Determinants of Attitude and Intention towards Islamic Financing Adoption among Non-Users

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Abstract

Islamic finance and Halal are Shariah-compliant business sectors sharing similar values and principles. Despite the similarities, both Islamic finance and Halal are growing independently. There has been a lack of interaction between the two sectors in which the penetration of Islamic financing among the Halal business operators was poor. The need to merge Islamic finance and Halal holistically by making Islamic finance part of the Halal production is essential. This leads to the purpose of this paper as to unravel the determinants of attitude and intention towards adopting Islamic financing from the perspective of the Halal entrepreneurs who are the non-users of Islamic financing. The data of 205 entrepreneurs of Halal micro and SMEs were collected at Halal exhibitions via interviewer-administered questionnaire using a random sampling technique. This study adopts Theory of Planned Behaviour (TPB) to determine the predictors of attitude and intention to adopt Islamic financing. The results from the Structural Equation Modelling (SEM) analysis indicate that all five salient beliefs or determinants of attitude investigated are statistically significant. Religion obligation was found to have the strongest impact on attitude. The results also show that the perceived behavioural control and subjective norms had a significant influence on entrepreneurs’ adoption intention. The study findings afford valuable insights towards designing effective strategies especially to the industry practitioners in bridging the gap between the two industries Islamic finance and Halal.

Keywords: Islamic banking; Islamic finance; Attitude; Small and medium enterprises; Halal.

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1. Introduction

Islamic finance is a natural partner to the Halal market. The two Shariah-compliant business sectors share the similar set of values, market and principle. Both sectors have gained wider global acceptance, involves Muslim and non-Muslim consumers, and are growing rapidly. Despite the similarities, there has been a lack of connection between the Halal and the Islamic finance as both industries are developing independently. The two sectors are considered ‘twin separated at birth’. Islamic finance has become a global brand, sophisticated and organized industry in the past four decades. On the other hand, the Halal industry appeared to be more fragmented, less structured for the past ten years of emergence (Halal Focus, 2011). In Malaysia, the issue of disintegration between Halal and Islamic Finance sectors is reflected by the low usage of Islamic financial products among the Halal industry players. Although Islamic banks have been established in Malaysia for almost three decades since its inception in 1983, there are only 5% of Halal players who use Islamic banking and finance products. Meanwhile, 95% of Halal entrepreneurs do not use Islamic banking and finance products. In becoming a true Halal business operator, the business must not only focus on Halal production, but the Halal business must also finance in an Islamic way of financing (Ghani, 2011). However, this has not been achieved. According to Dato’ Seri Jamil Bidin, the CEO of Halal Industry Development Corporation (HDC), it is observed that there were only 10 percent of the 4,400 Halal companies in Malaysia received funds from the Shariah-compliant system (Halal Focus, 2014).

Given the lack of supporting empirical evidence on the current issue, it is crucial and timely for the researcher to examine the Halal entrepreneurs’ attitude towards Islamic financing. Therefore, this study seeks to unravel the determining factors that influence the entrepreneurs’ attitude towards adopting Islamic financing and determinants of intention.

