

**FACTORS INFLUENCING SELECTION OF ISLAMIC
BANKING IN THAILAND: THE MEDIATING EFFECT
OF CONFIDENCE**

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**FACTORS INFLUENCING SELECTION OF ISLAMIC BANKING IN
THAILAND: THE MEDIATING EFFECT OF CONFIDENCE**

By

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Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
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in Fulfillment of the Requirement for the Degree of Doctor of Philosophy

DECLARATION

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ABSTRACT

The main purpose of this study is to identify factors influencing customers' decision to select with confidence Islamic banking in southern parts of Thailand as the mediating variable. Based on the Intermediation Theory and Consumer Behavior Theory, banks are to act as intermediaries by utilizing the depositors' money to provide banking products and services which meet their customers' needs and expectations. Gaining customers' confidence is important as banking business is based on trust and integrity. Hence, as mediating variable, customers' confidence in the way Islamic banking is conducted is hypothesized to strengthen the customers' decision to select Islamic banking in Thailand. This study employs a survey method, factor analysis and structural equation modeling. Self-administered questionnaires were obtained from 300 Islamic bank customers (representing 67 percent response rate). Based on the results, the study finds that 51.7 percent of the Islamic bank customers in southern Thailand are corporate customers; and they are mostly women entrepreneurs. This is an important demographic trend finding which shows that working women are becoming more extensive users of Islamic banking products and services. Based on factor analysis, factors which emerge as important in determining customers' confidence in Thailand are religion, reputation, knowledge, attitude, convenience and service. While confidence and religious motives are direct, and significantly related to bank selection, confidence is found to have a positive while religious motive a negative influence on Islamic bank selection. In terms of mediation effect, attitude, convenience and reputation through confidence exhibit full mediation effect. The findings imply that Islamic banks should emphasize on efforts to gain customers' confidence through better *Syariah* governance, human resource development, knowledge dissemination and promotions to ensure customers select Islamic bank as their principal banker.

Keywords: Confidence, Islamic Banking, Bank Selection Decision

ABSTRAK

Tujuan utama kajian ini ialah untuk mengenal pasti factor-faktor yang mempengaruhi keputusan pelanggan memilih perbankan Islam di Thailand selatan dengan menggunakan keyakinan pelanggan sebagai faktor *mediator*. Berdasarkan *Intermediation Theory* dan *Consumer Behaviour Theory*, bank-bank bertindak sebagai pengantara dalam menggunakan dana pendeposit untuk menawarkan produk dan perkhidmatan perbankan yang memenuhi kehendak dan harapan pelanggan. Memperolehi kepercayaan pelanggan adalah penting kerana perniagaan perbankan adalah berteraskan kepercayaan dan integriti. Justru, hipotesis kajian ialah kepercayaan yang bertindak sebagai *mediating variable* dalam mengendalikan perbankan Islam di andaikan dapat mengukuhkan keputusan pelanggan untuk memilih perbankan Islam di Thailand. Kajian ini menggunakan kaedah *survey*, analisis faktor dan *structural equation modeling*. Soal-selidik yang di uruskan sendiri oleh penyelidik telah dapat di kumpulkan daripada 300 pelanggan perbankan Islam (mewakili 67 peratus kadar maklumbalas). Berasaskan kepada keputusan, kajian ini mendapati 51.7 peratus daripada pelanggan perbankan Islam di Thailand selatan adalah pelanggan korporat yang kebanyakannya terdiri daripada usahawan wanita. Dapatan ini ialah menunjukkansatu tren demograpi yang memaparkan bahawa wanita yang berkerjaya merupakan pengguna yang banyak menggunakan produk dan perkhidmatan perbankan Islam. Berdasarkan analisis faktor, faktor-faktor yang signifikan mempengaruhi keyakinan ialah agama, reputasi, pengetahuan, sikap, keselesaan dan perkhidmatan. Kajian mendapati keyakinan dan motif keagamaan mempunyai hubungan terus dengan pemilihan perbankan Islam, namun hubungan keyakinan dengan pemilihan perbankan Islam adalah positif, sedangkan motif keagamaan adalah negatif. Dari segi kesan mediasi keyakinan, faktor sikap, keselesaan dan reputasi menunjukkan kesan mediasi yang kuat serta positif terhadap pemilihan perbankan Islam. Dapatan ini memberi implikasi bahawa bank Islam patut memberi penekanan kepada usaha meningkatkan keyakinan pelanggan melalui syariahtadbir urus, pembangunan sumber manusia, penyebaran pengetahuan dan promosi untuk menggalak pelanggan memilih bank Islam sebagai bank utama mereka.

Kata kunci: Keyakinan, Perbankan Islam, Keputusan Pemilihan Bank

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CHAPTER ONE

INTRODUCTION

1.0 Background of the study

Banks have for long been important organizations with vital functions in society. In particular, banks as financial institutions play the role as intermediaries and facilitate the flow of funds from saving-surplus-units (SSUs) to savings-deficit-units (SDUs). Islamic banks similarly, operate as financial institutions that generate profit but based on principles of Islam or the *Shariah* Laws. Islamic law (*Shariah*) of commercial transaction is fundamentally rooted on the premise of total eradication of *riba* (usury), *gharar* (uncertainty), and *masir* (speculation). It balances the moral and material needs of a society to achieve socio-economic justice. Islamic banking has become an essential sector of the modern economy.

Islamic economic principles share risk and rewards in wealth creation by means of equity rather than debt. It promotes entrepreneurship and creativity in the economic cycle. In the Islamic economic model, each individual is involved in the economic activity. This differs from modern capitalism where profit maximization is the sole motive and the bank is broadly content with earning interest on the loan regardless of the social and financial implications of the business. In addition, the orientation of modern capitalism does not include God and society as its integral part of acquiring wealth. As such, it does not have any restriction in the way wealth is obtained. The different approaches in world view between Islam and modern capitalism is reflected in the

practice of Islamic banking and finance of which the salient feature is the prohibition of *riba* (usury), *gharar* (uncertainty) and *maisir* (speculation).

The concept of financing in Islam differs with that of conventional financing. Loan is the main mode under conventional financing using interest rate as a time value for borrowed money. The *Quranic* injunction prohibits financial activities that has interest element and/or has no genuine nexus to trading activities under the *Shariah* (Islamic law). This implies that money in itself has no intrinsic value and can only serve as a medium of exchange and a measure of value (Usmani, 2001; Mydin Meera & Larbani, 2006; Ali, 1990). This differs from conventional financing where money is treated as a commodity and loans are lent out using interest as its pricing mechanism. Trading “money with money” tantamount to *riba* (usury) which is strictly prohibited in Islam. *Riba* literally means an increase, addition, expansion or growth (Al-Zubaydi, 1306H). In *Shariah*, *riba* (usury) technically refers to the “premium” that must be paid by the borrower to the lender with the principal amount as a condition for the loan or for an extension in its maturity. According to Ibn Manzur, Muhammad Ibn Mukarram (1990), what is not allowed is the extra amount, benefit or advantage received on any loan.

Islamic law (*Shariah*) of commercial transaction is fundamentally rooted on the premise of total eradication of *riba* (usury) and *gharar* (uncertainty). It balances the moral and material needs of a society to achieve socio-economic justice. According to Al-Ghazali (1937), the very objective of the *Maqasid al Shariah* is to promote the welfare of the people, which lies in safeguarding their faith, life, intellect, posterity and

wealth. The primary goal of Islamic economics is equal distribution. Islam views that inequity is created by mass exploitation of resources to obtain maximum profit. Principles of Islamic commercial transaction are nurtured to check exploitation, inequities and the creation of economic imbalances in society by means of various concepts and principles to eradicate unjust enrichment. Central to the Islamic concept is justice. All transactions whether it is judicial, political or private are subject to this ruling (Qura'n, *Al-Hijr* 15: 85; Dzuljastri & Fauziah, 2011).

The emergences of Islamic banks were as organised financial intermediaries and operate in accordance with Islamic law. The main principle of Islamic banking activities comprise of prohibition of interest in all forms of transaction. It is undertaking business and trade activities on the basis of fair and legitimate (halal) profit, giving zakat (alms tax), prohibition of monopoly, and cooperation for the benefit of society and development of all halal aspects of business that are not prohibited by Islam (Khan, 1983). The Organization of Islamic Conference (OIC) defines an Islamic bank as a financial institution where status, rule and procedure expressly state its commitment to the principle of Islamic *Shariah* and to the banning of the receipt and payment of interest on any of its operation and devoid of usury and interest (Abu Bakar, 1998; Haron, 1995).

Historically, the growth of Islamic banking can be attributed to the desire and interest of retail banking customers to invest their money in accordance with their personel and religious belief (Devlin, 2002). Islamic banking emerged as a fastest growing industry and has received recognition by both Muslims and non-Muslims alike

(Iqbal & Molyneux, 2005). The Islamic banking industry is now worth almost an estimated US\$1 trillion and is widely considered to be one of the fastest growing sectors in the financial world. Even in the midst of a global economic crisis, Islamic banks weathered the storm to a great effect, which was thanks to strict regulations administered by Islamic law, or “Sharia”. The estimated size of the industry is around US\$700 billion that is expected to reach US\$1.6 trillion by 2012 (Khan & Bhatti, 2008), with Islamic banking no longer considered as a business entity established only to satisfy the religious obligations of the Muslim community. Instead Islamic banking is rather as a business that essentially pursues maximizing customer value and satisfying their financial security needs (Henry & Wilson, 2004). That is why Islamic banks put more in the effort to position their salient features in line with customer needs, which requires them to monitor customer preferences for their investments and borrowing options closely so as to design appropriate business strategies (Chong & Liu, 2006).

In this respect, confidence plays a factor which determines the ultimate success of a relationship between customer and the financial institution. Several authors have indicated that confidence is potentially an important factor influencing consumer behaviour (Bredahl, 2001). Leahy (1997) argued that the basic principle is that a bank owes a duty of confidentiality to its customers. It establishes that the duty of confidentiality between bank and customer is a legal one which arises out of contract, a term being implied into the relationship between a bank and customer that the bank will not divulge to third persons the state of the customer’s account, nor the details of any

dealing between the bank and customer, nor any information received by the bank as a result of his holding that position.

Owing to high competition in financial service industries, conventional and Islamic banks need to attract more customers and consequently enhancing a bank's market share. More customers would increase the amount of bank deposit, resulting in an increase in the bank lending business, thus increase bank revenues. However, this is not an easy task. Banks face many pressures today from changing regulations, intensifying competition from non-bank financial services firms, the spreading internationalization of banking markets, and continuing innovations in technology and automation. Equally important for the future of banking, however, are powerful economic and social trends affecting banks' customer taste (Rose, 2002). The prime need for financial service institutions is to adapt to the changing need of the market within the parameters imposed by political, legal and economic forces (Turnbull & Demades, 1995) and the changing needs and preferences of customer.

