

## UNDERSTANDING BAI' BITHAMAN AJIL FINANCING: A STUDY OF NORTHERN REGION AGROBANK EMPLOYEES IN MALAYSIA

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### ABSTRACT

The purpose of this study is to assess the understanding of *Bai' Bithaman Ajil* (BBA) financing contract between Agrobank employees attached at branches and business center (regional office) in the northern states of Peninsular Malaysia namely Penang, Kedah and Perlis. The research presents primary data collected by self-administered questionnaires involving a sample of 40 respondents who represents executives from the lower - management group with direct involvement in commercial financing-related functions. A multiple regression analysis had been employed in this study. The finding shows that knowledge and commitment are the two significant factors which could affect employees' understanding of BBA financing contract. The empirical evidence of this study highlights the importance of Agrobank to groom a knowledgeable workforce with true commitment in Islamic banking aspects in order to ensure its transformation process would chart another remarkable milestone in spurring the growth of Islamic banking industry in Malaysia.

Keywords: *Bai' Bithaman Ajil* (BBA), Banking and Employees Understanding

### INTRODUCTION

Islamic banking (IB) sector in Malaysia has experienced positive growth and tremendous progress over the past three decades since the establishment of Bank Islam Malaysia Berhad (BIMB) as a pioneer full-fledged Islamic bank in 1983. The emergence of IB has changed the Malaysian banking landscape from the sole - dominance of long established and a deep-rooted conventional banking system to a dual-banking system where Islamic banks operate in parallel with their conventional counterparts. Ismail (2010) emphasized that Islamic banking had played a vital role in mobilizing funds from *Rab-al-mal* (surplus units) to *mudharib* (deficit units), as well as prohibiting *riba*-based activities in its operations.

Agrobank is a Government-Linked Company (GLC) under the Malaysian Ministry of Finance Incorporated (MoF Inc.). It has been mandated with a role to provide holistic banking facilities to agriculture and agro-based community, as well as to cater the financial needs of private individuals. The notion, idea of this study was towards the slow progress of the transformation process, lack of understanding and low appreciation in the Islamic banking system among Agrobank employees. The key problem of this study is to examine the importance of having a basic understanding of

Islamic banking aspects among Agrobank's employees as to ensure a smooth transition during and after the transformation process. The underlying importance of this study is also associated with complexities in today's banking transaction, as customers have become more educated and demand for detailed information and explanation of IB products, terminologies and its process flow. Therefore the objective of the study is (i) to assess the understanding of Islamic banking, financing contract of *Bai' Bithaman Ajil* (BBA) among Agrobank's employees in northern regional branches and (ii) to examine the key factors affecting employees' understanding on the Islamic banking financing contract of BBA.

## LITERATURE REVIEW

A study presented by Dahlawi (2005) revealed more critical factor, which was on the ignorance among many Islamic bank employees about the true nature of Islamic finance. He included in his study that banks will not be able to actualize their objectives if employees of that institution cannot properly uphold the banks' mission, have little interest to act in accordance to *Shariah* principles, lack of confidence in the Islamic banking system or lack of knowledge in the operation of Islamic banks.

A study by Hassan and Ahmed (2002) conducted at one of Islamic banks in Dhaka, Bangladesh found that understanding of Islamic banking concept and practices among customers and employees were still vague. Another study by Makiyan (2002) on the factors behind Islamic banking performance revealed that inadequate knowledge among employees was one of the key problems faced by Islamic banks. Both studies mentioned before were applied by Zainol, Shaari, and Ali, (2008) in their research paper about bankers' perception towards Islamic banking products and services. Their findings show that employees' knowledge of the fundamental aspects of Islamic banking is very limited – particularly in the areas of establishment objectives of Islamic bank which placed greater emphasis on religion rather than the profitability factor as its main feature.

