

**FACTORS CONTRIBUTING TO THE
ACCEPTANCE OF *MUSHARAKAH* (مشاركة)
FINANCING CONCEPT BY SMEs: A CASE
STUDY OF SMEs IN KOTA KINABALU CITY
CENTRE**



ROZITA @ UJI BINTI MOHAMMED

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UNIVERSITI MALAYSIA SABAH

**LABUAN SCHOOL OF INTERNATIONAL
BUSINESS & FINANCE
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UMMS

**THESIS SUBMITTED IN FULFILLMENT FOR
THE DEGREE OF DOCTOR OF PHILOSOPHY**

**LABUAN SCHOOL OF INTERNATIONAL
BUSINESS & FINANCE
UNIVERSITI MALAYSIA SABAH
2011**

**UNIVERSITI MALAYSIA SABAH
BORANG PENGESAHAN STATUS TESIS**

JUDUL: FACTORS CONTRIBUTING TO THE ACCEPTANCE OF MUSHARAKAH
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KOTA KINABALU CITY CENTRE

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DECLARATION

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

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27 May 2011

ABSTRACT

FACTORS CONTRIBUTING TO THE ACCEPTANCE OF *MUSHARAKAH* (مشاركة) FINANCING CONCEPT BY SMEs: A CASE STUDY OF SMEs IN KOTA KINABALU CITY CENTRE

This study analyses the banking choice factors, personal factors, and business factors that could have contributed towards the acceptance of the *Musharakah* financing concept by small and medium-sized enterprises (SMEs). The study chose the SME sector because it is seen by many scholars as a significant market segment for Islamic banks in realizing the aspirations of the government to promote Malaysia as a leading Islamic Financial Centre and to form a strong base for Islamic banking industry capturing 20 per cent market shares of Malaysian financial industry by the year 2010. However, Bank Negara Malaysia (BNM) has found that Malaysian SMEs have not considered Islamic banks as the most desirable financial institutions in terms of seeking financing for their ventures. Many scholars believe that SMEs are depending too much on the conventional short-term financing which can restrict the development of SMEs and the economic growth in the long run. In this study, *Musharakah* financing concept is being given much emphasis as it has the ability to promote partnerships, banker-partner relationships, and an investment culture between Islamic banks and SMEs. Although it has not been promoted excessively by Islamic banks, particularly at the branch level, its benefits are numerous and undeniable. Throughout the study, four types of analysis namely profile analysis, factor analysis, bivariate analysis, and mean rank analysis were carried out in order to achieve the four main objectives of the study. Based on the first objective, a bivariate analysis was carried out in order to determine factors that contribute towards the acceptance of the *Musharakah* financing concept by SMEs. The study reveals that out of the 40 independent variables, only 11 were found to have strong relationships with the dependent variable i.e. A18_ACCEPT_CONCEPT. Out of the 11 independent variables, only eight produced significant probability values and thus, could be generalized to population. The second objective then attempted to identify whether there is a 'finance gap' within the SME sector. Looking at the profile analysis done on both SME and Islamic bank data, there are approximately about 30 characteristics, which indicate the existence of a finance gap within the SME sector. This gap has created a 'grey zone' between the SMEs and Islamic banks, which needs to be properly addressed and eventually bridged if the both parties were to have a banker-partner relationship. The third objective, which concerns the attitude of SMEs towards the *Musharakah* financing concept, has been met through the profile analysis of SME data. It indicates that the *Musharakah* financing concept is moderately accepted by the SMEs in Kota Kinabalu City Centre. However, the acceptance level can be enhanced if the SMEs have a better understanding of the concept. The last objective, which aims to determine the extent of the involvement of Islamic banks at the branch level in the *Musharakah* financing concept, was achieved by performing the profile analysis of Islamic banks. The analysis reveals that there is a low level involvement of Islamic banks in the *Musharakah* financing concept. Several factors have been identified as the

primary causes of this low level involvement and classified as the moderating variables that caused the unpopularity of the *Musharakah* financing concept within the SME market. In addition, a factor analysis was conducted for the purpose of clustering the 22 banking choice factors into four different groups. Each group shared the same characteristics. This was done to ease the tedious process of interpreting the lengthy list of variables. Finally, conclusions were made according to the desired objectives and several recommendations were proposed in order to improve the current acceptance of the *Musharakah* financing concept by SMEs and to encourage more active involvement of Islamic banks in promoting the concept as a more Islamic alternative to the conventional banking practices. It is hoped that the study could contribute to the scarce body of knowledge about the selection criteria for specialized financing products and complement previous studies, which have mainly focused on places and individual customers in the Peninsular Malaysia.