Hence, marketing function becomes very important to secure new customers and to maintain the existing customers. The function of marketing is to channel information of consumer needs to the production and satisfaction of needs to consumers. The basic power of marketing is the aspiration to produce and sell only that kind of products which have a demand. Marketing integrates the whole company to serve this demand. Marketing aims at effective production systems, where information is transmitted effectively between production and consumption.

In order to ensure marketing success, banks really need to investigate the nature of customers' behaviour in considering the bank marketing strategy. In this respect, a wide variety of marketing constructs related to customers have been investigated, including market segmentation, bank services, attitudes, intention, preference, bank selection, bank loyalty, satisfaction, and multiple bank users. Further to that a bank would also like to know the insight into the wider aspects of consumer psychology and behaviour, including what motivates them, what their attitudes and perceptions of the banks, their satisfaction towards its products, as well as an understanding of their decision process, which subsequently leads them to select a certain products or a financial service.

Banks nowadays, are aggressively utilising this marketing concept in order to respond to an increasingly competitive industry. This marketing concept is the philosophy that firms should analyse the needs of their customers and they make decisions to satisfy those needs, better than the competition. Traditionally, marketing has been seen as a link between production and customer. In many developing regions, banks are seeking to become major players in the marketplace by utilizing appropriate bank marketing strategies that respond to the region's needs (Shook & Hassan, 1988). Factors such as people's unique cultural priorities, lifestyles, buyer decision-making factors, economic development goal, legal environment, and religious conditions are studied.

In addition, the increase in competition in terms of prices and service quality over the last decade means that commercial banks must pay prime attention to the effective and efficient management of their relationships with corporate clients. This is made harder because commercial banks are increasingly competing among themselves and with other financial institutions such as insurance companies and mutual funds for the same corporate and retail customers. Competition also is not only between one institution to another institution, but also between products (Glassman, 1996).

A recent study indicated that the success of commercial banks depend on bankers ability to understand and satisfy customers' need (Haron *et al.*, 1994). Many financial institution decision makers are finding it essential to obtain information from customers concerning the degree to which various product/service characteristics are important and how they influence choice decisions. (Javalgi: 1989). The financial service providers are also recognizing the importance of understanding consumers' bank selection and product purchase decision (Yeo, 2003).

Kauffman (1996) mentioned the buying decisions are subject to various influences, to understand when, how, and why buyers make particular choice it is important to understand what influences are involved and how they are likely to impact the decision process. Some of these influences are due to some factors affecting and changing the financial services market, namely, changing customer behavior, deregulation and government intervention, competition, technological innovation, client relationship, and services quality. The analysis by Kauffman (1996) is more comprehensive. However, his analyses of the factors influencing decision have not been

empirically tested, especially in developing countries. This provides a research gap, which will be investigated for this study.

It logically follows that bank should be keenly interested in understanding the buying behavior of corporate and retail customers in relation to banking services so as to compete successfully for a good share of this market (Chan *et al.*, 1990). The segmentation of the business customers market is of great importance to bank in order to identify the need of each segment and provide certain services that best suit their need (Edris, 1997). As mentioned by Haron *et al.* (1994) the bankers considered retail customers as less important compared to corporate customers in terms of the size of business transaction (Gerrand & Cuningham; 1997). Some studies also show that researchers have paid little attention to corporate customers (Edris, 1997). According to Ahmad & Haron (2002) few studies were conducted from the perspective of corporate customers of Islamic banks in order to understand their needs.

Shook & Hassan (1988) urged that banks in many developing regions are seeking to become major players in the marketplace. The study has identified that unique cultural priorities, lifestyles, buyer decision-making factors, economic development goals, legal environment, and religious conditions require utilisation of appropriate bank marketing strategies that respond to the region's needs. A model of marketing innovation for managers to evaluate environmental factors and adoption/implementation processes associated with survival the growth of the Arab banking industry is provided by the study.

Although there is a wealth of conceptual and empirical material concerned with how buyers make decisions, most of this work was developed in the context of studying purchase of physical goods rather than services. In financial marketing literature, the conceptual and empirical work is less well-developed (McKechnie & Harrison, 1995). The reasons for this may be three fold. Firstly, there may be problems with the conceptual models themselves in that they do not lend themselves to empirical testing. Secondly, it is not clear that these models are necessarily the most appropriate conceptual framework to use in any case. Thirdly, there has been a lack of appropriate measures of latent dimensions for testing concepts in services marketing situations.

The gap in less empirical work in bank marketing is accentuated further by competition. The intensive competitive nature of banking business characterizes the present banking landscape. Bank managements have come to accept that they have to employ effective marketing tools to influence their customers' selection and decision-making to choose their products. Many of these tools are observed being utilized by mostly large conventional banks, primarily because they have sufficient funds to cover their marketing expenses. Against this banking environment that is highly competitive, both the conventional banking as well as the Islamic banking has to examine and identify the factors which influence their customers' decision-making criteria and final selection of products and services.

1.1 Problem statement

Erol (1990) mentioned that very little research has been undertaken concerning bank customers' attitude and behavioural characteristics in developing countries,

especially the behavioural characteristics of Islamic banks' customers. Gerrand & Cuninghame (1997) argued that research in this area as related to minority Muslim population have been much neglected. These are a lack of knowledge among the various Islamic banking practices among the banking community as well as the bank customer (Ahmad & Hasan, 2002).

Harrison (2000: 62) and Harrison et al. (2006) further argued that to date there has been little attempt to develop a model of consumer behaviors specifically to explain financial services consumer decision process in relation to complex finance service and currently, lacking which adequately explains how consumers purchase financial services (McKechnie, 1992; Betts, 1994; and Howcroft, 2003). Understanding of the buying process for financial services is still limited (Ennew & McKechnie, 1998). The vast majority of it has been developed in the context of purchase decisions for goods rather services (Gabbott & Hogg (1994) Cited in Harrison et al.; 2006). Commercial bankers understand little about the environment, financial problem and decision-making process of their clients (Tina, 2001: 299-300). As one of the most important players in service industry today, Islamic banking is no longer regarded as a business entity striving only to fulfill the religious obligations of the Muslim community, but more significantly, as a business that is ineluctably in need for winning over customers whilst retaining the old ones (Wilson, 1995; Dusuki & Abdullah, 2007).

As a result, Islamic banks as highlighted in the earlier section of this thesis are facing intense competition not only within traditional banking institutions (i.e. commercial banks, savings and thrifts, and credit union), non-banking financial firms

such as securities and insurance but also with other Islamic banks. Therefore, it is of paramount importance to assess the marketing effectiveness of the Islamic banks in order to attract customers and to increase their customers' base (Naser & Mountinho, 1997). However, the ability of not only being able to attract new corporate customers but also establishing and developing a long-term relationship with them, i.e. turning customers into clients, becomes increasingly important for the bank's long-term objectives and its profitability (Turnbull & Demades, 1995).

However, this objective remains a continuing challenge to Islamic banks as an emerging financial institution and customers do not have knowledge and confidence in bank operation. Due to this, bank customers prefer banks which can offer friendly service and those can explain the products to them. The customers made up of corporate and retail customer. Thus, in order to attract customers and turn interest into sale and finally into resale and lasting customer contracts, a continuous adaptation of operations to the customers' needs is required (Berry, 1983) Cited in Turnbull & Demades, 1995).

Although the Islamic banking system was established in Thailand in 1998 (more than one decade), its deposits level is very low compared to the amount of deposits placed in conventional banking. In 2008, the total deposits of Islamic bank of Thailand were 19,898 million Baht, financing 16,687 million Baht and the total assets 23,847 million Baht (Annual Report; 2008) compared to the total deposits of Islamic bank of Thailand were 40,759 million Baht, financing 37,958 million Baht and the total assets 45,343 million Baht in 2009 (Annual Report; 2009). This shortfall also reflects the lack

of strategies used by Islamic banks in Thailand to operationalize and poses the second problem of this study.

In Thailand, the size of the Muslim population is proximately 10% of the 67 million people of Thailand, but more than 80% of Muslim people are located in three southern border provinces and larger than the non-Muslim. The Islamic financial assets in Thai financial system only constitute less than 1 percent of the assets in Thailand banking system at the end 2008. This is small and the issue is how to motivate or attract more customers to select Islamic banks either to place deposits or to use more Islamic banking products and services. Furthermore, such population of Muslims in Southern Thailand is a good and large customer base, but it is not tapped by Islamic bank of Thailand. It also does not generate sufficient profits to enable a distribution to their customers and stakeholders.

A summary of past studies highlight various dimension of customer behavior of Islamic bank customers such as customer's bank selection criteria, role of customers demographic factors in shaping customers' attitude, knowledge and confidence. Some of the findings were as follows: Bank selection decision by bank customers are predominantly religious-based decision (Metawa, 1998). A large majority of respondents were satisfied with the Islamic bank's name and with the bank's stability to provide confidentiality (Nazer *et al.*, 1999). Attitude as positive or negative feeling is considered to be the most important factor influencing the customer selection of any bank (Erol, 1990; Erol and El-Bdour, 1989; Haron *et al.*, 1994).

However, bearing in mind the infancy stage of Islamic banking in Thailand, not many studies have covered these factors. Hence, this study motivated to be conducted due to its importance because Islamic banking has a very big potential in Thailand in terms of source, profitability, and customer acceptance. In particular, the customer is confident about the business transaction as being according to Islamic principle and beneficial to them, they will use the product or service. It starts with gaining customers' confidence before any sale could be made. This concept, which is a key essential in marketing, has never been tested in Islamic banking setting, particularly in Thailand. This problem is intended to be studied in this thesis, after being motivated by the following research questions.

Furthermore, the establishment of Islamic banking in Thailand is caused by the will of the people who are Muslims in southern Thailand. People have no choice in the Islamic financial system, so when Islamic bank was established in Thailand and it is highly respected by people. However, Islamic banks in Thailand will have to build customers' trust or confidence as their priorities. In the operation of the bank, the religious principles and the efficient management of the bank are important roles to make people confident. Nearly 10 years ago not to study relationships between banks and customers, particularly the Islamic banking market to meet customer needs, as well as to achieve the goals of the Islamic economics.

The above paragraphs summaries the main problems of the study. These are (i) the low deposit level of Islamic bank in Thailand although majority of the population in southern Thailand is Muslim. This appears to show that the Muslim in the region is not

fully confidence on Islamic banking. The problem is how to get the customer to select Islamic bank to increasing their confidence in Islamic banking. (ii) Lack of empirical research to identify the factors effecting confidence and selection of Islamic bank in Thailand, and (iii) No analysis to establish the relationship between the factors effecting confidence and selection decision.