The phrase *Bai' Bithaman Ajil* can be further break up into the following *lafzhiyah* (word-by-word) translation, to be read as: *Bai'* (sale), *Bithaman* (price or method of payment), *Ajil* (deferment). Hence, BBA is actually a “sale with deferred payment” and therefore is not a “spot sale” (Khir, Gupta, & Bala, 2008). Rosly (1999) in his article to measure the impact of using BBA financing on Islamic banking performance concluded that profits margin of an Islamic bank under his reviewed has declined tremendously during the rising interest rate period in year 1996-1997, in contrary to a profit margin of conventional banks which moved in the opposite direction.

Mohd Azli, Othman, Sahri, Abdul Aris, and Arshad, (2011) addressed in their study regarding the importance of thorough understanding in *Maqasid Al-Shariah* (the objectives of Islamic law) in the context to uphold justice, social welfare and brotherhood. They concluded that the level of understanding of *Maqasid Al-Shariah* among bankers/practitioners who acted as seller in BBA financing contract is also questionable. In addition they commended that the terms and conditions, legal framework and practice of BBA were lack of public interest perseverance, compared to *Musharakah Mutanaqisah* (MM) financing contract used in house financing.

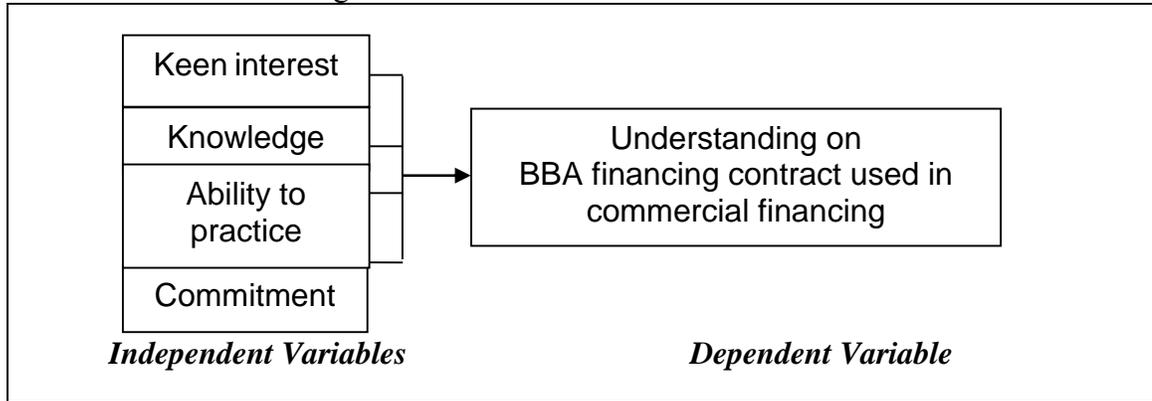
## METHODOLOGY

Data collection was done by distributing self-administered questionnaire to 40 respondents at 19 Agrobank branches and 1 Business Centre representing three different states in the northern territory of Malaysia, namely, Penang, Kedah and Perlis. The questionnaire consists of 28 questions designed to examine the strength of respondents' agreement or disagreement with the

statements on the five-point scale, and divided into three parts. The timeframe corresponded to this research is within the year 2014. Descriptive and multiple regression analysis, data analysis techniques have been employed in this study. Descriptive analysis was conducted to determine respondents' demographic frequency of gender, age, marital status, years employed, years of banking experience, as well as level of qualification. This type of analysis has enabled the researcher to gauge the respondents' understanding of Islamic banking aspects with regard to their keen interest, commitment, knowledge and ability to practice *Shariah* aspects. Descriptive analysis was applied in this study to answer the first research objective.

Multiple regression analysis had been used to determine whether independent variables have a significant relationship with the dependent variable. This type of analysis is suitable for research with more than one independent variable (Sekaran & Bougie, 2009). Multiple regression analysis was employed to answer the second objectives. The schematic diagram below is developed to illustrate the relationship between dependent and independent variables.

