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The Effect of Customer Acceptance on Islamic Banking Products and Services

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ABSTRACT

Every Islamic banking institutional organization facing lot of obstacles in keeping them survive this challenging globalization world. Islamic banking system development still depending on the conventional financial institution especially in promoting the Islamic principle to the public's knowledge. As for that, they put high priority to achieve a better performance in term of their efficiency and effectiveness. In order to meet this aim, organization should focuses on developing good marketing strategy to attract more customers' acceptance. Islamic banking in Malaysia needs to improve their development and enhance the public's acceptance especially convinced the non-Muslim customers towards using Islamic principle in the financial institution. Therefore, this study attempts to propose an investigation on the determinants of customer's acceptance towards Islamic banking products and services in order to ensure the sustainability of Islamic law in financial institution in Malaysia. In this cross-sectional survey, a total of 86 respondents are selected as sample size to become the respondents. In this study also tried to identify the relationship between variables by using Pearson correlation as well as Descriptive statistic to analyze demographics of the respondent. The results of the study are expected to guide the top management of that Islamic banking institutional organization in order to provide better understanding and good marketing strategy to attract more customers on the future and increase their level of acceptance on Islamic banking products and services.

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INTRODUCTION

In Malaysia, customer's positive perception towards Islamic banking is far more crucial mainly due to the fact that Islamic banks have to compete with the long established conventional banks in a dual-banking system. Since 1983, Malaysia to date has a dual banking system, whereby the Islamic banking system operates in parallel with the conventional system. The Islamic banking and finance today has emerged as an important component of the overall Malaysian financial system that contributes to the growth and development of the Malaysian economy. The latest figure of market shares of Islamic deposits and financing stood at 11.7 percent and 12.1 percent of the industry's total respectively [5]. In this regard, the ability of the Islamic banking industry to capture a significant market share in a rapidly evolving and challenging financial environment particularly in a dual-banking system like Malaysia, is dependent on the strategic positioning of the Islamic banking players to maintain their competitive edge and offer services and products that satisfy the needs of their customers.

In 1983, the establishment of Bank Islam Malaysia Berhad (BIMB) had increased the public's awareness towards Islamic banking products and services which are develop greater demands from time to time. Although there were a lots of challenges during that time, BIMB able to meet all the customer's demands with provided a variety of interest free products such as Qard Hassan, Mudarabah, Musyarakah and others. BIMB business has expanded over the years. From the seed capital of only RM80 million initially, Bank Islam's shareholder funds rise up to RM2.5 billion as at December 2010. Now, BIMB had 117 branches and more than 1000 self-service terminals all over the Malaysia [5].

Furthermore, Bank Negara Malaysia's Governor Tan Sri Dr Zeti Akhtar Aziz [5], explained that Islamic banking institution in Malaysia had contribute a lots of enhancement in our economic since the market share of Islamic banking assets of the total banking industry had grown from only 6.9 percent in 2000 to 22 percent in 2011 which is Malaysian economy had also been growing significantly, accounting for 2.1 percent of the

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country's gross domestic product (GDP) in 2009, compared to only 0.3 percent in 2000. Apart from that, Islamic financial system able to encourage foreign participation and acceptance towards the Islamic banking products and services in the future [12].

Based on Zukri (2011) said that the market share of Malaysia's Islamic banking assets of the total banking industry is expected to increase, probably to 25 percent next year from the 22 percent recorded in 2011. From that statement, it can be concluded the Islamic banking system in our country had developed and able to attract more customers including non-Muslim or Muslim as well as the foreigners too. According to the Islamic principle, the universal in teaching and knowledge of Islam had attracting the others religions including in application of financial systems. For example of Islamic banking products and services that provided by any banking institution is pawn broking. According to Nik Abdul Aziz [11] said the promotion of Islamic banking products and services especially pawn broking should be completely develop in order to apply the shariah law of Islam in the mind of public as soon as possible. From that, the Islamic banking institution needs to put highest priority to promote the Islamic financial system to the public's knowledge.