1.2 Research questions

This study aims to answer the following research questions:

- a. What are characteristics of Islamic banking respondents in Thailand?
- b. To what extent do customers have knowledge on Islamic banking?
- c. What is the attitude of customers toward Islamic banking?
- d. What are the factors that would increase the confidence level of Islamic bank response to select Islamic banking?
- e. How does customer's confidence in Islamic banking influence their bank selection?

1.3 Research objectives

13.1 Main objective

The main objective of this research is to identify factors influencing customers' confidence and its linkage to select Islamic banking in Thailand.

1.3.2 Supplementary objectives

The research will attempt to address the following supplementary objectives:

1. To document profile of Islamic banking customers in southern provinces of Thailand.
2. To identify factors determining customers' confidence in Islamic banking.
3. To investigate the impact of customers confidence on Islamic bank selection.
4. To conduct path analysis between bank determinants, confidence and selection decision.

1.4 Significance of the study

This study aims to present new findings on Islamic banking selection based on structural equation modeling, tracking the path linkages between the determinants of confidence and Islamic banking selection decision. This approach is new and would present valuable insights into Islamic bank marketing.

Meanwhile, the policy makers can use these findings in formulating additional strategies and policies, where appropriate. The practitioners of Islamic bankers will be able to understand the needs of customers, by providing the necessary services to fulfill their needs. The study is also significant in that it provides useful information that would help to evaluate and redesign its current marketing strategies in order to attract customers in the competitive bank environment. Furthermore, these findings are examined for the potential insights they provide to bank providers attempting to identify appropriate strategies, which are conducive to increased customer retention and profitability.

To academicians, this study explores consumers' existing financial services behaviors and assesses their confidence to select towards Islamic banking in Thailand. The research, therefore, is important, due to it forms the basis for not only understanding consumer behavior but also predicting and influencing it. By understanding overall behavior and its various dimensions, understanding of the financial service needs of customers can be enhanced and the opportunities to align organizational offers with these needs can be improved.

All of the statistically significant variables may help bank managers and researchers to better understand the influence of the variables and decision process underlying bank choice. Islamic bank providers must, therefore, attempt to better understand their customers in an attempt not only to anticipate but also to influence and determine consumer buying behavior. Understanding the complex nature of these relationships and the corporate choice process is vital components of Islamic bank marketing in offering of a wide range of financial services to the corporate sector.

The findings of this study, therefore, will attempt to better understand the customers' behavior not only to anticipate but also to know the factors that influence them to make decisions in selecting Islamic banking. Owing to the competitive environment and as a new alternative financial institution in Thailand, it is essential for the Islamic banking system to obtain information concerning customers' needs and wants. Furthermore, the study on factors that influence customers' confidence in their bank, understanding customer characteristics is very important, in developing a comprehensive

consumer data base, which the information is useful in ensuring more customers to select Islamic banking in Thailand.

1.5 Scope and limitations of the study

This study is limited to the Islamic Bank's customers from three southern border provinces. This is due to the fact that these are most of Muslim people was located and also most of Islamic financial institutions were operated in this area. The study also limits to the information obtain from the existing customer of Islamic banking in Thailand.

1.6 Organization of the thesis

This thesis is organized into seven chapters. First chapter is introduction of dissertation. It covers the background of the study, statement of the problem, research questions, research objectives and significance of the study. Chapters II, describes the Islamic economic, Islamic banking system, an overview of banking system in Thailand including Islamic banking system. Chapter III reviews briefly the literature on theory of banking, consumer buying behaviours in financial institution. It discusses the concept to organizational and customer buying behaviours, and empirical finding. Following by chapter IV, deal with methodology. Chapter V, deal research finding. Finally, the conclusions of the study are presented in chapter VI, recommendations as well as a number of policy implication and some suggestions for future research.

CHAPTER TWO

AN OVERVIEW OF ISLAMIC BANKING

2.0 Introduction

This chapter explains the concept of Islamic economics and Islamic banking. Firstly, it describes the philosophy of Islamic economics. Secondly, it discusses the philosophy of Islamic business and overview of Islamic banking system. The later part of this chapter will focus on the development of Islamic banking in section four. Section six, elaborate the financial institution system in Thailand, including Islamic banking in Thailand in last section.

2.1 Philosophy of Islamic Economics

A background view of the philosophies of Islamic economics provides a perspective of the role assigned to Islamic banking in the Islamic economic system and in the economic development of Muslim nation. A comprehensive review of Islamic economics is contained in the survey of contemporary literature on Muslim economic thinking by Siddiqi (1981) and an annotation of sources on Islamic economics by Khan (1983) as supplements to the injunctions of the al-Qur'an and the Traditions (*Hadith*) of Prophet Muhammad (PBUH).

The philosophies of Islam economic are based on the relations between man and God (Allah), between man and his fellow beings and his purpose of life in this mortal world. The relationship between man and God is defined by his belief in God (*Tawhid*) and submission to the will of God such that acceptance by Him constitutes a source of

value that forms the objective of human endeavour. In Islam the real ownership of resources belongs to God alone. Man holds property in trust for which he is accountable to Him. Absolute ownership by man is a concept alien to Islam as it belongs to God alone, but this does not mean individual ownership is not permitted. Rather individual ownership carries attendant obligations to society. The rule in Islam is that all rights belonging to God are to be employed for the good of society and not just for the benefit of private individuals. The Islamic Economic System is based on the following fundamental principles:

2.1.1 Earning and Expenditure by *Halal* Means.

Islam has prescribed laws to regulate earnings and expenditure. Muslims are not allowed to earn and spend in any way they like. They must follow the rules of the Qur'an and the *Sunnah*:

- a) Any earnings from the production, sale and distribution of alcoholic drinks are unlawful (*Haram*), as are earnings from gambling, lotteries and from interest (*Riba*) transactions (5:90-91, 2:275).
- b) Earning by falsehood, deceit, fraud, theft, robbery and burglary is unlawful. Deceitful acquisition of orphans' property has been particularly banned (2:188, 4:2, 6:152, 7:85, 83:1-5).
- c) Hoarding of food stuff and basic necessities, smuggling and the artificial creation of shortages are unlawful (3:180, 9:34-35).

d) Earnings from brothels and from such other practices which are harmful to society are also unlawful (24:23).

Islam strikes at the root of the evil and wants to establish a just and fair society. A Muslim must earn his living in Halal ways and he should always bear in mind that what ever he does, it is known to Allah. He will be accountable for his actions on the Day of Judgment. He cannot hide anything from Almighty Allah.

Unlawful expenditure is also not allowed in Islam. It does not at all befit a Muslim to spend money irresponsibly. His actions should be responsible and meaningful. Extravagance and waste are strongly discouraged (7:31, 17:26, 19:27-31, 25:68).

2.1.2 Right to Property and Individual Liberty

Islam allows a person to own his earnings. The Islamic state does not interfere with the freedom of speech, work and earnings of an individual provided this freedom is not harmful to the greater good of society. Every individual will be answerable to Allah swt for his or her actions (4:7, 36:71, 16:111).

2.1.3 System of *Zakah* (Welfare Contribution).

Compulsory payment of *Zakah* is one of the main principles of an Islamic economy. Every Muslim who owns wealth more than his needs must pay the fixed rate of *Zakah* to the Islamic state. *Zakah* is a means of narrowing the gap between the rich and the poor. It helps the fair distribution of wealth. It is a form of social security. The

Islamic state is responsible for providing the basic necessities of food, clothing, housing, medicine and education to every citizen. No-one should have any fear of insecurity or poverty (9:69, 103, 98:5).

2.1.4 Prohibition of Interest (*Riba*).

An Islamic economy is free of interest. Islam prohibits all transactions involving interest. Interest is neither a trade nor a profit. It is a means of exploitation and concentration of wealth. The Qur'an says:

(وَإِنَّمَا الْبَيْعُ مِثْلُ الرِّبَا وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا)

"They say, trade is like interest and Allah has allowed trade and prohibited interest." (2:275).

{ وَمَا آتَيْتُمْ مِنْ رِّبَا لِّيَرْبُوَ فِي أَمْوَالِ النَّاسِ فَلَا يَرْبُوا عِنْدَ اللَّهِ وَمَا آتَيْتُمْ مِنْ زَكَاةٍ تُرِيدُونَ وَجْهَ اللَّهِ فَأُولَئِكَ هُمُ الْمُضَعِفُونَ }

"Whatever you pay as interest, so that it may increase in the property of (other) men, it does not increase with Allah."

(30:39).

{ يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا الرِّبَا أَضْعَافًا مُضَاعَفَةً وَاتَّقُوا اللَّهَ لَعَلَّكُمْ تُفْلِحُونَ }

"O you who believe, do not take interest, doubling and quadrupling, and keep your duty to Allah, so that you may prosper."

(3:130).

{ اَيُّهَا الَّذِينَ آمَنُوا اتَّقُوا اللَّهَ وَذَرُوا مَا بَقِيَ مِنَ الرِّبَا إِن كُنتُمْ مُؤْمِنِينَ }

{ لَمْ تَفْعَلُوا فَأْذَنُوا بِحَرْبٍ مِّنَ اللَّهِ وَرَسُولِهِ وَإِن تُبْتِغُوا فَلَئِمَّ رُؤُوسُ أَمْوَالِكُمْ لَا تَظْلِمُونَ وَلَا تُظَلَّمُونَ }

"O you who believe, observe your duty to Allah and give up what remains (due) from interest, if you are believers. But if you do not do it, then be warned of war from Allah and His messenger; and if you repent, then you shall have your capital. Do not exploit and be not exploited." (2:278-279).

Interest is the basis of modern capitalism. It is completely opposite to *Zakah*. *Zakah* channels wealth from the rich to the poor while interest takes away wealth from the poor and hands it over to the rich.

Modern economics are so inter-linked with interest that people may think it is impossible to go without it. The situation is really very complex. But, we must aim at getting rid of interest. Unless people fight against the tyrant rulers and establish an Islamic state -the problems will still be there. Further, until Islamic state established, it will make us feel impossible to solve this Riba (interest) problem. Allah swt has not imposed on us something impossible. An interest-free economy will be a boon for all peoples of the world.

2.1.5 Law of Inheritance (*Mirath*).

The Islamic law of inheritance is a wonderful system of stopping the concentration of wealth. It provides very detailed laws regarding the rights of dependents over the property of the deceased person. *Suratun Nisa* (chapter four) of the Qur'an deals with the law of inheritance in great detail (4:7-12, 4:176).