Figure 1: Theoretical Framework



The regression equation model was applied to analyze the collected data from respondents. The purpose of this equation is to identify significant factors in determining the dependent variable in the study. The below equation has been established thereon:

$$BBA_{it} = \beta_0 + \beta_1 KI_{it} + \beta_2 K_{it} + \beta_3 AP_{it} + \beta_4 C_{it} + \epsilon_{it} \dots\dots\dots (1)$$

Where:

- BBA = Understanding on BBA financing contract used in commercial financing
- KI = Keen interest
- K = Knowledge
- AP = Ability to practice
- C = Commitment

**FINDING**

The degree of understanding, keen interest, commitment, knowledge and ability to practice proper aspects of the BBA financing contract were measured using the five-point anchors of: strongly disagree, disagree, neither agree nor disagree, agree and strongly agree. Despite the measurement scale employed was merely indicative, it could however, serves the research purpose to assess the understanding among Agrobank's employees on the Islamic banking, financing, contract of BBA by referring to the mean score obtained from the survey as shown in the tables below.

Table 1 revealed that all respondents were aware about the existence and understand the objectives

of BBA, with the mean score of 4.75.

Table 1: Understanding on BBA financing contract

		Frequency	Percent	Mean
Valid	Strongly Disagree	0	0.0	4.75
	Disagree	0	0.0	
	Neither Agree Nor Disagree	0	0.0	
	Agree	10	25.0	
	Strongly Agree	30	75.0	
	Total	40	100.0	

Table 2 presents the findings on respondents' keen interest. The mean score of 3.40 indicates that respondents were 'unsure' about their keenness to understand the BBA financing contract.

Table 2: Keen interest in BBA financing contract

		Frequency	Percent	Mean
Valid	Strongly Disagree	0	0.0	3.40
	Disagree	0	0.0	
	Neither Agree Nor Disagree	25	62.5	
	Agree	14	35.0	
	Strongly Agree	1	2.5	
	Total	40	100.0	

Table 3 shows the findings on respondents' commitment towards BBA with mean score of 3.15. The score shows that the majority of respondents were 'unsure' about their commitment to BBA financing contract. Based on justification given in the Table 5, it can deduce that despite the overall mean for this variable was only standing at 3.15, the respondents were seen as having the required commitment pertaining to their understanding of BBA financing contract.

Table 3: Commitment in BBA financing contract

		Frequency	Percent	Mean
Valid	Strongly Disagree	0	0.0	3.15
	Disagree	3	7.5	
	Neither Agree Nor Disagree	28	70.0	
	Agree	9	22.5	
	Strongly Agree	0	0.0	
	Total	40	100.0	

In terms of knowledge, most respondents were also 'unsure' about their knowledge of BBA financing contract with a mean score of only 3.33. Respondents' knowledge factor is delineated in Table 4.

Table 4: Knowledge in BBA financing contract

		Frequency	Percent	Mean
Valid	Strongly Disagree	0	0.0	3.33
	Disagree	0	0.0	
	Neither Agree Nor Disagree	27	67.5	
	Agree	13	32.5	
	Strongly Agree	0	0.0	
	Total	40	100.0	

Table 5 below depicts respondent's mean score of 3.45 with regard to their ability to practice Shariah aspects in the BBA financing contract. The score implies that respondents were 'unsure' whether they are able to practice Shariah principles governing BBA contract in an orderly manner.

Table 5: Ability to practice proper Shariah aspects in the BBA financing contract

		Frequency	Percent	Mean
Valid	Strongly Disagree	0	0.0	3.45
	Disagree	1	2.5	
	Neither Agree Nor Disagree	20	50.0	
	Agree	19	47.5	
	Strongly Agree	0	0.0	
	Total	40	100.0	

Table 6 shows the summary in assessing the degree of understanding, keen interest, commitment, knowledge and ability to practice proper aspects of BBA financing contract among Agrobank's employees.

Table 6: Summary of understanding, keen interest, commitment, knowledge and the ability to practice BBA among Agrobank's employees.