Problem statements:

Since 1983, Malaysia had committed in promoting the Islamic principle in financial institution. According to Awan [4], Islamic banks in Malaysia enjoy a bright future as they are able to compete and have the flexibility to survive in the countries open and competitive economy. As a country living in an era globalization, Islamic banking in Malaysia should be developed simultaneously with the global financial institution in the international arena [13]. However, currently Islamic financial institution in Malaysia did not fully developed as globally with conventional financial institution [13]. Unlike conventional banks, however, the Islamic banks have Shariah advisory committees to inform them and guarantee that their operations and activities comply with the Shariah principles [6]. Furthermore, nowadays, we live in an interconnected and globalised world governed by non-Muslim superpowers where Muslims are not entirely free to perform their ideals. As mention by Nor Mohamed [13], even though Muslim may occasionally think they can, it is impossible to fully protect one financial system from another. Muslims must be pragmatic enough to realize that under circumstances it will be a challenge to directly implement an entirely financial system in all aspects [13]. From the discussion, we can assume that Islamic banking in Malaysia needs to improve their development and enhance the public's acceptance especially convinced the non-Muslim customers towards using Islamic principle in the financial institution. According to Sudin and Norafifah (2000), information on reward Islamic banking system can be disseminated growth of Islamic banking products is enhanced through the opening of Islamic banking windows at existing evidence conventional banks. From that, we can assume the Islamic banking system development still depends to the conventional financial institution especially in promoting the Islamic principle to the public's knowledge. Therefore, to what extent the public would be aware and accept the Islamic banking products and services since the financial institution put the most priority promoting about the conventional banking rather than Islamic banking products and services. The growth in the Islamic banking sector in Malaysia has been rapid since the establishment of Islamic Banking Act in 1983 [6]. Thus that is why this research intends to conduct a research to investigate the determinants of customer's acceptance towards Islamic banking products and services. Because of the principle of Islamic had been adapted among Malaysian banking since 1983, it is very important for us to determine to what extend currently the customer's acceptance towards the Islamic banking products and services as well as the factors that increase the customer's preferences using Islamic banking products and services in order to ensure the sustainability of Islamic law in financial institution in Malaysia.

Research objectives:

Generally, the objective of this study is to examine the effect of customer acceptance on Islamic banking products and services. Therefore, the researcher had highlighted four main specific objectives in order to answer all research questions. There are:

- a) To investigate pattern of customer's acceptance towards Islamic banking products and services.
- b) To investigate relationship between knowledge of Islamic law factor and customer's acceptance towards Islamic banking products and services.
- c) To examine relationship between service quality perception factor and customer's acceptance towards Islamic banking products and services.
- d) To identify relationship between demographical factor and customer's acceptance towards Islamic banking products and services.

Literature review:

Customer's Acceptance towards Islamic Banking Products and Services:

Customer is an individual or business that purchases the goods or services produced by a business. The customer is the end goal of businesses, since it is the customer who pays for supply and creates demand. Businesses will often compete through advertisements or sales in order to attract a larger customer base.

Acceptance in human psychology is a person's assent to the reality of a situation, recognizing a process or condition (often a negative or uncomfortable situation) without attempting to change it, protest or exit. Customer acceptance depends on familiarity and the degree of awareness and use of any given tool. The more people using them, the more valuable they become. Customer acceptance must be meeting with three concepts which are customer satisfaction, customer needs and preferences and successful of business level which is depends on customer satisfaction. According to Sudin and Norafifah (2000), the Islamic banking system also can be relate with the public support through the use of Islamic banking products offered by conventional financial institutional. From that, we can assume the Islamic banking system development still depend to the conventional financial institution especially in a promoting the Islamic principle to the public's knowledge. Therefore, to what extend the public would be aware and accept the Islamic banking products and services since the financial institution put the most priority promoting about conventional banking rather than Islamic banking products and services.

