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BORANG PENGESAHAN TESIS

JUDUL KAJIAN: Determinants of Intention to Use Islamic Banking Products:A Study of Bank Customers in Kota Kinabalu, SabahIJAZAH: Master of Business Administration (CMA)SAYA Fazha Binti Jazah SESI PENGAJIAN 2014 /2015

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

FAZHA BINTI JAZAH



**DISSERTATION SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE
MASTER OF BUSINESS ADMINISTRATION**

**FACULTY OF BUSINESS, ECONOMICS AND
ACCOUNTANCY
UNIVERSITI MALAYSIA SABAH
2015**

DECLARATION

I hereby declare that the material in this study is my own except for quotations, excerpts, equations, summaries and references, which have been duly acknowledged.

30th SEPTEMBER 2015



FAZHA BINTI JAZAH

MB1412062T



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CERTIFICATION

NAME : **FAZHA BINTI JAZAH**

MATRIC NO : **MB1412062T**

TITLE : **DETERMINANTS OF INTENTION TO USE
ISLAMIC BANKING PRODUCTS: A STUDY OF
BANK CUSTOMERS IN KOTA KINABALU, SABAH.**

DEGREE : **MASTER OF BUSINESS ADMINISTRATION (MBA)**

DECLARED BY

1. MAIN SUPERVISOR



MR. ROSLE MOHIDIN

SIGNATURE

A handwritten signature in black ink, appearing to be "R. Mohidin", written over a horizontal line.

2. CO-SUPERVISOR

DR. FZLINDA FABEIL

SIGNATURE

A handwritten signature in black ink, appearing to be "F. Fabeil", written over a horizontal line.

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Alhamdulillah, praise to Allah S.W.T, the Al-Mighty and Merciful, because of the blessing given that made possible for me to complete this research.

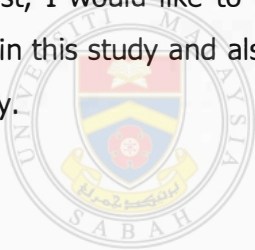
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FAZHA BINTI JAZAH

MB1412062T



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ABSTRACT

Nowadays, intense competition that exists in the financial market has cause a big challenge on profitability in banking institutions of all sizes. As Malaysia is a Muslim country where both Islamic banks and conventional banks are operated, it is crucial to understand the main factors that encourage customers to use Islamic banking products, thus enable the marketing effort could be done efficiently. The main purpose of the study is to examine the relationship between attitude, subjective norm, knowledge, compatibility and government support with the intention to use Islamic banking product among bank customers in Kota Kinabalu, Sabah. In addition, this study looked into the role of generational group as the moderator between the relationship on determinants and intention to use Islamic banking products. Theory of Reasoned Action by Fishbein and Ajzen (1975) was used as the foundation in this study. By using a survey method, a total of 250 questionnaires were distributed physically at seven selected commercial banks in Kota Kinabalu. From 250 questionnaires distributed, 212 were usable for data analysis. This study used Partial Least Squares Structural Equation Modeling (PLS-SEM) version 2.0 for hypothesis testing. The findings indicated that attitude, subjective norm, knowledge and compatibility were found to have significant positive relationship with the intention to use Islamic banking products. However, government support was found to have a negative relationship with the intention to use Islamic banking product but not significant. There are no generational group differences in the ways those determinants influences intention among Generation X and Generation Y customers. The findings have theoretical and managerial implications and suggestions for future studies are provided to overcome limitations of the current study.



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PENENTU-PENENTU NIAT UNTUK MENGGUNAKAN PRODUK PERBANKAN ISLAM: KAJIAN PELANGGAN BANK DI KOTA KINABALU, SABAH