No.	Item	Mean	Finding
1	Understanding of BBA financing contract	4.75	Respondents were aware about the existence and understand the objectives of BBA.
2	Keen interest in BBA financing contract	3.40	Respondents were 'unsure' about their keenness to understand the BBA financing contract.
3	Commitment in BBA financing contract	3.15	Respondents were 'unsure' about their commitment to BBA financing contract.
4	Knowledge of BBA financing contract	3.33	Respondents were also 'unsure' about their knowledge of BBA financing contract

5	Ability to practice proper Shariah aspects in BBA financing contract	3.45	Respondents were 'unsure' whether they are able to practice <i>Shariah</i> principles governing BBA contract in orderly manner.
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Based on the result in Table 7, the Adjusted R Square for this study was at 0.580. The result implies that independent variables are able to explain up to 58 percent of the variances in the understanding on BBA financing contract among respondents.

Table 7 also shows the degree of coefficients value between the dependent variable of BBA financing contract, and the four independent variables, namely knowledge, commitment, keen interest and ability to practice.

Table 7: Model Summary and Coefficients Statistic Value

Model	Standardized Coefficients	t	Sig.
	Beta		
(Constant)		29.975	.000
Knowledge	.439	3.180**	.003
Commitment	.283	2.050*	.047
Keen interest	.007	0.049	.961
Ability to practice	-.104	-0.755	.455
Total Significant Variables		2	
Adjusted R Square		.580	
Durbin-Watson		2.201	

a. Dependent Variable: BBA

b. Note: \*\* and \* denotes 1 percent and 5 percent level of significant respectively.

It is also noted from the above coefficients table that only two independent variables were having significant relationship with employees' understanding on BBA financing contract, that is, knowledge and commitment; while the other two, namely keen interest and ability to practice *Shariah* aspects were found to be insignificant.

Between the two significant variables, knowledge had higher significant relationship with regard to the understanding on BBA financing contract with  $\beta = .439$ . This outcome suggests that every 1 percent increase in respondents' knowledge would able to improve their understanding on BBA financing contract by 43.9 percent. Based on Sig. Result of  $p = .003 < 0.01$ , knowledge is proven to be significant at 0.01 or 1 percent significance level. Meanwhile, t-ratio for knowledge was at 3.180. The result indicates that employees' knowledge and their understanding of the BBA financing contract have a positive relationship. In other word, additional knowledge gained by employees would heighten their know-how in the BBA financing contract.

The above result is consistent with past studies by Dusuki and Abdullah (2007) in which the former had ranked knowledgeable personnel as the most important factor for Malaysian customers to patronize Islamic banks, whilst the latter addressed the importance of training as a key factor to enhance knowledge among bank managers in Malaysia

Commitment also reveals a positive relationship with an employees' understanding of BBA financing contract, but at at least significant level than the knowledge factor, denoted by a t - ratio of only at 2.050. With  $\beta = .283$ , the result indicates that every 1 percent increase in respondents'

commitment would only contribute 28.3 percent towards their understanding of BBA financing contract. The result shows  $p = .047 < 0.05$ , thus implies that commitment is only significant at 0.05 or 5 percent significant level. The above finding on commitment suggests that understanding of BBA financing contract will increase in proportion with employees' commitment, but at a slower pace than employees' knowledge.

The result of employees' commitment is also in line with past findings by Al-Omar and Iqbal (1999) highlighted on the importance of having skilled and committed people to lead Islamic banks.

On the other hand, the result of coefficients reveals that employees' keen interest and ability to practice *Shariah* aspects were found to have insignificant relationship with respect to their understanding of BBA financing contract.

Therefore, keen interest and ability to practice *Shariah* aspects in orderly manner may not be a good predictor to gauge employees' understanding on BBA financing contract, as well as in generalizing their appreciation towards the implementation of Islamic banking system by the bank.