Determinants of Customer's Acceptance towards Islamic Banking Products and Services:

Based on the previous research, we can concluded that several factors or determinants that able to affect the customer's acceptance towards Islamic banking products and services such as service quality perception factor, knowledge of Islamic law factor and also demographical factor. Although, there were a lot of research had found that service quality perception factor is the main criterion of the customer's in accepting the Islamic banking products and services. However, it is relevant for researcher to identify the significance of this independent variable in the context of current issues in Malaysia. As for the second independent variable, knowledge of Islamic law factor had lowest significance relevant in others previous research. Therefore, this research should include this factor in investigating the customer's acceptance nowadays towards Islamic banking products and services whether it had significance or not. Last but not least, the demographical factor also plays important role in determinants that able to affect the customer's acceptance towards Islamic banking products and services in order to investigate the customer's attitude and behavior. This is very important for financial banking institution to establish the best strategy of the marketing planning in order to market the Islamic banking products and services among the public.

a. Knowledge of Islamic Law:

Knowledge is a familiarity, awareness or understanding of someone or something such as facts, information, descriptions or skills which is acquired through experience or education by perceiving, discovering or learning. Knowledge can refer to a theoretical or practical understanding of a subject. It can be implicit (as with practical skill or expertise) or explicit (as with the theoretical understanding of a subject). Islam means submission to the will of Allah and obedience to His law. Islamic laws are made up of shariah and Islamic jurisprudence. Shariah is seen as sacred and constitutes the Quran and Prophet Muhammad's Sunnah which is found in the Hadith and Surahs.

b. Service Quality Perception:

Perceived quality can be defined as the customer's perception of the overall quality or superiority of a product or service with respect to its intended purpose, relative to alternatives. Perceived quality is a first perception by customers. Perceived quality cannot necessarily be objectively determined, in part because it is a perception and also because judgments about what is important to customers are involved. Service quality is a comparison of expectations with performance received. According to Echchabi and Olaniyi [7], their research had found that several factors that able to influence the customer's preferences using Islamic banking products and services such as the service quality perception factor as well as the facilities that provided by the banking institution. However, the religious factors probably had lower significant level that able to affect customer's preferences using the Islamic banking products and services. Service quality perception factor had plays an important role in attracting customers especially in providing convenience, personnel friendliness, personnel competence and knowledge, professional advices given by the personnel, location, and finally reception. In this previous research, the finding should not totally depend on the religiosity of Malaysia factors in marketing the Islamic banking products and services, but it should be focusing and enhancing the quality of their services especially in term of facilities of banking institution.

c. Demographical Factor:

Demographics are the quantifiable statistics of a given population. Demographics are also used to identify the study of quantifiable subsets within a given population which characterize that population at a specific point in time. Demographic data is used widely in public opinion polling and marketing. Commonly examined demographics include gender, age, ethnicity, knowledge of languages, disabilities, mobility, home ownership, employment status, level of education and even location. Demographic trends describe the historical changes in demographics in a population over time (for example, the average age of a population may increase or decrease

over time). Both distributions and trends of values within a demographic variable are of interest. Demographics can be viewed as the essential information about the population of a region and the culture of the people there. Furthermore, according to Abdul Rahim [2], the religious obligation, government support and pricing of Islamic personal financing are also expected to have a significant effect on the intention to use Islamic personal financing. As from that, the researcher had used the theory of reasoned action developed by Fishbein and Ajzen [8] in order to investigate the actual behavior and attitude of the customers towards Islamic banking products and services. Therefore, the finding showed that, the Islamic financial institution should focusing on the level of marketing and service quality perception factor due to the understanding of the attitude of customers especially targeting on the demographical of their customers. As from that, they able to develop strategic marketing due to attract more customers and improve the knowledge as well as awareness of the customers regarding the Islamic banking products and services.