Pada masa kini, persaingan sengit yang wujud dalam pasaran perbankan telah menyebabkan satu cabaran yang besar kepada keuntungan dalam institusi perbankan pelbagai saiz. Oleh kerana Malaysia adalah sebuah negara Islam di mana kedua-dua bank Islam dan bank konvensional beroperasi, ia adalah penting untuk memahami faktor-faktor utama yang menggalakkan pelanggan untuk menggunakan produk perbankan Islam, sekaligus membolehkan usaha pemasaran boleh dilakukan dengan cekap. Tujuan utama kajian ini adalah untuk mengkaji hubungan di antara sikap, norma subjektif, pengetahuan, keserasian dan sokongan kerajaan dengan niat untuk menggunakan produk perbankan Islam dalam kalangan pelanggan bank di Kota Kinabalu, Sabah. Di samping itu, kajian ini mengkaji peranan kumpulan generasi sebagai moderator antara hubungan faktor-faktor dan niat untuk menggunakan produk perbankan Islam. "Theory of Reasoned Action" oleh Fishbein dan Ajzen (1975) telah digunakan sebagai asas dalam kajian ini. Dengan menggunakan kaedah tinjauan, sebanyak 250 soal selidik telah diedarkan di tujuh buah bank komersil terpilih di Kota Kinabalu. Daripada 250 soal selidik yang diedarkan, 212 tidak boleh digunakan untuk analisa data. Kajian ini menggunakan PLS-SEM versi 2.0 untuk pengujian hipotesis. Dapatan kajian menunjukkan bahawa, sikap, norma subjektif, pengetahuan dan keserasian didapati mempunyai hubungan signifikan positif dengan niat untuk menggunakan produk perbankan Islam. Walau bagaimanapun, sokongan kerajaan didapati mempunyai hubungan yang negatif dengan niat untuk menggunakan produk perbankan Islam, tetapi tidak ketara. Tiada perbezaan jenis generasi dalam cara-cara penentu mempengaruhi niat dalam kalangan Generasi X dan Generasi Y. Hasil kajian mempunyai implikasi teori dan pengurusan dan cadangan untuk kajian masa depan disediakan untuk mengatasi kekurangan kajian.

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CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter explains the background of the study in Malaysian perspectives which related with the Islamic banking industry and the identification of problems that highlight the gap in the previous studies. Besides that, the research questions and research objectives will be list down in this chapter. The scope of study, significance of study and definition of all the variables used in this study will be described as well.

1.2 Background of Study

Nowadays, the position of Islamic banking in Malaysia has been firm as a vibrant and viable component in the banking system. An Islamic bank is defined as a financial institution where interest-free products and services are being offered and *Shariah* (Islamic law) curb the operation of the bank. According to Siddiqui (2001), the reason for prohibition of interest-based banking is due to the general beliefs that it is unjust to earn income without assuming any risk. Accomplishment of sustainable economic and social condition of a country by providing monetary services that aligned with the Islamic ideology is the main objective of Islamic banks (Metawa & Almossawi, 1998).

As one of the progressive Muslim countries throughout the world, Malaysia has promoted the effort in implementation of Islamic Banking System (Abdullah *et al.*, 2012). The growth in total number of Islamic banks started from the early 1990s when a concept of "Islamic window" is introduced by the government which enable the conventional banks to offer Islamic banking products and services in their existing bank. Later on in 2002, Bank Negara Malaysia (BNM) had issued Islamic banking licenses to local and foreign banks from Islamic windows to subsidiaries for Islamic banking. The current progress of Islamic banking has been highlighted under the Blueprint Financial Sector Plan 2011-2020, where the government had envisioned

to boost the market share for Islamic banking from 20 percent to 40 percent by the year 2020 (Bank Negara Malaysia, 2011). This target is likely to be achieved by offerings variety of Islamic banking products to meet the more advanced needs of Malaysian businesses and households.

A big challenge on profitability in banking institutions of all sizes has arisen due to intense competition that exists in the banking services market (Mokhlis, 2009). According to Ernst and Young (E&Y) in their World Islamic Banking Competitiveness report 2013-14, Islamic banks are relatively poor at cross-selling with an average of 2.1 products per customer compared to conventional banks with 4.9 products per customer. This shows that bank customers are tend to use more banking products offered by conventional banks rather than being offered by Islamic banks. Besides that, the banking products provided by Islamic banks not only have to compete with conventional banks, but it also have to compete with the banking products offered by the other Islamic bank itself. As Malaysia is a Muslim country where both Islamic banks and conventional banks are operated, it is crucial to understand the main factors that encourage customers to use banking product from Islamic bank or conventional bank or from both (Kamal, Ahmad & A.K, 1999).

Currently Malaysia has 23 commercial banks, 16 Islamic banks, 4 international Islamic banks and 12 investment banks that are owned by local and foreigners (Bank Negara Malaysia Annual Report, 2014). Such scenario has influenced the bank customer's taste by demanding better banking products and services quality. Customers are now in dilemma to choose the ones that best meet their needs and wants (Abdullah *et al.*, 2012). In order for the Islamic banking products to compete in this competitive banking industry, understanding on the determinants that influences customer intention to choose Islamic banking products is important. This then might be helpful for Islamic banking sector to identify the strategic marketing approach to attract new customers and retain the existing ones (Kaynak & Kucukemiroglu, 1992).

