



Study of Direct Relationship Determinants on the Selection of Musyarakah Mutanaqisah Products (MM)

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This study analyses the direct relationship of determinants—both intrinsic and extrinsic factors—affecting the selection of Musyarakat Mutanāqīṣat (MM) house financing products. Intrinsic factors include factors of confidence in sharia compliance value and factors regarding the knowledge level of potential customers. Extrinsic factors include MM product characteristics such as service quality, costs, product benefits and promotions. MM products are emphasised in this study because of their many benefits, including lowering the burden of customers' monthly payloads, a relatively shorter monthly payment period and increased benefits and profits for both banks and customers. Data was collected from 100 MM customers in Malaysia via the Internet (Facebook) and analysed using Structural Equation Modeling (SEM-SMART PLS) and the Statistical Package of Social Sciences (SPSS) software. The findings show that only the factors of promotion and religious compliance are significant when selecting MM products; in fact, the influence of promotional factors had a greater impact than the influence of religious compliance. Therefore, Islamic banks are urged to increase their promotional strategies in order to provide information about the role of religious law in selecting Islamic banking products, thus helping customers choose MM products that satisfy their needs while also meeting religious demands.

Keywords: *Housing Financing, Musyāarakat Mutanāqīṣat, Intrinsic Factor, Extrinsic Factor.*



Background

In Malaysia, MM housing financing concepts have been offered since 2005 (Shuib, Sulaiman, Mohamad, & Taquiuddin, 2011). As it is a permitted contract in the Islamic *muamalat* (dealings), this method was later approved by the *Majlis Penasihat Syariah* (MPS), Central Bank on 6 February 2006 as a sharia-compliant financing method. In implementation, MM products have several advantages: they are relatively inexpensive, they offer a potential alternative in Islamic financial institutions and they speed economic development and their functional role in deriving benefit. The functional role in deriving benefit is that the MMP is suited to practise, for example, where housing cooperative funds are provided by the members for the benefit of the members themselves. While providing cheaper housing for members, the MMP also provides returns to the investing members in the form of rentals and sale of properties (Meera & Razak, 2005; Shinkafi & Ali, 2018). Monthly payments are relatively shorter and provide more benefits and profits to both banks and customers. While monthly or lease payments can change according to changes in the market, MM contracts are unaffected by factors such as interest and inflation. Banks, on the other hand, are free to manage their liquidity risk (Meera & Razak, 2005).

From the sharia point of view, the use of MM contracts can circumvent usury, and is thus in compliance with sharia law. In the MM contract, the loan balance never exceeds the original house price. House sale prices are determined according to the market price and monthly rental ratios are determined on a market basis. In the case of a late payment offence, the bank will benefit since the bank can maintain a high share of the ownership of the house until the customer settles the outstanding rent (Meera & Razak, 2005).

From an economic benefit point of view, financing through an MM contract can prevent inflation since this type of contract does not create credit in the economy. Therefore, in the event of inflation, it avoids new money creation as in fractional reserve banking. By avoiding money creation and operating under a profit-and-loss sharing setting, the MMP can bring about a harmonious balance between the monetary sector and the real economy and thereby is likely to contribute towards the achievement of the *maqasid al-Shari'ah* and these financing activities will not affect the economic situation (Meera & Razak, 2005). As for community benefits, MM products coincide with the *maqasid al-Shari'ah* promises of preservation of mind, life, wealth, change to progeny and the nasab—if what Allah has commanded through the Qu'ran and the Sunnah is well respected (Nugroho, Utami, Doktoralina, & Husnadi, 2017; Shuib et al., 2011). Furthermore, in the *Maqāṣid Syarī'at* the welfare of society is taken into account when conducting economic activities (Meera & Razak, 2005; Ambrose, Etim, & Enagu, 2016). According to Ismail (2013), banks are not eager to offer MM house financing products due to the demand of creating an offer of the product of limited banks in offer *musyarakah*



mutanaqisah products. Therefore, this study focuses on the selections made by consumers, as requests for MM house financing products by customers can encourage banks to increase their supply of these products. This study seeks to identify the determinants that influence the customers' choice of MM house financing products, identifying the direct correlation of identified factors that are intrinsic motivation factors, such as religious compliance, confidence of sharia compliance value, customer knowledge level, MM product characteristics, service quality, costs, the benefits of MM products and the factor of promotion.