2. Literature Review

Attitude studies on Islamic finance have been exhausted to understand the significant factors that influence the entrepreneurs’ perception and disposition towards Islamic banking and methods of finance. It is found that strong business support (Jalaluddin, 1999) and religion (Gait and Worthington, 2009) are important factors that influence business firms’ attitude towards Islamic finance. Religion factor or Shariah-compliancy is crucial in driving Muslims towards Islamic banking (Haque, 2010). The failure for the Islamic banking and finance to comply with Shariah-principle has constituted a major barrier to Islamic bank selection (Al-Sultan, 1999). Other factors include image and reputation of the Islamic banks (Dusuki and Abdullah, 2007) and cost benefits or profitability factor (Al-Ajmi, Hussain and Al-Saleh, 2009). A recommendation from friends and relatives play a significant role in influencing customers’ intention to use Islamic home financing (Amin, Abdul Rahman and Abdul Razak, 2014). This implies that social pressure may influence customers’ intention to use Islamic methods of finance. In light of the above reasons, it is crucial and worthwhile for the researcher to examine the Halal-producing entrepreneurs’ attitude towards adopting or continuously adopting Islamic financing by emphasizing the antecedents of attitude. There have been substantial literatures that examined the individual customers’ attitude towards Islamic finance, but minimal attitude studies on Islamic finance from the business firms’ perspective. To the researcher’s knowledge, no study to date has specifically examined the attitude towards Islamic financing among the Micro and SMEs in Halal business. Furthermore, none of the attitude studies on individual customers’ and business firms’ towards Islamic financing have adopted Ajzen’s (1991) Theory of Planned Behaviour (TPB) as the basis of the theoretical framework. Since this study focuses on the attitude of Micro and SMEs towards Islamic financing, the TPB model is relevant to be applied as the conceptual framework. TPB proposes three key determinants in influencing intention; attitude towards the behaviour, subjective norms and perceived behaviour control. In this study, it is hypothesized that salient belief factors i.e. religion obligation, knowledge and awareness, cost benefits, business support and reputation are positively related to attitude towards Islamic financing and consequently influence adoption intention.

3. Methodology

A survey research using interviewer-administered questionnaire has employed as the main approach for the data collection. A total of 205 micro and SMEs of Halal production were collected during the Halal exhibitions using a
simple random sampling technique. In terms of analysis, this study has conducted a descriptive analysis to provide initial description or understanding of the data gathered in the survey. Subsequently, a more robust multivariate analysis technique via Confirmatory Factor Analysis (CFA) and Structural Equation Modelling (SEM) were performed to test the hypothesised links among constructs and to validate the research model. After that, to determine the key determinants of attitude and intention towards adopting Islamic financing.

4. Results

The descriptive statistics analysis (see Table 1.1) on demographic and business characteristics of the non-users reveal that majority of the non-users in this study consists of 87.3 percent Muslims and 62.4 percent males. Over 53 percent of non-users sample attain at least a first degree. A majority of the non-users respondents comes from the age group of 31-40 years old (31.2 percent) followed by 41-50 years (30.7 per cent). Based on the annual sales turnover, it is found that more than half or 53.1 percent of the non-users respondents is the micro and small-sized enterprises. In fact, the results show a greater representation of micro-sized enterprises (42.4 percent) in the non-users where the business sales turnover reached less than RM250,000.00 annually. The number of staffs has reinforced the domination of the small-sized enterprises (60 percent) with 5 to less than 50 employees while the micro-sized business constitutes 31.2 percent of the non-users sample.

| Variables | Number of respondents | Percentage |
|-----------|-----------------------|------------|
| Religion  |                       |            |
| Muslim    | 179                   | 87.3%      |
| Non Muslim| 26                    | 12.7%      |
| Gender    |                       |            |
| Male      | 128                   | 62.4%      |
| Female    | 77                    | 37.6%      |
| Highest education level attained | | |
| Primary   | 4                     | 2.0%       |
| Secondary | 43                    | 21.0%      |
| Certificate/diploma | 49   | 23.9%    |
| Bachelor’s degree | 77  | 37.6%    |
| Masters/PhD | 29    | 14.1%    |
| Professional | 3   | 1.5%      |
| Age       |                       |            |
| Below 20 years old | 1    | 0.5%    |
| 20-30 years old | 39  | 19.0%   |
| 31-40 years old | 64  | 31.2%   |
| 41-50 years old | 63  | 30.7%   |
| Above 50 years old | 38  | 18.5%   |
| Annual sales turnover of Halal business | | |
| Less RM250,000 | 87  | 42.4%   |
| RM250,000-RM500,000 | 40 | 19.5% |
| RM500,000-RM1mil | 15  | 7.3%    |
| RM1mil-RM10mil | 54  | 26.3%   |
| RM10mil-RM25mil | 5   | 2.4%    |
| Above RM25mil | 4   | 2.0%    |
| Number of staff (including owner) in Halal business | | |
| Less than 5 | 64  | 31.2%   |
| 5 to less than 10 staff | 68  | 33.2%   |
| 10 to less than 50 staff | 55  | 26.8%   |
| 50 to less than 100 staff | 13  | 6.3%    |
| 100 to less than 150 staff | 5   | 2.4%    |