Several studies had been carried out on determining customer preferences on selecting Islamic banking products in Jordan (Erol & El-Bdour, 1989 ; Nasir, Jamal & Al-Khatib, 1999), United Kingdom (Mansour, Abdelhamid, Masood & Niazi, 2010),

Pakistan (Awan & Bukhari, 2011), Kenya (Guoy & Adan, 2013), Bangladesh (Rashid & Hassan, 2009) and in Malaysia itself (Dusuki & Abdullah, 2007; Abdullah, Sidek & Adnan, 2012). All of these studies found a variety of factors that have crucial impacts on the customers' decision-making process. However, such mixed reported results have raised difficulty in understanding the consumer acceptance on Islamic banking products due to different geographical area and cultures (Haque *et al.*, 2009).

1.3 Research Problem

Theory of Reasoned Action (TRA) by Fishbein and Ajzen (1975) has been used as the model of studies by various academic researches since the theory is well-matched to examine and predict a particular behavior. 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. The two components of TRA which are attitude and subjective norm had been used as factors to study Islamic home financing (Taib *et al.*, 2008), Islamic personal financing (Amin *et al.*, 2011) and Islamic credit cards (Amin, 2012; Amin, 2013). These researchers had narrowed their research on particular Islamic banking products rather than study the Islamic banking product as a whole. Understanding the customer intention to choose Islamic banking product in general is important at first place. This is because customers usually have intention to choose a particular banking product based on their perception towards the banking products in general. In order to close the gap, this study uses TRA as a baseline theory in predicting the determinants which influence the customers' intention to use Islamic banking products in the midst of a competitive business environment.

Previous studies had shown that knowledge on a given product had a positive influence on the likelihood of that product being chosen (Axelson *et al.*, 1985; Crites *et al.*, 2005). Writz and Matilla (2003) defined knowledge as the condition of knowing something by familiarity that is obtained from education or experiences. Jaafar and Musa (2013) found that knowledge had significant impact on the intention towards Islamic financing adoption among the Halal certified micro and small and medium-sized enterprises (SMEs) in Malaysia. However, knowledge factor in that study was used to test business entity respondent rather than individual respondent. Therefore,

this study would close this gap by engage in individual respondent which are individual bank customers.

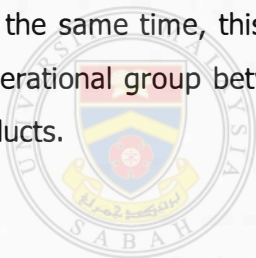
In addition, there are also only few researches that studied on the influence of compatibility towards the intention to use Islamic banking product. It was believed that compatibility as one of critical factor in consumer adoption decision (Rogers, 1995). Kolodinsky et al. (2004) defined compatibility as the extent to which a product is suitable and consistent with the consumers' needs, habits, experiences and values. They discovered compatibility was significantly related with the adoption of electronic banking technologies by the consumer in United States. However in the context of Islamic banking literatures, it is found that there are too few studies had been carried out using compatibility factor. Amin *et al.* (2013) had studied the Islamic home financing adoption in Malaysia found that compatibility had a significant effect on the adoption of Islamic home financing. It is explained that Islamic home financing products are compatible for Muslims since such banking products are developed based on the *Shariah* compliances. Therefore, the current study aims to add literatures in investigating the direct influences of compatibility on the intention.

Apart from the above limitations from the earlier studies, even though government has play its biggest roles in the development of Islamic banking system in Malaysia, only few studies that had tested its influence on customer's intention to adopt Islamic banking products. Malaysian government is one of the main catalyzer that helps to promote Islamic banking industry in Malaysia (Abdullah *et al.*, 2012). Amin *et al.* (2011) had used government support factor to test the customers' intention to use Islamic personal financing. However, the study found government support has no impact on customers' intention. Therefore, this study aims to add more literatures in determine the effect of government support in influencing bank customers to use Islamic banking products in Kota Kinabalu, Sabah.