Past studies

Previous studies show that quantitative studies on Islamic banking have been conducted either internationally or in Malaysia. Most of these studies examine the factors affecting customers' choice of bank and factors affecting customer loyalty toward conventional or Islamic banking. This section will review these past studies.

Islamic Banking Selection Determinant in Malaysia

A study by Anang, Koris, & Alipiah (2004) observed the Terengganu community's acceptance of Islamic banking. Data was collected through a questionnaire distributed to customers at Bank Islam Malaysia Berhad (BIMB) and Bank Muamalat Malaysia Berhad (BMMB) via random sampling. The study found that advertising and promotion contribute to acceptance of Islamic banking and are also influenced by factors such as a comfortable environment, product diversity, security guards, fair distribution of profits, courteous and friendly staff, helpful staff, confidentiality of information and convenient operating hours. Factors that had a lesser influence on customer acceptance in Terengganu were counselling services, advertising in mass media, publicity during opening, influence of friends/relatives, availability of large number of branches and parking facilities. Hamed, Hashim, & Sabri (2005) studied quality of service and customer satisfaction as they relate to Islamic banking at Bank Islam Malaysia Berhad and Bank Muamalat Berhad. There were 200 respondents for this study—100 customers for each bank. Multiple regression tests found that 61.4 per cent of the respondents indicated that service quality could influence customer satisfaction. This study concluded that customers are satisfied with the quality of services provided by Islamic banking institutions. Studies focus not only on the Muslim community but also the non-Muslim community. A study conducted by Fathil (2008) showed non-Muslim acceptance of Islamic banking products at Bank Rakyat in categories such as year of participation, reason for participation, reason for election, understanding, interest and customer views. This study also obtained a clear picture of the factors that influence a customer's selection of Islamic banking products (either savings or financing account products). A total of 150 non-Muslim Bank Rakyat customers were selected to complete surveys and conduct semi-structured interviews with 100 non-Islamic



bank customers at the Seberang Jaya and Bayan Baru branches of Bank Rakyat in Penang. Fathil (2008) found that there are generally three factors that influence the acceptance of Islamic banking products: satisfactory banking services, the desire to try new systems, more profitable returns, schemes offered, non-exploitative repayment of loans and fixed pay rates that facilitate future financial planning.

A study conducted by Haque, Osman, & Ismail (2009) in Malaysia investigated the major factors affecting customer perceptions and customer satisfaction of Islamic banking products. The study identified a number of factors that determined customer perceptions, including quality of service, service availability, confidence in the bank, acknowledgment of the social perspective and customers' religious knowledge of the banking system. This study utilised the Logit Model to explain the influence of determining factors on customer perceptions. The findings showed that determining factors play a large role in influencing the minds of customers.

Meanwhile, Mahamad & Tahir (2010) examined the perceptions of customers regarding Islamic banking. The pilot study of Mahamad & Tahir (2010); Ali & Harvie (2015) collected questionnaires randomly distributed to 50 non-Muslim respondents in Kelantan, Terengganu and Pahang. According to this study, among the most frequently studied relationships with regard to customer perceptions are level of knowledge of Islamic banking, advertising through newspapers, magazines, television, radio, friends and relatives, fast and efficient services, transaction speed, hospitality of bank employees, confidence in banks, extensive knowledge of customer affairs, reputation and bank image, cost or profit, location and parking facilities, religious factors, comfortable internal environment, product diversity, security control and fair distribution of profits, knowledgeable and efficient bank employees, reputation and Islamic image and financial reputation.

A study on public acceptance was also conducted among Muslims in Terengganu by Adnan (2010). The study was divided into two phases, the first of which identified the dimensions and determinants of the ideal choice of ideal Islamic banks (PPBMMI). The second phase focused on two objectives: analysing the reality of the determinant of selecting Islamic Banking Institutions (IPI) and evaluating Muslim PPBMMI compliance in Terengganu. Adnan (2010) formulated the intrinsic elements that determine the selection of banks according to Muslim ideals as examples of halal and haram considerations, the use of quality, the benefits of *maslahat* (righteousness) and the utilisation of priorities. Adnan (2010) also examined extrinsic factors in the PPBMMI model consisting of product characteristics and promotion factors.