The following section presents the SEM analysis which follows two-step approaches as recommended by Gerbing and Anderson (1988) namely: 1) Measurement model (or Confirmatory factor analysis) and 2) Structural model. Confirmatory Factor Analysis (CFA) was carried out using AMOS 21 analytical program. Montoya-Weiss and Calantone (1994) suggest that CFA could assess construct validity and reliability of the measurement scale. Table 1.2 demonstrates the unidimensionality, convergent validity and reliability evaluation. All standardized regression weights for the measured items are ranging from 0.53 to 0.96 with the most items load above the threshold value of 0.7, thus providing adequate unidimensionality. Composite reliability (CR) reflects the internal consistency of the construct indicators. All CR scores are ranging from 0.74 to 0.94, above the acceptable value of 0.7 indicates that internal consistency exists. Cronbach’s alpha is then analysed to double check the scale reliability. The alpha value is ranging from 0.75 to 0.93, exceeding the cut-off point of 0.7 (Nunnally and Bernstein, 1994).
Thus, suggesting good reliability. Average variance extracted (AVE) is an indicator to assess convergent validity. Based on the table, the average variance extracted (AVE) is ranging from 0.50 to 0.87, on par and above the suggested 0.50 thresholds (Fornell & Larcker, 1981). Therefore, the test had demonstrated a satisfactory convergence. The goodness-of-fit indices results indicate that the measurement model supported by the data, where all indices achieved the required level. The Tucker-Lewis Index (TLI), and Comparative Fit Index (CFI) are above the cut-off value of 0.9, indicates a reasonable good fit. The normed Chi-square ($\chi^2/df =1.64$) is close to 1, suggesting a good indicator of model fit (Joreskog, 1993). Root mean square error of approximation (RMSEA) value is 0.056, within the reasonable fit of 0.05 to 0.08 rule of thumb (Browne and Cudeck, 1993). As a conclusion, the results of the measurement model evaluation show the existence of unidimensionality, convergent validity and reliability. This leads to the discriminant validity assessment. The findings in Table 1.3 show there is an existence of discriminant validity. Discriminant validity is assessed by comparing the square root of AVE of each construct with correlation coefficients of other latent constructs (Fornell & Larcker, 1981). As the rule of thumb, the square root of AVE value for the construct is greater than correlations with other constructs. Given the evidence from the discriminant validity test, there is a substantial support of discriminant validity among constructs in the measurement model.