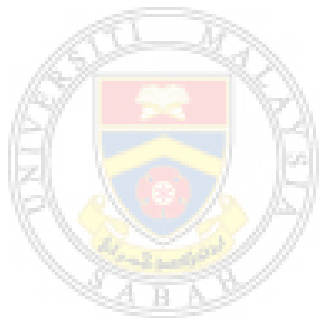


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ABSTRAK

Kajian ini menganalisa Faktor Pilihan Perbankan, faktor peribadi dan faktor perniagaan yang menyumbang kepada penerimaan Perusahaan Kecil dan Sederhana (PKS) terhadap konsep pembiayaan Musharakah. Kajian ini telah memilih sektor PKS kerana ia dilihat oleh ramai cendekiawan sebagai satu segmen pasaran yang signifikan kepada bank-bank Islam untuk merealisasikan aspirasi negara mempromosi Malaysia sebagai peneraju Pusat Kewangan Islam dan membina asas industri kewangan yang kukuh bagi menguasai 20 peratus syer pasaran industri kewangan tempatan menjelang 2010. Walau bagaimanapun, Bank Negara Malaysia (BNM) mendapati PKS tempatan tidak menganggap bank Islam sebagai institusi kewangan pilihan dalam membiayai aktiviti perniagaan mereka. Ramai cendekiawan mempercayai bahawa PKS terlalu bergantung kepada pembiayaan konvensional jangka pendek yang dilihat mampu membantutkan perkembangan PKS dan pertumbuhan ekonomi dalam jangka panjang. Selain PKS, konsep pembiayaan Musharakah juga turut diberi perhatian khusus dalam kajian ini memandangkan ia berupaya memperkenalkan usahasama, pertalian bank-rakan kongsi dan budaya melabur di kalangan bank Islam dan PKS. Walaupun tidak diketengahkan oleh pihak bank Islam secara meluas, terutama di peringkat cawangan, manfaat konsep pembiayaan Musharakah adalah tidak terhingga dan tidak boleh dinafikan. Sepanjang kajian, terdapat empat jenis analisis telah dijalankan iaitu analisis profil, analisis faktor, analisis bivariat dan analisis susunan purata bagi mencapai empat objektif utama kajian. Objektif pertama misalnya, analisis silang dilakukan bagi menentukan faktor-faktor yang menyumbang kepada penerimaan PKS terhadap konsep pembiayaan Musharakah. Hasil analisa menunjukkan daripada 40 pembolehubah bebas yang dilakukan ke atas satu pembolehubah bersandar, hanya 11 pembolehubah bebas memiliki pertalian kuat dengan pembolehubah bersandar. Manakala daripada 11 pembolehubah bebas itu pula, hanya lapan pembolehubah bebas menghasilkan kebarangkalian yang signifikan dan dianggap mewakili populasi. Sementara itu, objektif kedua bertujuan mengenal pasti sama ada jurang kewangan ujud dalam sektor PKS. Berdasarkan dapatan analisis profil ke atas PKS dan bank Islam, dianggarkan 30 faktor menjadi penyumbang kepada kejudahan jurang ini dan natijahnya terciptalah zon kabur di antara pihak PKS dan bank Islam. Situasi ini harus segera dibendung dan ditangani secara wajar sekiranya kedua-dua pihak mahu menjalinkan pertalian sebagai rakan kongsi perniagaan. Objektif ketiga pula berkaitan pendirian PKS terhadap konsep pembiayaan Musharakah dan hasil analisa profil yang dilakukan ke atas data PKS, ternyata walau tidak popular berbanding konsep pembiayaan yang lain, konsep pembiayaan Musharakah diterima secara sederhana oleh PKS di kawasan Pusat Bandaraya Kota Kinabalu. Namun, tahap penerimaan yang sederhana ini boleh dipertingkatkan sekiranya PKS mempunyai pemahaman yang lebih baik terhadap konsep pembiayaan Musharakah. Manakala objektif keempat ialah mengenal pasti penglibatan bank Islam di peringkat cawangan dalam konsep pembiayaan Musharakah. Menerusi analisa terhadap profil bank Islam, didapati bank Islam di peringkat cawangan kurang terlibat dalam konsep pembiayaan ini. Beberapa faktor telah dikenal pasti sebagai penyebab kepada situasi ini dan juga punca konsep pembiayaan Musharakah tidak popular di kalangan PKS. Di samping semua analisis yang dibuat untuk mencapai objektif kajian, analisis faktor pula digunakan bagi