Islam attaches no inhibition to economic enterprise and encourages men to avail themselves of the vast productive opportunities afforded by the bounties of God in areas of agriculture, commerce and industry, in accordance with His command in the Holy al-Qur'an:

(قَالُوا فَصِيتِ الصَّلَاةُ فَانْتَشِرُوا فِي الْأَرْضِ وَابْتَغُوا مِنْ فَضْلِ اللَّهِ وَاذْكُرُوا اللَّهَ كَثِيرًا لَعَلَّكُمْ)

“When the prayer is done, then may you disperse through the land and seek the bounty of God,”

(62: 10)

According to the al-Qur'an, all resources have been created for mankind survivability:

(لَمْ تَرَوْا أَنَّ اللَّهَ سَخَّرَ لَكُمْ مَّا فِي السَّمُوتِ وَمَا فِي الْأَرْضِ وَأَسْبَغَ عَلَيْكُمْ نِعَمَهُ ظَاهِرَةً وَبَاطِنَةً)

“God has made subservient to you whatever is in the heavens and whatever is in the earth and granted you His bounties, both manifest and hidden.”

(31: 20)

As Allah has provided man with the opportunities to earn livelihood, he should not leave them unexploited for that would be against the intention of Allah. The lowest objective of enterprise is the duty to earn the minimum provision for survival, but attaining a high rate of economic growth is the more important objective of a Muslim society because this would be the manifestation of man's effort to utilise the resources provided to him by Allah for the betterment and survive of mankind. Islam equates the struggle for material well-being with an act of virtue. The economic activity performed assumes the character of worship (*Ibadah*).

The relationship of man to his fallow beings forms the constraint set on enterprise. In the pursuit of an economically fuller and prosperous life, it is possible for man to go to the extreme of making material achievement an end in itself, ignoring moral values, doing injustice and failing to promote the good of others with what he has earned or accumulated. Such individualistic motive as an end in itself is un-Islamic and the Al-Qur'an warns against this danger:

(... وَلَكِنَّ الَّذِينَ كَفَرُوا يَقْتُرُونَ عَلَى اللَّهِ الْكَذِبَ وَأَكْثَرُهُمْ لَا يَعْقِلُونَ)

“...even though the abundance of the bad may fascinate you...fear God.”

(5: 103)

The exhortation for maximum individual enterprise is to be viewed in the context of a wider social objective of the obligation to meet the social ends. Islam urges Muslims to strive for material welfare but stresses simultaneously that they place this material quest on a moral foundation, thus providing a spiritual orientation to material effort. Islamic economics finds gross inequalities of income and wealth repugnant as this would destroy rather than foster the quest for universal brotherhood that Islam wishes to attain through mutual cooperation and equality of opportunities. Since all resources are gifts from God entrusted to man, there is no reason why they should be concentrated in a few hands. Islamic economic emphasizes distributive justice.

However, this does not mean that the Islamic concept of equity requires everyone to be rewarded equally regardless of his contribution to society. Islam dose tolerate some inequalities of income because man are not all equal in their character, ability and service to society, as mentioned in the *Al-Qur'an*:

(وهو الذي جعلكم خلائف الأَرْض ورفَع بعضكم فوق بعض درجات ليبلوكم في ما آتاكم)

“He has raised you in ranks, some above others; that he may try you in the gifts that He has given you.”

(6: 165)

Islamic economics allows such differentials in earnings according to individual contributions to society but only after guaranteeing a humane standard of living to all members of society, an obligation falling on the entire community. If a Muslim earns by rightful means and from his income and wealth he fulfils his obligations toward the welfare of society, then there is no prohibition in his possessing more wealth than other fellow beings.

Islamic economics therefore blends freedom of individual enterprise with societal constraint. It rests as much on the market mechanism as also on State intervention. Without the market mechanism, the institution of private property and individual enterprise would not be workable, but without State interference, the objective of social justice may not be voluntarily attained.

Islamic economics recognizes the profit motive as essential for the successful functioning of its system as it provides the necessary incentive for efficiency in the use of resources God has entrusted to mankind. Yet, it places certain moral restraints on selfish behaviour in the market that brings ill to society. The Islamic economic system therefore, can not be morally neutral. It is ethical in basis. In Islam, the allocation of resources is optimum if it is first in conformity with the norms of Islam, and then in

accordance with consumers' preferences. In a truly Islamic society, there is no likelihood of any divergence between the two.

2.2 The Philosophy of Islamic Business

The main objective of this sub section is to highlight the philosophy of Islamic business. Establishing the right philosophies is important for any Islamic bank for two reasons. Firstly, these philosophies will be used by the management or policy makers of the banks in the process of formulating corporate objectives and policies. Secondly, these philosophies serve as an indicator as to whether the particular Islamic bank is upholding true Islamic principles. Islam permits and encourages its followers to involve in trade activities. As stated in the Qur'an in Verse 275 of Chapter 2:

(وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا)

“But Allah hath permitted trade and forbidden usury...”

(2: 275)

From the religious prospective, the establishment of Islamic banks is considered a righteous move for two reasons. Firstly, its existence is in line with the divine revelation, i.e. to involve in trade. Secondly, Islamic banks provide an avenue for Muslims to perform banking business in the Islamic way, i.e. free from the element of usury.

Eliminating the element of usury in the banking system is only part of Islamic business principles. Being established as an Islamic business entity, all Islamic banks not only have to conduct their business with the objective of making profit but at the same time must conform to the Islamic business principles. Islamic banks are also expected to

adhere to rules and laws which are directly imposed on individual Muslims. Otherwise, these entities would not qualify to be called as Islamic entities. This leads one to the philosophical questions: (i) *what should Islamic banks do?* and (ii) *what should they believe?* For Muslims, the answers to these question were given by the Al-Qur'an in many of its verses, Verse 132 of Chapter 3, for example, says:

(وَأَطِيعُوا اللَّهَ وَالرَّسُولَ لَعَلَّكُمْ تُرْحَمُونَ)

"Obey Allah and the Messenger; that ye may obtain mercy"

(3: 132)

And in Verse 59 of Chapter 4, the Al-Qur'an highlights:

(يَا أَيُّهَا الَّذِينَ آمَنُوا أَطِيعُوا اللَّهَ وَأَطِيعُوا الرَّسُولَ)

"O ye who believe! Obey Allah, and obey the Messenger..."

(4: 59)

Therefore, the foundations of the philosophy of Islamic banking are those principles which have been revealed in the Al-Qur'an and the *Hadith*. Revelations and the *Hadith* which require Muslims to uphold justice and virtue, serve as principles which guide Islamic banks in managing their business affairs.

The principles of Islamic business comprise of honesty, and trade is to be conducted in a faithful and trustworthy manner. Islam conceives trade as an honest effort, an earnest endeavour, and a human striving for earning one's rightful livelihood. Trade manipulations and malpractices aimed at earning unfair profit through operations like hoarding, black marketing, profiteering, short-weighting, hiding the defective

quality of merchandise, and adulteration cannot be regarded as honest trading (Siddiqi, 1986). The Prophet (PBUH) was once conferred a title of “al-amin” or “the trusted one” because of his honesty in all dealings. The operations of Islamic banks, therefore, are based on the concepts of honesty, justice and equity as practised by the Prophet (PBUH).

The meaning of righteous trade can best be understood from the metaphorical content of Chapter 35, Verse 29 of the Al-Qur'an, which says:

(نَّ الَّذِينَ يَتْلُونَ كِتَابَ اللَّهِ وَأَقَامُوا الصَّلَاةَ وَأَنْفَقُوا مِمَّا رَزَقْنَاهُمْ سِرًّا وَعَلَانِيَةً يَرْجُونَ تِجَارَةً
(

"Those who rehearse the Book of Allah, establish regular prayer, and send (in charity) out of what We have provided for them, secretly and openly, hope for commerce that will never fail."

(35: 29)

The above Verse 29 of Chapter 35 teaches Muslims that the godly man's business will never fail or fluctuate because Allah guarantees him the return, and even adds something to the return out of his own bounty. Analogically, honest trade will lead to the earning of profit in this world as well as in the hereafter. Tarmidzi (d.893AD), reported the Prophet (PBUH) as saying, *"The truthful, honest merchant is with the Prophet, truthful and martyrs."* (Siddiqi, 1986).

In the process of conducting business, Islamic banks seek to bring about a lasting balance between earning and spending in order to achieve a betterment of the whole community. Islam has always emphasised lawful earning of livelihood. All unlawful

means of acquiring wealth are prohibited. Chapter 4, Verses 29 and 30 of the Qur'an states:

(يَا أَيُّهَا الَّذِينَ آمَنُوا مِمَّا بَيْنَكُمْ بِالْبَاطِلِ إِثْمًا تَرَا ضَ مِنْكُمْ ۚ وَتَقْتُلُوا أَنْفُسَكُمْ ۚ

اللَّهُ كَانَ بِكُمْ رَحِيمًا * وَمَنْ يَفْعَلْ ذَلِكَ عَدُوًّا ظَلَمًا فَنُصَلِّيهِ نَارًا ۚ وَكَانَ ذَلِكَ عَلَى اللَّهِ يَسِيرًا)

"O ye who believe! Eat not up your property among yourself in vanities; but let there be amongst you traffic and trade by mutual good will; Nor kill (or destroy) yourself: for verily Allah hath been to you most merciful. If any do that in rancour and injustice- soon shall we cast them into fire: and easy it is for Allah."

(4: 29-30)

In terms of spending, Islam demands its followers to spend money for the welfare of people and not on wasteful or pleasurable activities. This directive is given in Verse 219 of Chapter 2 of the Qur'an which says:

(بَسْأَلُونَكَ عَنِ الْخَمْرِ وَالْمَيْسِرِ قُلْ فِيهِمَا إِثْمٌ كَبِيرٌ وَمَنْعٌ لِلنَّاسِ وَإِثْمُهُمَا أَكْبَرُ مِنْ نَفْعِهِمَا وَيَسْأَلُونَكَ مَاذَا يُنْفِقُونَ قُلِ الْغَفْوُ كَذَلِكَ يُبَيِّنُ اللَّهُ لَكُمْ آيَاتِهِ لَعَلَّكُمْ تَتَفَكَّرُونَ)

"They ask thee concerning wine and gambling. Say, "In them is great sin, and some profit, for men; but the sin is greater than profit". They ask thee how much they are to spend; say "What is beyond your needs ". Thus doth Allah makes clear to you his sign; in order ye many consider.

(2: 219)

Verse 36 of Chapter 4 of the Qur'an also outlines the right conduct for Muslim and which is applicable for Islamic banks in conducting their business. It says:

(اَعْبُدُوا اللَّهَ وَلَا تُشْرِكُوا بِهِ شَيْئًا وَبِالْوَالِدَيْنِ إِحْسَانًا وَبِذِي الْقُرْبَىٰ وَالْيَتَامَىٰ وَالْمَسْكِينِ وَالْجَارِ ذِي الْقُرْبَىٰ وَالْجَارِ الْجَنْبِ وَالصَّاحِبِ بِالْجَنْبِ وَابْنِ السَّبِيلِ وَمَا مَلَكَتْ أَيْمَانُكُمْ إِنَّ اللَّهَ لَا يُحِبُّ مَن كَانَ)

Serve Allah, and join not any partners with Him; and do good to parents, kinsfolk, orphans, those in need, neighbours who are near, neighbours who are strangers, the companion by your side, the wayfarer (ye meet) and what your right hands possess; for Allah loveth not the arrogant, the vainglorious.