| Constructs                      | Std Regression (Loading) | Composite Reliability | AVE   | Cronbach’s Alpha |
|---------------------------------|--------------------------|-----------------------|-------|------------------|
| Knowledge and awareness (KN)    |                          |                       |       |                  |
| 1. the existence of Islamic financing for Micro and SMEs | 0.60                     | 0.83                  | 0.57  | 0.82             |
| 2. differences between Islamic and conventional financing | 0.89                     |                       |       |                  |
| 3. basic principles of Islamic financing | 0.91                     |                       |       |                  |
| 4. Islamic financial products and services offered to both Muslims and non-Muslims | 0.53                     |                       |       |                  |
| Religion obligation (RO)        |                          |                       |       |                  |
| 1. follow to Islamic (Shariah) principle | 0.81                     | 0.88                  | 0.65  | 0.88             |
| 2. completely interest (riba) free | 0.76                     |                       |       |                  |
| 3. fair to everyone             | 0.85                     |                       |       |                  |
| 4. invest in Halal business     | 0.80                     |                       |       |                  |
| Cost benefits (CB)              |                          |                       |       |                  |
| 1. profitable than conventional financing | 0.81                     | 0.85                  | 0.59  | 0.87             |
| 2. credit at favourable terms and conditions | 0.88                     |                       |       |                  |
| 3. lower service charges and monthly repayment | 0.69                     |                       |       |                  |
| 4. costs of borrowing funds lower than conventional | 0.67                     |                       |       |                  |
| Business support (BS)           |                          |                       |       |                  |
| 1. encourage business expansion | 0.92                     | 0.93                  | 0.87  | 0.93             |
| 2. support business management  | 0.94                     |                       |       |                  |
| Reputation (REP)                |                          |                       |       |                  |
| 1. promote Islamic values and way of life | 0.78                     | 0.89                  | 0.67  | 0.82             |
| 2. contribute to the social welfare | 0.80                     |                       |       |                  |
| 3. not only maximizing profit but also enhance standard living and welfare of the community | 0.89                     |                       |       |                  |
| 4. promote sustainable projects | 0.80                     |                       |       |                  |
| Attitude (ATT)                  |                          |                       |       |                  |
| 1. Equitability                 | 0.88                     | 0.94                  | 0.75  | 0.94             |
| 2. Fairness                     | 0.96                     |                       |       |                  |
| 3. Flexibility                  | 0.88                     |                       |       |                  |
| 4. Beneficial                   | 0.82                     |                       |       |                  |
| 5. Rewarding                    | 0.78                     |                       |       |                  |
| Subjective Norms (SN)           |                          |                       |       |                  |
| 1. Subjective norms 1           | 0.88                     | 0.88                  | 0.61  | 0.88             |
| 2. Subjective norms 2           | 0.96                     |                       |       |                  |
| 3. Subjective norms 3           | 0.83                     |                       |       |                  |
| 4. Subjective norms 4           | 0.55                     |                       |       |                  |
| 5. Subjective norms 5           | 0.59                     |                       |       |                  |
| Perceived Behavioural Control (PBC) |                        |                       |       |                  |
| 1. Perceived behavioural control 3 | 0.65                     | 0.74                  | 0.50  | 0.75             |
| 2. Perceived behavioural control 4 | 0.60                     |                       |       |                  |
| 3. Perceived behavioural control 5 | 0.84                     |                       |       |                  |
| Intentions (INT)                |                          |                       |       |                  |
The next step is to assess the relationships among constructs incorporated in the hypothesised conceptual model. Structural equation modelling is utilised to test the hypothesised relationships among the constructs as postulated in the research model. The goal of this analysis is to determine whether the hypothesised model is consistent with the data collected to reflect the model. The consistency is evaluated through model-data fit (Lei and Wu, 2007). This means that the goodness-of-fit for the hypothesised model is adequate, the postulated hypothesised relationship among variable is plausible. In contrary, if the model fit is not achieved, the hypothesised relationship is rejected. In the hypotheses testing among the non-users segment, all of the eight of the hypothesized links are supported. Results of the structural model (Table 1.4) show evidence of an acceptable fit, where the values of both CFI and TLI are above 0.90 thresholds (CFI=0.93) and (TLI=0.92). The GFI is at the marginal acceptable value of 0.9. The Root Mean Square Error of Approximation (RMSEA) value was 0.059, a value of 0.08 or less indicative of an acceptable model fit. To conclude, the result of the final model fit indices provided evidence of an acceptable fit, suggesting that the hypothesised model for the non-users segment is plausible.