## CONCLUSION

The first objectives of this study in assessing employees' understanding in Islamic banking aspect with concentration on BBA financing contract can be considered as having achieved its desired aim, since all respondents had shown the required understanding towards the measured concepts. Know-how in the BBA financing contract between employees at northern region branches and Business Centre is due to the facility had been widely offered to business customers, as far as Agrobank is concerned within this context. The preference of Agrobank employees to propose BBA as a financing model to their customers is closely related to the nature of BBA contract itself, in which it is the only contract with deferred payment terms that can be suited to fulfill various financial needs of business customers. Furthermore, those executives involve in financing-related matter is better exposed to the underlying features of this contract.

The subsequent objective of this study is to examine the factors that could influence the understanding of BBA financing contract among Agrobank employees. Based on the result from multiple regression analysis, it shows that knowledge was found to be the paramount factor that could affect the understanding of BBA financing contract among employees, followed by commitment.

The importance of having knowledgeable employees is inevitable for Agrobank in achieving its aspiration to become a fully *Shariah*-compliant bank, since it is the only financial institution in Malaysia with mandated role to nurture agricultural customers to greater heights. Thus, failure to prepare and equip its employees with proper skills and know-how in *Shariah* principles before transformation process come into force will jeopardize the bank's reputation in the long run. The results also indicate that commitment played a measurably important factor within the context of this study because it is a mounting task to fine-tune employees' mindset from long-embedded dual-banking approach to only focus their efforts on *Shariah*-compliant banking transactions within a short timeframe. It is pertinent to note that the understanding of BBA financing contract will be better improved should employees' gradually developed their job commitment over the course of time.

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## APPENDIX

Table I: Respondents questions on BBA financing contract.

Q	Statement
1	I am aware about the existence of BBA contract
2	I understand the objectives of BBA contract.

Table II Respondents questions on keen interest in BBA financing contract.

Q	Statement
1	I only heard about the term BBA after joining Agrobank/BPM.
2	I am not hesitating to continue the offering of BBA financing to customer despite much criticism about the contract.
3	I realize that BBA financing contract has undergone several improvisation processes as to ensure its adherence to Shariah principles.
4	I notice that some Islamic banks have discontinued using BBA as financing contract.
5	I am not eager to learn about BBA because it is a replication from conventional banking loan contract.

Table III: Respondents questions on commitment in BBA financing contract.

Q	Statement
1	I am confident to explain about BBA financing contract if being asked by customers.
2	I would still promote BBA financing contract despite knowing that customer runs non-Shariah compliant activities on the land to be offered as collateral to Agrobank.
3	Know-how in BBA financing contract is only vital for frontliners dealing with financing-related matter.
4	I find that Arabic terminology in BBA financing contract is hard to understand and to be explained to customer.
5	I may have to forego business opportunity with customer if the project to be financed is against Shariah principles, which is not eligible to be financed using BBA contract.

Table IV: Respondents questions on knowledge in BBA financing contract.

Q	Statement
1	BBA means sale with cash.
2	BBA is only suitable to finance short-term financing.
3	BBA is sale contract with deferred payment.
4	BBA is the most popular financing contract to finance commercial business at Agrobank.
5	BBA buying price stated in letter of offer represents amount of financing approved to customer.

Table V: Respondent questions on ability to practice BBA financing contract.

Q	Statement
1	The two main documents in BBA contract agreement are Property Purchase Agreement (PPA) and Property Sale Agreement (PSA).
2	Akad* ceremony to solemnize the offer and acceptance between buyer (customer) and seller (Bank) in BBA financing contract can be done at separate occasion.
3	In the rescheduling case of BBA facility, it is sufficient to use original akad* during financing approval, as there is no requirement to solemnize new akad*.
4	There must be an underlying asset in every BBA financing contract.
5	BBA selling price (ceiling price) can be adjusted in the event of rising interest rates in Malaysia.

Akad or Contract Ceremony is a symbol of willingness between the parties that involve.