(4: 36)

In dealing with their customers, Islamic banks are expected to conduct the transactions for the benefit of both, i.e. the banks and the customers and uphold the concept of justice. In addition to what was revealed in Chapter 4 Verse 29, Verse 135 of the same chapter says:

(يَا أَيُّهَا الَّذِينَ آمَنُوا كُونُوا قَوِّمِينَ بِالْقِسْطِ شُهَدَاءَ اللَّهِ وَلَوْ عَلَىٰ أَنْفُسِكُمْ أَوِ الْوَالِدَيْنِ وَالْأَقْرَبِينَ إِنْ يَكُنْ غَنِيًّا)
فَقِفِرَا فَإِنَّ اللَّهَ أَوْلَىٰ بِهِمَا فَلَا تَتَّبِعُوا الْهَوَىٰ أَنْ تَعْدِلُوا وَإِنْ تَلَوُّوا أَوْ تَعْرِضُوا فَإِنَّ اللَّهَ كَانَ بِمَا تَعْمَلُونَ
خَبِيرًا)

"O ye who believe! stand out firmly for justice, as witnesses to Allah, even as against yourself or your parents, or your kin, and whether it be (against) rich or poor: for Allah can best protect both. Follow not the lusts (of your hearts), lest ye swerve, and if ye distort or decline to do justice, verily Allah is well-acquainted with all that ye do.

(4: 135)

Again in Chapter 16 Verse 90, it is stated:

(إِنَّ اللَّهَ يَأْمُرُ بِالْعَدْلِ وَالْإِحْسَانِ وَإِيتَاءِ ذِي الْقُرْبَىٰ وَيَنْهَىٰ عَنِ الْفَحْشَاءِ وَالْمُنْكَرِ وَالْبَغْيِ يَعِظُكُمْ لَعَلَّكُمْ تَذَكَّرُونَ)

"Allah commands justice, the doing of good, and liberality to kith and kin, and He forbids all shameful deeds, and injustice and rebellion. He instructs you, that ye may receive admonition."

(16: 90)

The above mentioned verses require Muslims to uphold justice irrespective of any blood relationship or status. The application of these verses to business context means that Islamic banks must treat their customers equally. This concept of justice is extended by Islamic banks when imposing charges to customers and also when fixing the profit-sharing ratio either with their investors or with their business partners. This philosophy is also reinforced by Verse 87 of Chapter 5, of the Qur'an:

(اَيُّهَا الَّذِينَ آمَنُوا لَا تُحَرِّمُوا طَيِّبَاتِ مَا أَحَلَّ اللَّهُ لَكُمْ وَلَا تَعْتَدُوا إِنَّ اللَّهَ لَا يُحِبُّ الْمُعْتَدِينَ)

"O ye who believe! Make not unlawful the good things which Allah hath made lawful for you, but commit no excess; for Allah loveth not those given to excess."

(5: 87)

Mannan (1986) is of the opinion that, in an Islamic social system, welfare is maximised only if economic resources are so allocated that it is impossible to make any one individual better off by any rearrangement without making anyone or some others

worse off within the framework of the Al-Qur'an and *Hadith*. Anything, which is not expressly prohibited in the Qur'an and *Hadith* but is consistent with the spirit of the same, may be styled as Islamic. Mannan (1986) therefore, argued that it is not harmful for Islamic banks to undertake such activities.

In Islam, Allah retains the absolute ownership of everything belongs to Allah. As stated in Verse 189 of Chapter 3:

(وَلِلَّهِ مُلْكُ السَّمٰوٰتِ وَالْاَرْضِ وَاللّٰهُ عَلٰى كُلِّ شَيْءٍ قَدِيْرٌ)

“To Allah belonged the dominion of the heavens and the earth; and Allah hath power over all things.”

(3: 189)

This absolute ownership does not reflect that Allah has created everything for Himself. On the contrary, it is stated in Verse 29 of Chapter 2 that,

(هُوَ الَّذِي خَلَقَ لَكُمْ مَا فِي الْاَرْضِ جَمِيْعًا ثُمَّ اَسْتَوٰى اِلَى السَّمَآءِ فَسَوَّاهُنَّ سَبْعَ سَمٰوٰتٍ وَهُوَ بِكُلِّ شَيْءٍ عَلِيْمٌ)

"It is He who hath created for you all things that are on earth; then He turned to the heaven and made them into seven firmaments. And of all things He hath perfect knowledge. "

(2: 29)

Mannan (1986) claimed that the verse emphasises that what Allah has created belongs collectively to the whole of human society. Legal ownership by the individual, that is to say the right of possession, enjoyment and transfer of property, is recognised

and safe guarded in Islam, but all ownership is subject to moral obligation and even animals have the right to share. This moral obligation is stated in Verse 19 of chapter 51 of the Qur'an:

(وَفِي أَمْوَالِهِمْ حَقٌّ لِّلسَّائِلِ وَالْمَحْرُومِ)

"And in their wealth and possessions (was remembered) the right of the (needy), Him who asked, and him who (for some reasons) was prevented.

(51: 19)

As for Islamic banks, while making profit from business is acceptable, the accumulation of profit without utilisation for the betterment of the community is forbidden. Because of this revelation, Islamic banks are expected to be more sensitive to the needs of society, promote more social welfare programs and activities, and make more contributions towards the needy and the poor families.

Islam prohibits accumulation of wealth or its unrestricted possession by individuals exclusively for their self-interest. It is further reiterated that wealth which is earned by the right means should not be hoarded in selfish interest because it would impede the growth in the economy, thus creating social imbalance. Verse 180 of Chapter 3 of the Qur'an, states that:

(وَلَا يَحْسَبَنَّ الَّذِينَ يَبْخُلُونَ بِمَا آتَاهُمُ اللَّهُ مِنْ فَضْلِهِ هُوَ خَيْرًا لَّهُمْ بَلْ هُوَ شَرٌّ لَّهُمْ سَيُطَوَّقُونَ مَا بَخُلُوا
هُ يَوْمَ الْقِيَامَةِ وَاللَّهُ مِيرَاثُ السَّمٰوٰتِ وَالْأَرْضِ وَاللَّهُ بِمَا تَعْمَلُونَ خَبِيرٌ)

“And let not those who covetously withheld of the gifts which Allah hath given them of His Grace, think that it is good for them; nay it will be the worse for them; soon

shall the things which they covetously withheld be tied to their necks like a twisted collar. "

(3: 180)

Again in Verses 1 to 4 of Chapter 104 it is repeated:

(وَيْلٌ هَمَزَةٌ }*{ أَلَذَى }*{ يَحْسَبُ مَالَهُ }*{ لِيُنْبِذَنَ الْحُطْمَةُ)

"Woe to every (kind of) scandalmonger and backbiter, who pileth up wealth and layeth it by, thinking that his wealth would make him last forever! By no means, he will be sure to be thrown into that which breaks to pieces. "

(104: 1-4)

Three vices mentioned by the above verses are here condemned in the strongest terms: (i) scandal mongering, talking or suggesting evil of men or women by word or innuendo, or behaviour, or mimicry, or sarcasm, or insult; (ii) detracting from their character behind their back, even if the things commented are true, where the motive is evil; (iii) accumulating wealth, not for use and service to those who need it, but in miserly hoards, as if such hoards can prolong the miser's life or give him immortality. Miserliness is itself a kind of scandal (Ali, 1989). The above revelation serves as a reminder to those who manage Islamic banks to be more cautious in managing its assets. As mentioned earlier the wealth of Islamic banks should be spent on the needy and for the betterment of society. Failing to conform to the instructions from Allah, means there is a great possibility that the wealth accumulated by the banks will be destroyed. The destruction may be in the sense that the bank will not be able to make further profit and may ultimately have to cease operations.

The Qur'an in many of its verses indicates the principles which serve as guidance for the Islamic banks in their practical affairs. To involve them selves in business is highly encouraged by Islam but the business must be conducted on the basis of equity and justice. Islamic banks are prevented from engaging themselves in the business forbidden by Islam. The activities of trading that have been prohibited by Islam include:

- (1) Activities involving interest, usury or 'riba' whether in goods, currency or foreign exchange, or involving differences in time period the exchange occurs, of differences in weight or measurement.
- (2) Trading in unclean items such as human or animal waste, and in seine products.
- (3) Trading in items not seen or specified properly.
- (4) Trading in unborn animals, since its features remain unknown and uncertain.
- (5) Trading in fruits still in the fructifying stage.
- (6) Trading that requires placement of non-refundable deposits.
- (7) Trading out of turn that involves nullifying an earlier contract with another party involving the same good.
- (8) Bidding up of prices by related parties with intention to make genuine buyers pay more than necessary.
- (9) Trading that occurs during the time of Friday prayer.
- (10) Trading of commodities that are to be processed into liquor.
- (11) Trading involving monopoly on essential items and speculative activities in anticipation of higher prices.
- (12) Activities of gambling.

2.3 Marketing from Islamic Perspective

The philosophy, on which this analysis of Islamic Marketing is built, is based on the basic motives of creation of mankind and purpose. Islam is the complete code of life (3: 19, 16:52, 98: 5, and 110:2). It means peace; peace with oneself, peace with other human beings, peace in this life and peace in the hereafter and complete submission to the will of God.

In Islam every aspects of human life must be according to the will of Allah. So In Islam, Marketing is not confined with buying and selling or telling and getting profit or about goods and services under any business. All activities and transactions are considered as worship in Islam (2: 30). Islam is the way of life governed by rules and customs defined, explained and practices by Prophet Muhammad (PBUH). Even human nature and behaviour is not against Islamic Aqida, *Shariah*, and *Akhlaq*.

In addition to these, Islam set some dietary laws intended to advance human well being which comes from Allah (5:48). Depending on some basic assumptions, Islamic Marketing can be defined as: The process and strategy (*Hikmah*) of fulfilling need through *Halal (Tayyibat)* products and services with the mutual consent and welfare (*Falah*) of both parties i.e. buyers and sellers for the purpose of achieving material and spiritual wellbeing in the world here and the hereafter. There are several key words/core aspects which enumerate this definition:

2.3.1 Strategy (*Hikmah*)

In Islam the word *Hikmah* is very close to the strategy which indicates 'Wisdom'. It signifies sound perception and sound judgment which is timebefitting approach, adaptable to the particular situation. Marketing allows us to consider the subject as being flexible and dynamic, just like the world we live in. Islamic Marketing can achieve long term goals in this world and the hereafter through interacting with changing environment, situation and even it can purify the beliefs, outlook, morals, habits, customs, and social, cultural, economic and political life of man in its totality. The holy Quran tells of Hikmah in different verses such as (2:129, 2:151, 2:231, 2:269, 3:81, 3:164, 33:34, and 56:69-70).