Methodology:

In this cross-sectional survey, the data will be collected from Finance Division of Malaysia Airports Holdings Berhad (MAHB) employees through distribution of questionnaires and the data will be analyzed and interpreted through Statistical Package for Social Sciences (SPSS), version 19.0 to determine the relationship involved. In the context of this study, researcher using Proportionate Stratified Random Sampling to identify each of the employees at every management hierarchy which had lower level management, middle level management and top level management. Based on Krejcie and Morgan [10], a total of 86 respondents will be selected to become the respondents in this study to answer the questionnaires given. The researcher is going to identify the relationship between variables by using Pearson correlation. In addition, the researcher also aims to investigate pattern of customer's acceptance towards Islamic banking products and services based on descriptive analysis.

Conclusion:

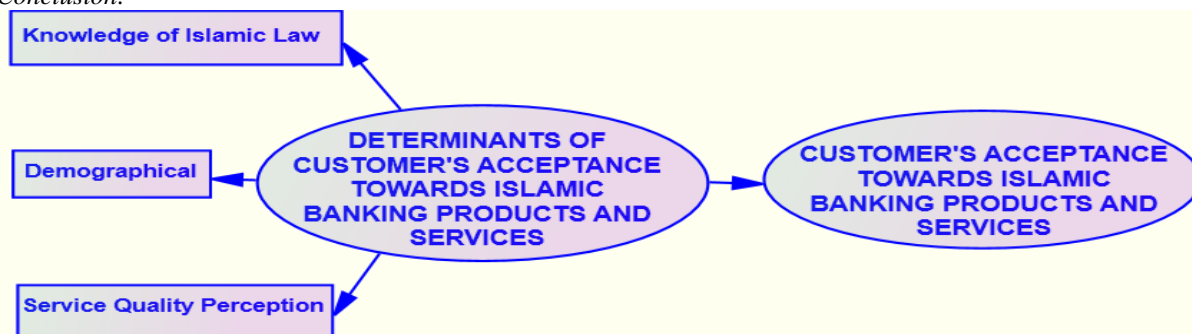


Diagram 1: Conceptual Framework of Determinants of Customer's Acceptance towards Islamic Banking Products and Services.

Based on the diagram, the proposed conceptual framework consist three important independence variable such as knowledge of Islamic law factor, service quality perception factor served by the banking institution and lastly customer's demographical factor which that able to influence the customer's acceptance towards Islamic banking products and services in a study of Malaysia. There is lots of research that investigated the determinants of preferences of Islamic banking products and services in several countries including Malaysia case studies. However, the researcher had come out various kind of result that reflecting relevant factors towards acceptance of Islamic banking products and services among the public.

As for the first determinant that able to affect customer's acceptance towards Islamic banking products and services is the principle in financial institution is the knowledge of Islamic law factor itself. The principle of Islamic had open a lots of people heart to accept the application upon Islamic banking teaching either Muslim or non-Muslim. Islamic banking is the conduct of banking based on shariah principles and does not allow the existence of interest in its operations while promoting profit-sharing. Basically the financial system as same as conventional system, however the Islamic financial system needs to complied with shariah law. From that, the typical question arises to what extend the customer's understanding and awareness towards knowledge of Islamic law instead of accepting Islamic banking products and services? The result of this research will be come out the significant of the first independent variables towards dependent variable.

Next, the second determinants that able to effect customer's acceptance towards Islamic banking products and services is about the service quality perception factor practicing by the Islamic banking institution in order to attract more customers. The elements of service quality perception factor had totally proven by researcher

regarding upgrading a new management which is put the high priority about the customer's needs and demands especially among the conventional banking institution. However, to what extent the element of service quality perception factor had the significant relevant towards the acceptance among the customer's regarding Islamic banking products and services. Therefore, the researcher will use this element in order to investigate the determinants of customer's acceptance towards the Islamic banking products and services.

Last but not least, the third independent variable used in this research is customer's demographical factor which is probably affecting on customer's acceptance towards Islamic banking products and services. According to Haque [9], the demographical factors among the customer who accept or non-accept the Islamic banking products and services had positive impact and able to influence them. Possibly their demographical background had influence their preferences towards the Islamic banking products and services such as the gender, educational background and the most important their belief on the religion. As from that, the researcher intends to come out the demographical of customer's factor as an important determinant in this research.

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