Table 1.4: Fit Indices of the Structural Model

| Name of index | Index value | Acceptable fit |
|---------------|-------------|----------------|
| Chi-square ($\chi^2$) | 812.156 | Nil |
| df | 473 | Nil |
| Chi-square/df ($\chi^2$/df) | 1.717 | The required level is achieved (<2.0) (Joreskog, 1993) |
| RMSEA | 0.059 | The required level is achieved (<0.05 to 0.08) (Browne & Cudeck, 1993) |
| GFI | 0.809 | Marginally achieved the required level (>0.9) (Chau & Hu, 2001) |
| CFI | 0.931 | The required level is achieved (>0.9) (Hu & Bentler, 1999) |
| TLI | 0.923 | The required level is achieved (>0.9) (Hu & Bentler, 1999) |

Table 1.5 provides a summary of the hypothesized model path coefficients and a critical ratio of each path. The table reveals that all paths are statistically significant. The result shows that ‘Religion Obligation’ is the most influential predictor with path coefficient estimates of 0.195 at p<0.01, by which it has the highest impact on non-users’ attitude towards adoption intention. Followed by knowledge and awareness, cost benefits and business support. Reputation is the least influential predictor of non-users’ attitude. In regards to intentions, all of the determinants of intention had a significant influence on non-users’ intention to adopt Islamic financing. In particular, perceived behavioural control is found to be the main determinant of adoption intention with the highest path coefficient of 0.47 at p<0.001. Subsequently, subjective norms with standardized path coefficient estimate at 0.46, p<0.001 and attitude exerted the least significant impact on adoption intention.
Table 1.5 Hypothesis Testing Result

| Hypothesis | Hypothesized path | Std path coefficient | Critical ratio (t-value) | Results |
|------------|-------------------|----------------------|--------------------------|---------|
| H1         | Knowledge awareness $\rightarrow$ Attitude | 0.192 (+) | 2.393 *** | Supported |
| H2         | Religion obligation $\rightarrow$ Attitude | 0.195 (+) | 2.653 **** | Supported |
| H3         | Cost Benefits $\rightarrow$ Attitude | 0.216 (+) | 2.312 *** | Supported |
| H4         | Business Support $\rightarrow$ Attitude | 0.147 (+) | 2.214 ** | Supported |
| H5         | Reputation $\rightarrow$ Attitude | 0.189 (+) | 1.998 ** | Supported |
| H6         | Attitude $\rightarrow$ Adoption Intention | 0.224 (+) | 3.421**** | Supported |
| H7         | Subjective norms $\rightarrow$ Adoption Intention | 0.464 (+) | 4.568**** | Supported |
| H8         | Perceived Behavioural Control $\rightarrow$ Adoption Intention | 0.466 (+) | 4.647**** | Supported |

**** Significant at p < 0.001 (t > ±3.29)  *** Significant at p <0.01 (t > ± 2.57)  ** Significant at p<0.05 (t > ± 1.96)

5. Conclusion

The findings of the study afford a major contribution to the industry practitioners in developing a pertinent strategy to entice Halal adopters of Islamic financing. First, the results reveal that ‘Religion obligation’ is the most significant determinant of attitude, which concur with Butt et al. (2011) study. This implies that the perceived adherence to the Shariah criterion (i.e. Riba-free banking, Halal investments and equal distribution of wealth) is mandatory in the eyes of the non-users. Hence, financial institutions should develop strategies by projecting a Shariah-compliant imagery that is riba-free, Halal invested and equitable as well as emphasize the implementation of Islamic financing that is truly Shariah compliant. Not only that, financial institutions should continuously increase the non-users’ knowledge and awareness of the existence and principles of Islamic financing, its product benefits and its differences with conventional financing. Secondly, concerning the predictor of intention, ‘perceived behavioural control’ emerged as the strongest influence on intention. Considering that these respondents are the business owners who make most company’s decision, the perceived strong control beliefs on their ability to adopt Islamic financing is relevant. Nevertheless, financial institutions should provide entrepreneurs enough support and resources for stronger adoption intention. Besides, ‘subjective norms’ has also played a significant role in influencing the non-users’ intention. This suggests that emphasis on creating a supportive social environment or social interaction is needed to promote Islamic financing, so that others can influence the consumers’ behaviour. The study’s generalisability of the findings is limited to producers of Halal products from various product categories. Therefore, the future research could extend beyond the current scope to Halal food retailers, Halal logistics or Halal lifestyle producers to examine and validate the generalisability of the research model in different context.

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