2.3.2 Need

Islamic marketing is based on need (17:29; H 3:373).H286, 306) when conventional marketing is based on wants. This is because company wants profit and customers wants satisfaction of their needs. The basic idea in conventional marketing is that most human behaviour is planned, purposeful quest and search for want satisfaction and Individuals act to satisfy their wants and desires. Goods, services, or ideas are the source of this satisfaction (Cooke et al. 1992). In Islam a person should consume according to his need and marketing promotional activities should not be the art of deception or cheating consumers and only for noble purpose, it will provide information clearly for the benefit of the people (Faruqi, 1995, al-Qardawi, 1980)(Al Hadith 94).

2.3.3 Halal (*Tayyibat*)

Islam is not an accidental religion and does not aim at depriving the human being of the good things that Allah has provided. "Oh mankind! Eat from the earth that which is *Halal* (lawful) and (*Tayyib*) wholesome." (2:168). The prophet (PBUH) also confirms it in his Hadith: "The *Halal* is which Allah has made lawful in His book and the Haram is that which He has forbidden, and that concerning which He is silent He has permitted as a favour", (Qardawi, 1980). These parameters define the eating habits and by extension, the purchasing preferences of two billion people around the world.

These parameters are, essentially, non-negotiable; they are unmoved by fad or fashion, they are not subject to age, income or geography, and are all the more powerful by not being enforced. They are the parameters of a people who choose, freely, to eat what is lawful (5:4).

In the Islamic outlook, consumer goods are the God given, useful, clean, wholesome, beneficial consumable materials whose utilization brings about material, moral and spiritual betterment of the consumers.

Islam does not recognize all goods as products even though there is a high demand for those particular products. Only goods that are safe, beneficial and useful to consumer morally and ethically and are not in conflict with what is forbidden by Islam are recognized as products (Kahf, 1982).

2.3.4 Mutual Consent

This is based on the statements of the Quran and the *Sunnah*.

) ')

“O believers, trade by mutual consent....”

(4:29).

{ وَأَمْرُهُمْ شُورَىٰ بَيْنَهُمْ وَمِمَّا رَزَقْنَاهُمْ يُنْفِقُونَ }

“And who (Conduct) their affairs by mutual consultation...”

(42:38).

Abu Saeed al-Khudri reported: The Messenger of (PBUH) said:

“The contract of sale becomes lawful with the consent of both parties.” (Ibn Majah)

‘Mutual Consent’ means that the exchange must be operated on the free will of buyers and sellers and free of undue pressure, fraud and deception. It must not encourage competition rather ensure cooperation among all stakes without elements of compulsion or cheating.

2.3.5 Welfare (*Falah*)

Islamic marketing must ensure human *Falah* on the basis of cooperation and participation between producer and consumer, seller and buyer. It ensure as:

{ وَمِنْهُمْ مَنْ يَقُولُ رَبَّنَا آتِنَا فِي الدُّنْيَا حَسَنَةً وَفِي الْآخِرَةِ حَسَنَةً وَقِنَا عَذَابَ النَّارِ }

"Our Lord, gives us what is good in this world and also what is good in the hereafter and saves us from the torment of Fire."

(2:201)

In Islamic Marketing, Market is viewed as a mechanism or institution in which buyers and sellers interact with goods and services in establishing prices through balances the conduct of buyers and sellers in ensuring greater welfare in this world, as well as the greatest reward in the world hereafter and maximize profits. *Falah* is comprehensive and a worldly concept.

Falah arrives at 40 points of the Quran. The term denotes all-sided welfare of this life as well as that of the Hereafter. It implies that achievement of material wellbeing should be in a manner consistent with the achievement of welfare in the more important and eternal phase of human life-the Hereafter. (Siddiqi, 1979).

2.4 The Need for Islamic Marketing

The author argued that people, at least the Muslim, need to live in a way that is prescribed by Allah and his messenger. In one of the Quranic verses, Allah SWT said the following:

{ يَا أَيُّهَا الَّذِينَ آمَنُوا ادْخُلُوا فِي السَّلَامِ كُلِّهِ وَلَا تَتَّبِعُوا خُطُوَاتِ الشَّيْطَانِ إِنَّهُ لَكُمْ عَدُوٌّ مُبِينٌ }

O you who believe! Enter perfectly in Islam (by obeying all the rules and regulations of the Islamic religion) and follow not the footsteps of Shaitan (Satan). Verily, He is to you a plain enemy

(2:208).

The above verse suggests that all ways should be Islamic ways. Therefore, all ways could be made Islamic. The only challenge is the “How” element. Realizing that, the author argued that marketing could be made Islamic as well. Therefore, through this

paper, the author would like to develop Islamic marketing starting from its philosophical aspect. It could be argued that building philosophical concept is very crucial towards the development of knowledge. Arguably, the philosophy of knowledge will shape the elements of Islamic marketing.

2.5 Fundamental Philosophy of Islamic Marketing

The highest and most important concept in Islam is the *Tawhid* or oneness³⁴ (Alhabshi, 1987; Haneef, 1997). This is the most important concept that Muslim must know in order to live and survive in this world and the hereafter. Rice (2001) stated that the concept of *Tawhid* is the most crucial ingredient in commerce. Furthermore, according to Abusulayman (1998), the concept of *Tawhid* is both vertical and horizontal. The vertical relationship pictures the connection between human and its creator, while the horizontal relationship portrays the inter-human relationship based on Allah's law (Abusulayman, 1998).

2.5.1 Islamic Perspectives on Marketing

The *Tawhid* principle also takes Muslims to believe that Allah SWT is the only architect of the universe and therefore human being is the representative of Allah to manage this world and its resources in just way (Abusulayman, 1998; Badawi, 2002). In terms of marketing, the author argued that justice could be implemented in smoothing the flow of goods, among others. By smoothing the flow of goods, companies will ease the customers in meeting their needs. Furthermore, the author argued that smoothing the

flow of goods could prevent the practice of hoarding which is condemned by Islamic teaching.

By eliminating the practice of hoarding, one has successfully shown one's act of brotherhood (good inter-human relationship) to other people and also establishes justice to society. Since everybody is essentially equal, all costumers have equal rights to get the products that they want in order to satisfy their need. Hoardings will inflate the price and create injustice to those who cannot afford to but the particular product that they need^l. The *Tawhidic* paradigm serves as a spirit which needs "A Character to Fill." Therefore, this paper needs to discuss some traits that could shape a "Character" which can be energized with the spirit of *Tawhid*. This "Shape" would be recognized as the characteristics of Islamic marketing, unique traits infused with the *Tawhidic* spirit that could be utilised in the context of modern marketing theory.

2.5.2 Characteristics of Islamic Marketing

In general, there are four characteristics that surround Islamic marketing concept. These are spiritualistic, ethical, realistic, and humanistic (Sula and Kartajaya, 2006). If one gives those four characteristics a thought, one will find a good relationship between the five pillars of Islam and the implementation of it. These concepts will be explored as follows.

2.5.2.1. Spiritualistic.

This is the umbrella of all teachings in Islamic marketing according to the author. Spiritualistic means that all business conducts must be coherent with the teaching of Al-Quran and *Sunnah*. Moreover, Islamic marketers must fully believe that Islamic law is the ultimate law that must be used as a guidance which is just, perfect, and the source for all goodness (Sharing, 2006; Sula and Kartajaya, 2006).

The first pillar of Islam, the *shahadah*, becomes the heart of this concept. *Shahadah* is the ultimate confession of a human to his or her creator. By confessing the *shahadah*, a Muslim is abode by any “Terms and Condition” set by Allah SWT to live in this world. Any forbidden action will be taken into responsibility in front of the court of Allah SWT. In terms of Islamic marketing, the total submission to Allah SWT means that all aspects of marketing must be parallel with the teaching of Islam. Of course, in some ways, its implementation varies. According to Sula and Kartajaya (2006), Islamic marketers must be able to include the spirit of Islam in all aspect of marketing activities, from the planning to after sales service. In other words, any marketing activities must be done within the ethical boundaries set by Islamic teaching.

2.5.2.2. Ethical.

The spiritual enhancement within Islamic marketing will form Islamic ethics within the business transaction. Sula and Kartajaya (2006) stated that one of the characteristics of Islamic marketers is full of ethical consideration. This ethical conduct, argued the author, must follow the teachings of *Al-Quran* and *Hadeeth*. Therefore, it is necessary to refer this kind of ethics as Islamic Ethics. In the view of the author, the

concept of Islamic ethics can be seen from the practice of Islamic daily prayers, the second pillar of Islam. Before Muslims pray, they must clean certain parts of their body before commencing their prayers.

In other words, certain preparations that make Muslims look clean must be done before “meeting” with their creators. In marketing sense, Islamic marketers must make themselves ready. They must be “purified” before commencing their marketing activities. The term “purified” refers to any attempt of “self-cleansing” before serving the markets. For instance, companies must train their marketers so that all marketing activities could be done in ethical standard set by Islamic teaching.

Last but not least, companies must clearly inform their staffs that they must accept any results that appear in front of them, for as long as they have worked hard and done everything they can. Sula and Kartajaya (2006) referred this concept as being “Realistic.”

2.5.2.3. Realistic.

According to Sula and Kartajaya (2006), *syariah* marketers should not be so “rigid” in practicing Islamic marketing, for as long as it does not violate Islamic law. The content is more important than the appearance. However, it must be noted that being realistic does not mean that in the case of “emergency”, Muslim marketers can do something which violates the principles of Islamic law. Sula and Kartajaya (2006:5) stated that Muslim marketers must be brave to differ themselves from any other marketers which partially or do not use Islamic principles in conducting business.

In the view of the author, the “realistic” mentality could be seen in people who perform fasting in the month of *Ramadhan*. Fasting, the third pillar of Islam, teaches people to become realistic. When Muslims perform fasting, they cannot eat when the sun rises until the sun sets. During that time, all Muslims around the world still do their normal activity even if they are in the state of hunger and thirst. In the view of the author, the feeling of hunger and thirst is a symbol of a “struggle” which will end when the sun sets.

This shows that nothing lasts forever. For every challenge, there lies hope and prosperity. Being realistic is not just sitting down and losing hope. In marketing point of view, being realistic means an opportunity for creativity. This is a state where marketers’ ability is being tested in order to create breakthrough. For instance, if companies know that they are selling expensive products, they had better sold the product in credit rather than asking people to buy it in cash. They could also offer the least expensive products. This may encourage customers’ willingness to buy.

The two examples show how the state of being realistic creates hope, which in turn create an inner power to make a breakthrough. It is important for Islamic marketers to understand this concept since it will increase the spirit of marketing their products. Last but not least, companies should view the market humanely. This means that companies should realize that it is the human being that buy the products, not just a set of “being” which could be treated like an object. Therefore, Islamic marketing tries to be humanistic.