A study by Abdullah, Sidek, & Adnan (2012) discussed the perceptions of non-Muslim customers toward Islamic banking in Kuala Lumpur, Malaysia. Respondents of the study were



180 customers who used deposit services, loans and investment facilities at Kuwait Finance House (KFH), Kuala Lumpur. The study gathered information from respondents at several beauty salons and retail outlets around Ampang and KLCC in Kuala Lumpur. Factors that affected customers' perceptions included demographic factors, efficiency and speed of service, reputation and bank image, convenience and location of the bank, the importance of Islamic banking staff, bank size, perceptions of the bank's financial strength and future product potential.

Echchabi & Azouzi (2017) studied the willingness of Islamic banking customers in Tunisia to accept Islamic banking products. Significant factors influenced respondents' acceptance, while Kaabachi & Obeid's (2016) study in Tunisia found that commitment to religion, level of knowledge about Islamic banking, product benefits and lifestyle and attitude factors were the major factors affecting customer choices. Mahdzan, Zainudin, & Au (2017) found that the level of customer understanding of Islamic banking products is still low. The factors that most significantly affect customer selection were customer understanding of product benefits, with product benefit being the main factor affecting customer selection. Factors not considered significant were the professional factors of bank employees who have an understanding of the bank product offered. Study respondents consisted of 200 students from the Master of Business Administration (MBA) program at a public university. Furthermore, this study utilised logistic regression testing.

Selvanathan et al. (2018) identified factors that influence consumer choice when selecting Islamic banking products. The data was collected around the state of Selangor using the simple random sampling method. The findings show that bank reputation, cost and religious factors significantly affect consumer choice. Bank reputation and significant cost factors are positively correlated with consumer preference, while the consumer's comfort shows no connection with consumer selection. This study concludes that religious factors are negatively associated with the selections made by customers.

Methodology

This study uses 100 respondents selected among respondents who utilised MM housing financing products in Malaysia. The premier data were collected through the snowball method and the Internet, specifically Facebook.

Descriptive Analysis of Respondents

Table 1 below shows that 55% of the respondents were men (most of whom were between 31 and 40 years old), 90% were married, 86% had a bachelor's degree and above, 69% were government employees and 62% received a gross monthly income of more than RM 5001.

Table 1: Descriptive Analysis of Respondents' Demographics

Item		Frequency	Percentage
Gender	Male	55	55
	Female	45	45
Age	20 to 30 years	7	7
	31 to 40 years	55	55
	41 years old and above	38	38
Marital Status	Single	8	8
	Married	90	90
	Widowed	2	2
Highest Education Level	MCE/SPM/STAM	5	5
	Certificate	1	1
	Diploma	8	8
	Bachelor Degree	28	28
	Masters and above	58	58
Occupation	Government Personnel (Professional)	69	69
	Private Personnel (Professional)	11	11
	Government Personnel (Support)	18	18
	Private Personnel (Support)	2	2
Monthly Gross Income	RM1000 - RM2000	4	4
	RM2000 -RM3000	6	6
	RM3001 – RM4000	12	12
	RM4001 - RM5000	16	16
	More than RM5001	62	62

