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RELIGIOUS ADHERENCE, INTRINSIC AND EXTRINSIC FACTORS IN ISLAMIC BANKING SELECTION IN MALAYSIA

Zakaria Bahari (a), Murni Yusoff (b)*
*Corresponding author

(a) Lecturer in Centre for Islamic Development Management Studies (ISDEV), Universiti Sains Malaysia (USM),
Pulau Pinang, bzak09@gmail.com
(b) Lecturer in Centre for Islamic Development Management Studies (ISDEV), Universiti Sains Malaysia (USM),
Pulau Pinang, murniyusoff.usm@gmail.com

Abstract

Islamic banking is not new to financial system in this present era. Most of banking customers aware of the existence and expansion of Islamic banking, especially in Malaysia. The Islamic banking industry in Malaysia has grew tremendously every year. However, questions might be raised what is the actual factors that affect Muslim consumers in selecting Islamic banking institution (IBI)? What are the intrinsic and extrinsic factors that affect the Muslim consumers? Therefore, this paper has two objectives. The first objective is to identify whether the intrinsic and extrinsic has influence on IBI selection and the second objective is to analyse the factors that are more dominant to the selection of IBI. The method applied is quantitative data through questionnaires distributed throughout Peninsular Malaysia to Muslim consumers. Multiple regression analysis is used as an analytical tool. The findings show that there is a significant factor of religious adherence that is more dominant to influence the Muslim consumer in selecting IBI. Other factor in extrinsic such as dimensions of reputation and recommendation, product services, and product promotion as well as intrinsic factor such as understanding are significant in influencing Muslim consumers in selecting IBI. Meanwhile, awareness and perception dimensions in intrinsic factor are not significant in influencing the Muslim selection of IBI.

Keywords: Islamic banking, Religious adherence, intrinsic, extrinsic, Muslim consumer.

1. Introduction

Islamic banking is part of Islamic financial system. In Islamic financial system, there are four basic principles as stated by El-Hawari, Grais, and Iqbal (2004). The first principle is risk sharing which means the terms of financial transaction need to reflect a symmetrical risk/ return distribution each participant to the transaction may face. The second principle is materiality, which means a financial transaction needs to have a material finality that is it is directly or indirectly linked to a real economic transaction. The third principle is no exploitation which means a financial transaction should not lead to the exploitation of any party to the transaction while the fifth principle is no financing of sinful activities such as the production of alcoholic beverages.

There are number of studies conducted in Islamic banking. One of the focus of the studies are selection of the Islamic banking either globally or specifically in Malaysia. Previous research such as Mettawa and Al-Mossawi (1998), Othman and Owen (2001), Ciptono and Soviyanti (2007), Bley and Kuehn (2004) are among the studies that found the religion are the main factor customer select Islamic banking. However, recent studies found that other factors contribute to become the main factor for selecting Islamic banking.

Tara, Irshad, Khan, and Yamin, and Rizwan (2014) found that are the main factors contribute to the adoption of Islamic banking in Pakistan are awareness of financial teachings of Islam, reputation, and networking. Marimuthu, Chan, Lim, Low, and Tan (2010) found that cost-benefits, service delivery, convenience and influence by friends are the main determinants of accepting Islamic banking for Muslims or non-Muslims. The ethnic background and religion do not really have a significant impact on the selection of Islamic banking.

Adnan (2010) has identified religious adherence, intrinsic and extrinsic motivations that are used as determinants in selection of IBI in Terengganu. Intrinsic motivation comprises of consideration of *Halal Haram*, quality consumption, return of *Maslahah*, and consumption according to priority. Extrinsic motivation includes reputation and recommendation, product and services features, comfort, and marketing and advertising. He found that religious adherence has significant influence on selection of IBI, consideration of *Halal Haram* is the most influential, and also marketing and advertising as well as product and services features in influencing consumers towards IBI selection.

Abduh and Omar (2012) have ranked the selection criteria in Islamic banks in Malaysia based on the respondent's preferences. The most important criteria in selecting Islamic banks is the religiosity (compliancy towards Shariah principles followed by profitability, the banks' reputation, the banks' status, facilities and services provided by the bank, and friendly personnel.

However, Nadarajan, Selvanathan, & Amelia Farzana Mohd Zamri (2018) found that religion is not the only influential factors in selecting bank but including factors such as bank reputation and cost benefits would influence one's decision on bank selection. Further, Abduh, Ramjaun, and Mustaqim (2018) found that the factors significantly influence Muslim in Mauritius are privacy, easy access, service quality, transparency, facilities offered and bank reputation, instead of religiosity.

2. Problem Statement

Among the factors used to become the constructs in studies of influencing banking selection are religious adherence, intrinsic and extrinsic. Those studies are Adnan 2010, Mohd Yusof (2012), Zahri (2015). Besides religion, intrinsic and extrinsic factors contribute to the selection of IBI. The intrinsic factors comprise of three dimensions such as understanding, awareness, and perception while extrinsic factor comprises of four dimensions of product services, product features, reputation and recommendations and promotion may lead to the selection of Islamic banking.