2.5.2.4. Humanistic.

Humanistic here means that Islam, like any other religions, comes in order to teach people the values that could differentiate people from any other creatures that inhabit this world (Sula and Kartajaya, 2006).

As a consequence, one should be able to distance oneself with inhumane desires such as greed (Sula and Kartajaya, 2006). Modern marketing refers to this as “Sustainable Marketing” (Kotler and Armstrong, 2010). Basically, it is a concept of marketing which tries to balance between market demand and environmental preservation (Kotler and Armstrong, 2010). In the view of the author, it is the trend of today’s companies to pay more attention to their society and more importantly their environment.

So far, this chapter has already discussed the philosophy and characteristics of Islamic marketing. Before expanding the discussion further, it is argued that the philosophy and characteristics of Islamic marketing need one further test. This test is so important as to determine whether people, especially Muslims, will accept Islamic marketing as a new concept or whether this is regarded as “Me Too” marketing concept which is fabricated to satisfy the emerging Muslim market.

2.6 Religion as Marketing Tool

The discussion will start from the objectives of Islamic marketing and goes through the Islamic view of utilising religious teaching to market products and services.

2.6.1 Objectives of Islamic Marketing

It could be argued that the objectives of Islamic marketing cannot be separated from the objectives of the *Sharia*. From the above presentation on the philosophy of Islamic marketing, it is clear that human is Allah's envoy in this world. This world is entrusted to human to be controlled and managed in accordance to Allah's will (Khan, 1991; Haneef, 1997; Hassan and Lewis, 2007).

This view is rather different from the concept of human in conventional economics, as cited by Haneef (1997:45) as follows:

“This is of course, totally at variance with modern “economic man,” who is not obliged to consider any form of submission to a transcendent God. “

Therefore, the trust that Allah gives must be utilised in all aspects of life, including marketing. Although in reality, different ways might be taken to utilise that trust as long as they meet certain principles. Those principles, according to Ahmad (1989:26), are follows:

- .Agree with the principles of Islamic law or *Shariah*.
- Achieve the economic and social goal of Islamic civilization.

Achieve the economic and social goal of Islamic civilization. It is argued that it is somewhat challenging to arrive at one single and definitive objective of Islamic marketing. However, since any objectives need to align with the principles of Islamic law, one could try to elaborate the objectives of Islamic marketing as follows:

- To bring forward marketing theory to a new realm, whereby modern marketing theory interrelates with Islamic teaching.
- Islamic marketing should be able to take part in realizing social justice.

2.6.2 Religious Teaching as a Marketing Tool

It could be said that religious teaching could be utilised as a marketing tool. As far as Islamic teaching is concerned, there are some evidences that are available in light of this proposition: First, the Holy Quran has presented many verses which are related in commercial transaction. These verses, among any, include the prohibition of interest (Al-Quran 2:275); being straightforward in negotiation (Al-Quran 33:70); and many more.

Furthermore, one could also witness Islamic concept on commercial transactions through many sayings of Prophet Muhammad SAW. On selling products transparently, Prophet Muhammad SAW said the following:

Narrated Hakim bin Hizam: Allah's Messenger said, "The seller and the buyer have the right to keep or return goods as long as they have not parted, or till they part; and if both the parties spoke the truth and described the defects and qualities (of the goods), then they would be blessed in their transaction, and if they told lies or hid something, then the blessings of their transaction would be lost" (Khan, 1997:173).

Moreover, as far as legal ruling is concerned, there are no prohibitions towards utilising religion as a marketing tool nor are there any prohibitions for labelling certain marketing strategies as "Islamic Marketing Strategy", "Christian Marketing Strategy", "Hindu Marketing Strategy", and the like. Therefore, incorporating religious teaching into marketing is feasible.

Finally, Arham (in his study on Islamic perspective on marketing stressed that one cannot fully exclude religious teachings from marketing concept even if marketing strategy development is build from non religious teachings. One example is the development of relationship marketing or the rise of social media (such as Facebook). The author argued that such social phenomenon is parallel with Islamic concept of unity (brotherhood). Therefore, even without scrolling through any religious text, one might set up a strategy which is parallel with the teaching of Islam.

Another interesting exposition comes from Harrison (2005:278), who stated that: "the bounded ethical principles specifically for marketing are suggested to be:

1. The improvement of human life (morality seen as a defence for the weak, etc.);
2. Recognition of Society's constraints (the law; consumer needs);
3. Working within a market economy, with its emphasis on the reward of risk taking, hard work and creativity (issues of distributive justice);
4. Recognising the constraints of human capabilities and limitations (e.g. the link between psychological egoism and theories of motivation).

Looking at Harrison's point of view, one could argue that his propositions are very close to Islamic teaching. The issues on "The improvement of human being" and Islamic perspectives on marketing Recognition of Society's constraints" could be seen from the above *Hadeeth* concerning product transparency. The author argued that product transparency could hinder the consumers from any harm that the products may cause. Islam also teaches the concept of "hard working" and "distributive justice" through Al-Quran (3:1-3) and Al-Quran (6-141). However, although Islam encourages people to take some risks, Islamic concept of risks is rather "sharing the risks" than "take the risks yourself."

The last point concerning "constraints of human capabilities and limitations" is even more interesting since it is the last point on Harrison's list. This is appealing as Islam teaches its followers to work hard with maximum capability and then submit everything to the will of Allah. This is shown by the following verse:

رَحْمَةً مِّنَ اللَّهِ إِنَّكَ لَهُمْ وَلَوْ كُنْتَ فَظًا غَلِيظَ الْقَلْبِ لَانْفَضُّوا مِنْ حَوْلِكَ فَاعْفُ عَنْهُمْ وَاسْتَغْفِرْ لَهُمْ وَشَاوِرْهُمْ فِي
{ أَمْرٍ فَإِذَا عَزَمْتَ فَتَوَكَّلْ عَلَى اللَّهِ إِنَّ اللَّهَ يُحِبُّ الْمُتَوَكِّلِينَ }

(And by the Mercy of Allah, you dealt with them gently. And had you been severe and harsh-hearted, they would have broken away from about you; so pass over (their faults), and ask (Allah's) Forgiveness for them; and consult them in the affairs. Then when you have taken a decision, put your trust in Allah, certainly, Allah loves those who put their trust (in Him). (3:159).

The above verse seems to align very well with Harrison's list. The verse already gives Muslim a direction to make final submission to Allah for all the works they have done. The concept of submission is arguably useful to eliminate "this is my work" ego since the verse clearly hints that Allah is the final decision maker.

The discussion highlights some arguments concerning the credibility of incorporating religious teaching into marketing concept. In the subsequent part, the author will try to elaborate the conceptual implementation of Islamic marketing. In this regard, the author would like to focus on conceptual implementation of Islamic teachings in marketing strategy.

2.7 Implementing the Objectives of Islamic Marketing Strategy

The concept of Islamic marketing is useful if it can turn the philosophical concept into modern marketing concept. In this part, there are some implementations of Islamic teachings in marketing mix. The first step towards applying Islamic marketing is to understand the basic principles of Islamic marketing. Sula and Kartajaya (2006) stated

17 principles of Islamic marketing that should be applied when institutions want to be classified as those who based on Islamic marketing. Those 17 principles are presented by Table 2.1. In general, those principles are divided into four broad categories.

- The first category belongs to the landscape of Islamic business (Sula and Kartajaya, 2006:142). Basically, Sula and Kartajaya (2006:142-3) made a model which consists of all elements in business. These are “Competitor”, “Change”, “Customers, and “Company” (Sula and Kartajaya, 2006:142-3).
- The second category belongs to the elements of marketing strategy. Sula and Kartajaya (2006:143) further divided into three sub categories, namely, “*Shariah* Marketing Strategy”, “*Shariah* Marketing Tactic”, and “*Shariah* Marketing Value.”.
- The third category belongs to *syariah* scorecard. The scorecard can be used as a tool to balance between the Islamic values that a company promotes and the actors that support and promote those values (Sula and Kartajaya, 2006:148).
- Finally, the fourth category belongs to “*Sharia* enterprise.” Sula and Kartajaya (2006:150) argued that those values have a strong relationship with “Inspiration”

Table 2.1

Principles of Islamic Marketing

Landscapes of Islamic	1. Information technology allows us to be transparent (change)
Marketing	2. Be respectful to your competitors (competitor)
	3. The emergence of customers global paradox (customers)
	4. Develop a spiritual-based organization (company)
Elements of strategic business architectures	5. View market universally (segmentation)
	6. Target customer's heart and soul (targeting)
	7. Build a belief system (positioning)
	8. Differ yourself with a good package of content and context (differentiation)
	9. Be honest with your 4Ps (marketing mix)
	10. Practice a relationship – based selling (selling)
	11. Use a spiritual brand character (brand)
	12. Services should have the ability to transform (service)
	13. Practice a reliable business process (process)
Sharia scorecard	14. Create value to your stakeholders (scorecard)
Shariah marketing	15. Create a noble cause (inspiration)
Enterprise	16. Develop an ethical corporate culture (culture)
	17. Measurement must be clear and transparent (institution)

Source: Adapted from Sula and Kartajaya (2006:141-2)

2.7.1 Fundamental Elements of Islamic Marketing Strategy

The elements of Islamic marketing strategy consist of segmentation, targeting, and positioning. The following part will discuss how these elements work within Islamic

marketing.

- **Segmentation.** Gunara and Sudibyo (2007) presented an interesting example of segmentation practiced by Prophet Muhammad SAW. In his time, Prophet Muhammad SAW conducted his trading business in several important markets in Arabic peninsula (Trim, 2009), including the one in Bahrain called “Mushaqqar” (Antonio, 2007:82; Gunara and Sudibyo, 2007:17). Gunara and Sudibyo (2007) also added that Prophet Muhammad SAW knew the way of life and the way people eat and drink in Bahrain. From the information obtained above, one could argue that Prophet Muhammad SAW used some of the attributes of geographic, demographic, and psychographic segmentation in doing his business. Furthermore, one could learn the example of market segmentation from Prophet Muhammad SAW. From the way Prophet Muhammad SAW conducted his business, one could learn that market segmentation could be done through mental process of market identification. The author used the term “Mental Process” in order to show how one should come to see his or her market before conducting segmentation.
- **Targeting.** Previously, this paper discussed how Prophet Muhammad SAW segmented the market. Now, this paper will look at how he targeted his segments. Modern marketing theory teaches that the various segments available should be evaluated so that companies

know which segments that can be served well (Kotler and Armstrong, 2010). How Prophet Muhammad SAW exactly targeted his segments[10] needs to be researched thoroughly. However, one argument from Gunara and Sudibyo (2007) stated that Prophet Muhammad SAW could target all of his segments. In modern marketing, such targeting strategy is called “Differentiated Marketing”, a segmenting strategy whereby companies create several different products for several different segments (Kotler and Armstrong, 2010).