There was also lack of previous studies in Islamic banking context that investigate the influence of different types of generational group of customers in the selection of Islamic banking products. According to Lewis and Bingham (1991), Generation Y is known as young market that represents the greatest prospect for the banking institution in the future and Generation X are usually influenced by these

young people. Both of these generations have different behaviors in banking activities. Abdullah *et al.* (2012) that study the perception towards Islamic banks in Malaysia revealed that respondents between the ages of 19 to 35 years old which are considered as Generation Y have better acceptance towards Islamic banking product. However, that study focus on non-Muslim bank customers only. To have a right marketing effort on specific Islamic banking market segment based on customers' age, it is crucial to understand the factors that influence one's intention to use Islamic banking products from different background of age. Hence, this study close the gap by involves both Muslims and non – Muslims bank customers in investigating the moderating effect of types of generational group on intention to use Islamic banking products among the bank customers in Kota Kinabalu.

Based on the insufficiencies discussed, this study will look on the influences of attitude, subjective norm, knowledge, compatibility and government support on the intention to use Islamic banking products among the bank customers in Kota Kinabalu. At the same time, this study also will looks into the moderating effect of types of generational group between the determinants and intention to use Islamic banking products.



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1.4 Research Questions

The aim of this study is to answer the following research questions:

- a) Does attitude has a positive relationship with the intention to use Islamic banking products among the bank customers in Kota Kinabalu?
- b) Does subjective norm has a positive relationship with the intention to use Islamic banking products among the bank customers in Kota Kinabalu?
- c) Does knowledge has a positive relationship with the intention to use Islamic banking products among the bank customers in Kota Kinabalu?
- d) Does compatibility has a positive relationship with the intention to use Islamic banking products among the bank customers in Kota Kinabalu?
- e) Does government support has a positive relationship with intention to use Islamic banking products among the bank customers in Kota Kinabalu?

- f) To what extent does types of generational group moderates the relationship between the determinants (attitude, subjective norm, knowledge, compatibility and government support) and intention to use Islamic banking products among the bank customers in Kota Kinabalu?

1.5 Research Objectives

The objectives of this study are as follows:

- a) To examine the influence of attitude on the intention to use Islamic banking products among the bank customers in Kota Kinabalu;
- b) To examine the influence of subjective norm on the intention to use Islamic banking products among the bank customers in Kota Kinabalu;
- c) To examine the influence of knowledge on the intention to use Islamic banking products among the bank customers in Kota Kinabalu;
- d) To examine the influence of compatibility on the intention to use Islamic banking products among the bank customers in Kota Kinabalu;
- e) To examine the influence of government support on the intention to use Islamic banking products among the bank customers in Kota Kinabalu;
- f) To investigate the moderating effects of types of generational group on the relationship between determinants (attitude, subjective norm, knowledge, compatibility and government support) and intention to use Islamic banking products among the bank customers in Kota Kinabalu.

1.6 Scope of Study

Theory of Reasoned Action model which had been created by Fishbein and Ajzen (1975) was adapted in this study. The scope of this study is to investigate the influence of attitude, subjective norm, knowledge, compatibility and government support towards the intention to use Islamic banking products among bank customers in Kota Kinabalu, the capital of Sabah. Kota Kinabalu is chosen because all the major banks are located within the area of the city. This study also tested the moderating effect of types of generational group which are Generation X and Generation Y on the relationship between determinants and intention to use Islamic banking products. The present study gauges behavioral intention to use Islamic

banking products among the bank customers rather than actual usage. The respondents of this study comprise of bank customers from seven commercial banks in Kota Kinabalu which are Malayan Banking Berhad (Maybank), CIMB Bank Berhad, Public Bank Berhad, RHB Bank Berhad, Hong Leong Bank Berhad, Ambank Berhad and Bank Rakyat. These banks are chosen based on their ranking in the total assets as at 31 December 2014 (Relbanks, 2015).

1.7 Significance of Study

The contribution of this study can be in terms of two aspects as follows:

1.7.1 Theoretical contributions

There are limited studies to understand bank customers' intention to use Islamic banking products by using Theory of Reasoned Action (TRA). This study will contribute and fill the gap in previous studies by extending TRA model and gives solid empirical data to support the relationship between all the determinants (attitude, subjective norm, knowledge, compatibility and government support) with the intention to use Islamic banking products in the context of the bank customers in Kota Kinabalu, Sabah. The findings on each determinants used in this study can value added to the existing literatures and become guidance for future studies as well. Besides that, the inclusion of moderating effects of types of generational group on the relationship between the determinants and intention to use Islamic banking products will give new contribution for future studies.