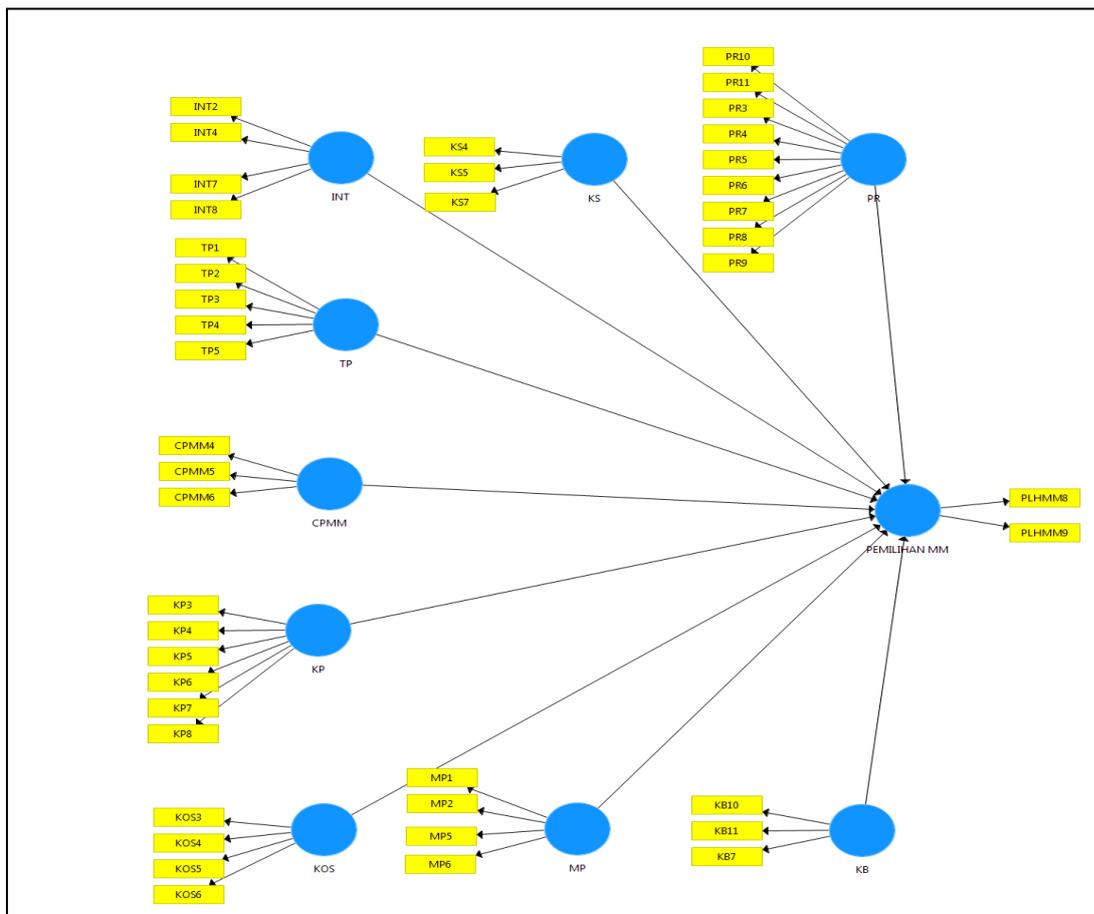
Source: Data processed

Intrinsic and extrinsic factors in determining direct MM selection.

The purpose of this study is to determine whether intrinsic motivation factors (INK), religious compliance factors (KB), confidence in sharia compliance (KS), customer knowledge (TP) and extrinsic factors that are associated with MM product characteristics (CPMM) such as service quality (KP), cost (KOS), product benefits (MP) and promotion (PR) directly affect the

selection of MM house financing products. The direct relationship is shown in Figure 1 below. Using the t-test, it was discovered that only promotional factors (PR) and religious compliance factors (KB) are significant in the selection of MM (PLHMM). Religious compliance ($t = 2.085$) and promotion factors ($t = 2.212$) were significant at a significance level of 1 per cent (0.01).

Figure 1. Model 1: Direct relationship between determinants and MM selection.



Guidance:

PLHMM: Selection of MM; INT: Intrinsic Motivation; KB: Religious Compliance; KS: Confidence in Sharia Value Compliance Corner; TP: Customer Knowledge Level; CPMM: MM Product Features; KP: Service Quality; KOS: Costs; MP: Product Benefits; PR: Promotion

Table 2: Model 1 – Direct Relationship Between Determinants, Promotion Factors and Religious Compliance Factors in the Selection of MM

Latent Variable	Estimated Coefficient	Default Error	statistic	P Value	Significant
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INT → PLHMM	-0.048	0.101	0.356	0.722	-
KB → PLHMM	0.197	0.117	1.691	0.091	**
KS → PLHMM	0.047	0.171	0.276	0.783	-
TP → PLHMM	0.053	0.145	0.368	0.713	-
CPMM → PLHMM	-0.087	0.166	0.525	0.599	-
KP → PLHMM	-0.216	0.184	1.173	0.241	-
KOS → PLHMM	-0.076	0.186	0.410	0.682	-
MP → PLHMM	0.068	0.139	0.491	0.624	-
PR → PLHMM	0.316	0.130	2.431	0.015	**

Source: Summary of output from the coefficient path analysis utilising the SMART-PLS Program.