However, the existing studies on influence of IBI selection did not cover all IBI in Malaysia. Most of the researchers studied only selected location and samples in Malaysia.

3. Research Questions

It can be summarized that intrinsic and extrinsic factors attract Muslim consumers in selecting IBI. The questions might be raised are, what is the true dimension in intrinsic and extrinsic factors can influence the Muslim consumers to select IBI in Malaysia? How far the religious adherence can influence the Muslim consumers on IBI selection? Which factor is more dominant in influencing consumers towards IBI selection?

4. Purpose of the Study

This paper has two objectives. First, to identify whether religious adherence, intrinsic and extrinsic factors of Muslim consumers have an influence on selection of IBI. Second, to analyse factors that are more dominant influencing the Muslim consumers selection of IBI.

5. Research Methods

This study applies traditional descriptive statistical analysis and inferences, and an empirical study. The sampling units are IBI in Malaysia. The questionnaires have been circulated to 1,000 respondents in the main offices in the two main city in each state. However, the qualified data obtained and processed are only 985 questionnaires. Division of the location is done through four zone such as Central Zone comprises of Kuala Lumpur, Negeri Sembilan and Selangor; South Zone comprises of Johor and Melaka; East Coast zone comprises of Kelantan, Terengganu and Pahang; and North Zone comprises of Perlis, Kedah, Penang and Perak. This analysis is conducted by applying a package of *Statistics Package for Social Sciences* (SPSS) version 20[1].

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[1] Prior to the field study, pilot test has been conducted to 50 respondents for the purpose of obtaining the validity and reliability of data usage. For the purpose of viewing the relationship and influence every dimension of CSR influence the selection of the Muslims in Islamic banking and also the most dominant construct which Muslim consumers select on Islamic banking. For this purpose, multiple regression analysis is used.

6. Findings

Table 01 shows that there were no problems of multicollinearity and singularity in every dimension. The highest tolerance of 0.686 is dimension of product features and lowest tolerance value by 0.484 is dimensions of awareness, which are greater than 0.00 and less than 1.00. Similar with the lowest variance inflation factor (VIF) is 1.457 for dimension of product features and the highest VIF is the dimension of awareness (2.068). Both VIF showed the value is greater than 0.00 and less than 10.00.

Table 01. Result of Collinearity Statistical Test for Each Dimension

Predictor Variables	Collinearity Statistic	
	Tolerance	**VIF**
1. Understanding	0.518	1.930
2. Awareness	0.484	2.068
3. Perception	0.588	1.700
4. Reputation and Recommendation	0.590	1.694
5. Product Features	0.686	1.457
6. Product Services	0.563	1.776
7. Product Promotion	0.550	1.817
8. Religious Adherence	0.672	1.488

Multiple regression results in Table 02 shows that the dimension of awareness, perception and product features are not significant. Two dimensions of the intrinsic factor which are dimensions of awareness and perception and a dimensions of the extrinsic factor which is product features. In addition to the dimensions mentioned above, is significant, which are the dimensions of understanding, reputation and recommendations, product services, product promotion, and religious adherence.

Table 02. Result of Multiple Regression Analysis of Dimensions Towards Islamic Banking Selection

Model	R	R^2	ΔR^2	F	B	Beta	t	Sig
Constant	0.964[a]	0.929	0.928	1587.161	-0.323		-6.786	0.000
1. Understanding					-0.024	-0.029	-2.475	0.013
2. Awareness					5.654E-005	0.000	0.005	0.996
3. Perception					0.012	0.14	1.264	0.207
4. Reputation and Recommendation					0.026	0.040	3.582	0.000
5. Product Features					0.006	0.008	0.787	0.431
6. Product Services					-0.041	-0.048	-4.200	0.000
7. Product Promotion					-0.023	-0.033	-2.835	0.005
8. Religious Adherence					1.089	0.985	94.417	0.000

However, significant dimension is only understanding, which is significantly less than the significance level of 5 percent and other dimensions significant at the significance level of less than 1 percent. Religious adherence dimension is the dimension that has a strong connection with the selection of Islamic banking by Muslim consumers with the highest beta value of 0.985. Religious adherence able to provide an opportunity for consumers to experience and choose Islamic banking services after more than 30 years establishment of Islamic banks in Malaysia and less influenced by extrinsic factors. This means the banking reputation, both in terms of management, benefits and Shariah-compliant and recommendations from family, friends and advertising has managed to bring Muslim consumers to prefer Islamic banking as their choice.

7. Conclusion

The findings have indicated that religious adherence is the biggest factor affecting the Muslim community in Peninsular Malaysia to make selection of Islamic banking. This can be proved with the highest beta value, which is 0.985 followed by significant at the significance level of 5 percent. This is followed with dimension of perception (Beta value = 0.14), and reputation and recommendation (Beta value = 0.040). The dimensions of understanding, product services, and product promotion are significant but in negative direction. Those three dimensions have beta less than the value of 0.05 which reflects the influence are very small one, either positive or negative relationship. This is due to religious adherence is high with value of 0.985 among other dimensions.

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