menghimpun 22 faktor pilihan perbankan mengikut kumpulan masing-masing. Setiap kumpulan terbabit berkongsi ciri-ciri yang sama. Ini dilakukan untuk memudahkan proses penghuraian yang melibatkan senarai faktor yang panjang. Akhirnya, kesimpulan dibuat berdasarkan sasaran objektif kajian dan beberapa cadangan bagi tujuan menambah baik penerimaan PKS terhadap konsep pembiayaan Musharakah dan juga menggalakkan penglibatan bank Islam di dalam konsep ini yang dilihat sebagai amalan alternatif yang lebih bersifat keislaman berbanding amalan perbankan konvensional. Adalah menjadi harapan bahawa kajian ini berupaya membantu dari segi mengisi kelompong kajian terdahulu terutamanya bagi kajian berkaitan kriteria pemilihan produk pembiayaan khusus dan juga pelengkap dalam pemilihan responden serta tempat yang selama ini lebih menumpu kepada pelanggan individu yang berpusat di Semenanjung Malaysia.



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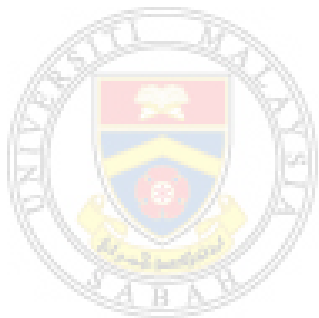
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UMS
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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
ATM	Automated Teller Machine
BAFIA	Banking and Financial Institutions Act
BBA	<i>Bai-Bithaman Ajil</i>
BCFs	Banking Choice Factors
BIMB	Bank Islam Malaysia Berhad
BLC	Business Life Cycle
BMMB	Bank Muamalat Malaysia Berhad
BNM	Bank Negara Malaysia
Census	Census of Establishment and Enterprises
CERT	Centre for Research and Training
d/D	Somers'd/D
DBF	Debt-Based Financing
DFIs	Development Financial Institutions
DV	Dependent Variable
EBF	Equity-Based Financing
FSTEP	Financial Sector Talent Enrichment Programme
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GLCs	Government-Linked Companies
HR	Human Resource
IAH	Investment Account Holder
IBA	Islamic Banking Act

IBFIM	Islamic Banking and Finance Institute Malaysia
IBs	Islamic Banks
ICLIF	International Centre for Leadership in Finance
IDS	Institute for Development Studies Sabah
IIF	Institute of International Finance
IIUM	International Islamic University Malaysia
INCEIF	International Centre of Education in Islamic Finance
ISO	International Organization for Standardization
ISRA	International <i>Shari'ah</i> Research Academy
ITAB	<i>Ijarah Thumma Al-Bai</i>
IVs	Independent Variables
KKCC	Kota Kinabalu City Centre
KKCH	Kota Kinabalu City Hall
MFC	<i>Musharakah</i> Financing Concept
MGT	Management
MITI	Ministry of International Trade and Industry
MLR	Minimum Liquidity Requirement
NGOs	Non-Government Organizations
OECD	Organization for Economic Cooperation and Development
p/P	Probability
PIUS	Graduate Entrepreneurs Incubation
PKS	Perusahaan Kecil dan Sederhana
PLS	Profit-Loss Sharing
PRE	Proportionate Reduction of Error
PSIA	Profit Sharing Investment Accounts