Information:

- ** significant at 5 per cent significance level (0.05).
- * significant at 10 per cent significance level (0.10).

Among the studies that support the significance of promotion on bank selection are those conducted by Ukenna & Monanu (2012) at conventional banks in Southern Nigeria and the research of Bashiru & Bunyaminu (2013); Isnadi (2005); Kader, Zakaria, Razali, & Abdullah (2014); Zainuddin, Jahyd, & Ramayah (2004) at the conventional banks of Pekalongan Branch, Indonesia.

A number of studies have established a significant relationship between religious compliance and bank selection, including the study of Islamic banking by Okumus & Genc (2013) in Turkey, Al-Ajmi, Abo Hussain, & Al-Saleh (2009); Bley & Kuehn (2004); Mansoor Khan & Ishaq Bhatti (2008) in United Arab Emirates, Ahmad & Haron (2002); Haque et al. (2009); Othman & Owen (2001) on Islamic banking in Malaysia.

Based on the previous studies discussed, selection of *Musyārakaṭ Mutanāqīṣat* (MM) house financing products is determined as dependent variable while the independent variables are Intrinsic factors (INT), Religious Compliance factor (KB), factors of Confidence in Sharia Compliance Value (KS), factors regarding the Knowledge level of Potential Customers (TP). MM product Characteristics (CPMM), Service Quality (KP), Costs (KOS), Product Benefits (MP) and Promotions (PR). Therefore, the model construction is as follows:

$$PLHMM = \beta_0 + \beta_1 INT + \beta_2 KB + \beta_3 KS + \beta_4 TP + \beta_5 CPMM + \beta_6 KP + \beta_7 KOS + \beta_8 MP + \beta_9 PR + \varepsilon$$

$$PLHMM = \beta_0 + 0.197 KB + 0.316PR$$



Information:

PLHMM	: MM Selection
β_0	: Estimated Coefficient
PR	: Promotion
KB	: Religious Compliance
ε	: Residual

Analysing size of relationship between intrinsic and extrinsic factors and direct MM selection.

This study also analysed the correlation of intrinsic factors and the direct influence of MM selection, and consisted of intrinsic motivation (INT), religious compliance (KB), confidence in religious compliance of sharia value (KS), customer knowledge level (TP) and extrinsic factors such as MM product characteristics (CPMM), service quality (KP), cost (KOS), product benefit (MP) and promotion (PR).

Table 4.1 shows the direct relationship between the determinants and MM selection, revealing that promotion and religious compliance are the only factors that are significant in MM selection. Promotion is positively associated with a magnitude of 0.316 on MM selection (PLHMM), meaning that an increase of one per cent in promotions run by IPI results in an increase in selection of MM house finance products of 0.316 per cent. The religious compliance factor (KB) is positively associated with a magnitude of 0.917 with MM selection (PLHMM); when the religious compliance of a customer increases by one per cent, then the selection of MM house financing products will increase by 0.917 per cent.

Conclusion and suggestions

The findings of this study are that promotion and religious compliance significantly affect the selection of MM products. Large-scale promotions run by Islamic banking institutions will increase customer knowledge regarding the benefits of MM products and the differences between these products and other house financing products. Through promotion, consumers compare the benefits of MM products with other products, thus increasing their knowledge of MM products. Promotion plays an important role in introducing MM to customers as well as creating demand for MM products. In the form of education, promotion can increase customer understanding of the role of religious law so that it can especially lead to the selection of MM house financing products. Greater understanding of the subject can lead to an increased demand for MM products, and increased demand will increase the number of MM products offered by



the banks. Since promotion is the most important element in introducing MM products to customers, product promotion should be improved.

Conventional economic theory states that demand is able to create supply. Therefore, an increase in demand is expected to increase the number of MM products offered by banks. This study aims to make this research applicable to Islamic banking and to improve marketing and promotion strategies to encourage consumers to choose MM products. If banks can increase their promotional activities and optimally utilise promotional media, knowledge of MM will increase and more customers will choose MM products. This effort can lead to the development of MM house financing products.

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