1.7.2 Practical suggestions

The findings of this study will help the policy makers in Islamic banking system to identify the general factors that influence the customer intention to use their products. Besides that, this study also may help the managers to adopt different marketing strategies to attract different types of users specifically based on age. By having better understanding on the customers' choice towards Islamic banking products, it will allow the Islamic bankers to develop creative and innovative marketing plans to gain new customers and at the same time retain the existing ones. Therefore, by having competitive advantage, Islamic banking sector are in line to meet the needs of Malaysian economy where government had envisioned boosting the market share for Islamic banking from 20 percent to 40 percent by year 2020.

1.8 Definition of Terms in Study

The definitions of the terminologies used in this study are as follow:

1.8.1 Bank Customer

Bank customer referred to person who had opened at least one account in a bank (Corbridge, 1998).

1.8.2 Attitude

Attitude is referred as the evaluation of an individual's positive (favorable) or negative (unfavorable) feeling in performing a particular behavior (Fishbein and Ajzen, 1975). In this study, attitude refers to the customers' attitude towards Islamic banking products.

1.8.3 Subjective Norm

Subjective norm is defined as perception of an individual that people who are important to him or her should or should not perform that particular action (Fishbein and Ajzen, 1975). In this study, subjective norm refers to social influences on the customers' intention to use Islamic banking products.

1.8.4 Knowledge

Writz and Matilla (2003) defined knowledge as the condition of knowing something by familiarity that is obtained from education or experiences. In this study, knowledge refers to the customers' knowledge on the existences of Islamic banking products and its differences with the conventional banking products that influence the intention to use Islamic banking products.

1.8.5 Compatibility

Kolodinsky et al. (2004) defined compatibility as the extent to which a product is suitable and consistent with the consumers' needs, habits, experiences and values. In this study, compatibility refers to the alignment of customers' banking products preferences with individual existing styles, need and habit which influences the intention to use Islamic banking products.

1.8.6 Government Support

Government support refers to the governmental actions and efforts that could affect the behaviors and decision making of households, local companies and international business activities (Amin *et al.*, 2011). In this study, it refers to incentives and plans practicing by Malaysian government and Bank Negara Malaysia to encourage people to use Islamic banking products.

1.8.7 Customers' Intention to Use Islamic bank

The present study gauges behavioral intention to use Islamic banking products among bank customers in Kota Kinabalu (Amin *et al.*, 2011). In this study, intention refers to the bank customers' desire which lead them to choose Islamic banking products as their banking products. The finding can assist the Islamic banks management in refining their marketing strategies as a means of overcome the current intense competition.

1.8.8 Generation X and Generation Y

Generation X are defined as those who are those born between the years of 1965 to 1980 and Generation Y are people who are born between the years 1981 to 2000 (Carolyn, 2008).

1.9 Organization of Thesis

This thesis consists of five chapters. Chapter 1 gives the background of banking industry in Malaysia which related with the issues in term of competition among Islamic banks and conventional banks which lead to the current study to investigate the factors that influence the customers' intention to use Islamic banking products. This chapter also describes the research gap in previous studies on the customers' choice towards Islamic banking products as the problem statement for this study. In addition, this chapter also provides the research objectives, research questions, scope of study, significance of study and the definition for each of the variables used in this study.

Chapter 2 consists of history of Islamic banking system in Malaysia, principles in Islamic banking products and extensive literature reviews on the determinants that

influence customers' intention to use Islamic banking products which are attitude, subjective norm, knowledge, compatibility and government support. Chapter 3 outlines the research theoretical framework and hypothesis, research design, sampling design, research instruments and measurements, data collection and data analysis method that were used in this study.

In Chapter 4, the data collection and response rates from the respondents are explained. Then, the data analyses are described in order to assess the results of this study. The results are in term of the demographic of respondents, measurement model, structural model, result of hypothesis testing, goodness of fits and predictive relevance. The last part in this thesis which is Chapter 5 is on the discussion of the findings of this study. Besides that, the implications of this study in term of theoretical and managerial contribution are explained also in this chapter. Last but not least, limitations of this study and recommendations for future research included in this chapter.

1.10 Summary

This chapter had outlined the background of the study in which related with the issues in Islamic banking industry in Malaysia and the identification of problems that highlighted the gap in the previous studies. The research questions and research objectives had been list down in this chapter as well. The scope of study and significance of study also have been described. This chapter also had given briefly explanation on the organization of this thesis from chapter 1 to chapter 5.