referring to the positive or negative feelings resulting from individuals in performing certain behaviour. Amin *et al.* (2011), found that the stronger the attitude the stronger the selection of Islamic personal financing. In a similar way, Alam *et al.* (2012), the findings in examines the engage of the Islamic home financing was significantly related to attitude. Study by Gopi and Ramayah (2007) recognize attitude as an important seer in the usage of online banking. Research from previous study done by Engel *et al.* (1978); Howard and Sheth (1969); and Nicosia (1974), the findings found was attitude is always reported as a strong in the determinant of purchase intention. Study by Taib *et al.* (2008) one of the Islamic product offered by Islamic bank in Malaysia is home financing in that, it is confirms that a significant relationship exist between attitude and intent to call upon a contract between two parties, where one partner progressively buys the whole part of property also called *Musharakah Mutanaqisah*. In another study, Lada *et al.* (2009) explore *halal* product choices in Malaysia and find that attitude correlates with the

consumption of *halal* products. Similarly, Hanudin and Rostinah (2010) found that, in Malaysia, attitude towards *Qardh Hassan*, an Islamic financing method, positively correlates with intention to apply for credit.

1.8.3 Social Influence

Subjective norms which involve social influences gauge the influence or pressure by social on individuals to perform or not to perform certain behaviour by Ajzen (1985). The pattern of the most immediate peer group or the "local circle of influence" (Taylor and Todd, 1995a) are shown as having the strongest influence. In this study, if consumers believe that people that close to them important to their decision in using Islamic banking products, then they will have higher intentions of accepting such products. On the contrary, if consumers believe that those people important to them think that such products are unacceptable, they will then have lower intentions of accepting such products. Hence, this study examine whether social influence to have a significant influence on consumers' intention to use Islamic banking products.

1.8.4 Pricing of Islamic Banking Products

Lower monthly payment is one predictor of the motivators for customer to deal with Islamic bank, pricing is also the determinant for the view of intention to use the Islamic personal financing (Amin, 2008). Lower cost compare to the conventional bank products will be more attractive, this is the factor that perceived by corporate customers in selecting their banks Ahmad and Haron, (2002). The lower of the pricing of Islamic personal financing result most likely customers going to use the product (Amin *et al.*, 2011). Past study by Amin (2008), Abdullah and Dusuki (2006) and Rahman (2005), findings in their study showed that pricing of product is one of the important predictor in the Islamic banks' patronage on a particular product.

1.8.5 Religious Obligation

The very definition of religiosity offered by Johnson *et al.* (2001) suggest that it is strongly related to attitude, in line with Fishbein and Ajzen (1975, p.11), who wrote that attitude is

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