- **Positioning.** According to Kotler and Armstrong (2010), companies must position their products so that the products could be deemed valuable from the customers’ perspective. When applying this theory back to the era of Prophet Muhammad SAW, one could find some similarities in product offering. First, the consumers in that era were arguably as careful as those in present time. Logically, they would buy the best product in accordance to their financial ability. Second, many sellers offer multiple products to sell. Modern marketing theory suggests sellers to position their products in the mind of the consumers.

- *Shariah* marketing tactics. There are three elements discussed in this part. These are differentiation, marketing mix, and selling.

a) Differentiation; of both sellers and the products they sell must be coherent.

b) Designing marketing mix; Prophet Muhammad SAW already taught some lessons in conducting business, which could be implemented in marketing mix. On pricing, Prophet Muhammad SAW sold his products with a price which could be absorbed by the market (Trim, 2008). In other words, he got his profit based on sales volume (Trim, 2008). Arguably, this is a good strategy to take since he could enter all market segments with such pricing

c) Selling. In selling products, at least there are several lessons that one can learn from Prophet Muhammad SAW. First, sellers are not allowed to conceal anything to their buyers during transactions (Trim, 2008). Thus, for as long as sellers meet with the buyers, either one can opt to quit or to continue negotiation (Trim, 2008). Second, sellers are prohibited to sell something that does not exist (Trim, 2009). Thus, the goods being sold must exist. Third, scaling needs to be as accurate as possible (Trim, 2009).

- *Shariah* marketing value. According to Sula and Kartajaya (2006), all efforts to sell products and service will doom to fail without any attempts to include product or service values. In their book, Sula and Kartajaya (2006) includes the concept of value within brand (value indicator), service (value enhancer), and process (value enabler).

a) Brand, service and process. On value indicator, Sula and Kartajaya (2006) stated that the appearance of a brand presents the total service that companies offer, starting from product purchase to after sales service. Kotler and Armstrong (2010) argued that brand conveys unique

message to its audience and consumers try to link themselves emotionally with it.

2.7.2 Islamic Marketing and the Challenges

The development of Islamic marketing, both theoretical and practical, faces challenges that need to be resolved in order to see future progress:

- Immersing Islamic teaching within modern law

It is quite surprising to see that modern life also contains elements which represent the teaching of Islam. In Indonesian context, the Indonesian Government forms a body which rules out any attempts on market monopoly. Indonesia also possesses other supervisory body which supervise the quality of the food, both from spiritual perspective and from hygienic perspective and many others. The key point is to achieve justice in the society (Wilson, 2006). Therefore, the author further suggested that Islamic marketing could find its role in the body of modern law.

- Narrowing intellectual gap

Another challenge that emerges is the ability for Islamic marketing to screen any relevant theory of conventional marketing in order to position itself uniquely in the body area of marketing literature. Dar and Presley (1999:1) commented the following regarding in lack of conventional theory when building Islamic paradigm:

[. . Islamic writers have focused upon the Koran and mainly Asian literature without utilising a wide body of literature in the West which would assist with the development of the Islamic paradigm.....]

As happened with the discussion concerning the chemistry between Islamic and ethical banking (Saidi, 2009), it seems that Islamic marketing would go for the same kind of issue. Although the author argued that Islamic marketing is not similar with ethical marketing, more discussion should be gathered in order to confirm or contradict the issue.

2.8 Islamic Marketing in the Islamic Banking Industry

The basic difference between Islamic and conventional banks lies in the fact that the former operate on an equity-participation system in which a predetermined rate of return is not guaranteed, whereas the latter's operations are based on both equity and debt systems that are mainly driven by interest (riba). This essential difference, resulting from the implementation of the Islamic Shari'ah principles, provides the incentive for Islamic bankers to search for different products/services to offer. Although the idea of Islamic banking is relatively new, being no more than two decades old, it has nevertheless attracted the attention of many investors around the world.

From a strategic point of view, this newness is both advantageous and disadvantageous at the same time. Thus, on the positive side, being a nascent idea, Islamic banking has the potential for attracting new customers and

consequently, enhancing a bank's market share. This phenomenon may explain the increase in the branches of some Islamic banks (e.g. the Dubai Islamic Bank, UAE; Islamic Bank Bangladesh Limited; Bank Islam Malaysia Berhad; Bank Shariya Mandiri, Indonesia, etc.,) which have established many branches in their respective countries.

On the negative side, however, a high potential for expansion motivates new entrants to the industry and as a result, provokes more competition. Indeed, many conventional multinational and commercial banks e.g., City Bank, Standard Chartered Bank, HSBC Barclays, Bank, etc., have already opened "Islamic windows" through which Islamic business activities are conducted. There is a similar situation elsewhere in Bangladesh, Malaysia, the Middle East and the lesser developed countries. As a result of these developments, an Islamic bank can be expected to face competition not only from the Islamic windows of conventional commercial banks, but also from other Islamic banks. Hence, the marketing strategy of an Islamic bank must be concerned with its ability to gain a competitive advantage and establish a strong competitive position.

The Islamic marketing principles combine a value-maximization concept with the principle of 'justice' for the wider welfare of the society. These principles offer a means to create value and elevate the standard of living of people in general through commercial pursuits. The Islamic ethical guidelines ensure respect for, and the individual freedom of, both bankers and customers.

2.9 The Objectives of Islamic Banks

The general objectives of Islamic bank are to develop the economy within and according to Islamic principles. Khan (1983), the existence of Islamic banks is to promote, foster and develop the banking services and product based on Islamic principles. Islamic banks are also responsible to promoting for establishment of investment companies or other business enterprises as long as the activities of these companies are not forbidden by Islam. The main principles of Islamic banking comprise of prohibition of interest in all forms of transactions, and undertaking business and trade activities on the basis of fair and legitimate profit. Islamic banks are to give zakat (alms tax) and to develop an environment which benefits society.

Like any other business entity, Islamic banks are expected to make a profit from their operations. It is considered unjust for Islamic banks if they are unable to provide sufficient returns to the depositors who entrusted their money to Islamic banks (Mirakhor, 1987). Making a profit from business is allowed in Islam. However at the same time Islamic banks are required to recognise the message stated in Verse 87 of Chapter 5 of the Qur'an that prohibits Muslims from committing any excess. Applying this message to banking operations means that Islamic banks are prohibited from making excessive profit at the expense of their customers.

According to Siddiqi (1985) Islamic banking seeks a just and equitable distribution of resources. In non-commercial bank, if a borrower makes a loss on a project financed by a bank loan, the borrower is obliged to pay all interest due on the loan. On the other hand, if the interest rate falls and the borrower secure a high profit,

other savers in the commercial bank will not benefit from such a profit. This very specific type of risk taking, which is one of the non-Islamic banking principles, is against the tenets of Islam.

In Islamic banking, depositor relation would be based on the depositor sharing the profit accruing as a result of the bank's profitable use of the deposits pooled together. On the assets side a number of ways were tried to earn profits including partnerships and profit sharing with businessmen (Mohd Nejatullah, 2000).

Therefore, while ordinary business institutions are likely to place profit as their primary objectives, Islamic banks have to incorporate both profit and morality into their objectives. This objective is succinctly described by Dar AI-Maal AI-Islamic Trust, the holding company for 25 financial and business companies operating on the basis of Shariah in 15 countries around the world:

1. To put before to all Muslims, contemporary Islamic financial services, helping to execute their financial dealings in strict respect of the ethical individual and social values of Islamic Shariah, without contravening the heavenly imposed prohibition of dealing in *riba* (interest or usury).
2. To serve all Muslim communities in mobilising and utilising the financial resources needed for their true economic development and

prosperity within the principles of Islamic justice assuring the right and obligations of both the individual and the community.

3. To serve the '*Ummat Al Islam*' (Islamic communities) and other nations by strengthening the fraternal bonds through mutually beneficial financial relationships for economic development and the enhanced environment for peace.

Bank Islam, Malaysia Berhad's (BIMB) corporate objective is to provide banking facilities and services in accordance with Islamic principles to all Muslims as well as the population of Malaysia. The Islamic principles mentioned here are essentially those belonging to the body of Shariah rules on commercial transaction. The bank's efforts to provide these banking facilities and services are undertaken within the framework of its viability and capability to continuously grow and expand (BIMB, 1985).

Although most Islamic banks clearly state that their main objective is to provide interest-free banking services, their memorandum and articles of association nevertheless list objectives which are quite similar to the objectives of conventional banks.

2.10 The Formulation of Islamic Banking

There are four sources from which the Islamic law (Shariah) are derived namely, in order of importance, the Muslim's Holy Book (Al-Qur'an), the Traditions (words and deeds) of Prophet Muhammad (PBUH) (known as *Hadith* or *Sunnah*), the views of the

council of Islamic scholars (Ijma'), and the learned interpretation of Islam by individuals based on religious doctrines (Ijtihad). The schools of thought or Islamic jurisprudence that follow the Traditions (Sunnah) of the Prophet are known as the Sunnis of which there are four named after their respective religious leaders (Imams), namely, Hanafi, Hanbali, Maliki and Shafie. There are other schools of thought that are non-Sunnis, such as the Shia' which have a sizeable following in Iran. The differences between the various schools are not in belief or faith (Tawhid), as all the schools of Islamic jurisprudence are based on the same Holy Al-Qur'an, but the different schools place different emphasis on the various actions or sayings (Traditions) of the prophet in the practice of Islam.

Islamic banking is part of a move to achieve an Islamic economic order as an alternative to the capitalist and socialist systems. The economic system of Islam differs from capitalism by its opposition to excessive concentration of wealth and stresses distributional equity, yet differs from capitalism by its opposition to excessive concentration of wealth and stresses distributional equity, yet differs from socialism by its protection of the individual rights to property and the means of production. The individual rights are to be equitably balanced against those of society at large.

The design of Islamic banking is governed by Islamic law (Shariah) on what is permissible and what is not. The modes of operation to adopt may be both Islamic and pre-Islamic in origin. The principles of Islamic basis of trading and financial transactions have not been in operation since the middle Ages, and most have been forgotten or submerged by the strong influence of conventional type banking brought about by western colonisation during the past two centuries. The guidelines to devise an

Islamic banking operation must therefore involve the resurfacing of old concepts and even adopting, where permissible, pre-Islamic modes and designing new ones that are acceptable to *Shariah* for the viable running of Islamic banking. Table 2.2 elaborates the Range of Islamic Banking Products and Services

Table 2.2
Range of Islamic Banking Products and Services

Products/Services	Underlying Contract(s)
Deposit Services	
Current Deposit	<i>Wadiah Wad Dhamana/Qard Hasan Wadiah</i>
Saving Deposit	<i>Wad Dhamana/ Mudaraba</i>
General Investment Deposit	<i>Mudaraba</i>
Special Investment Deposit	<i>Mudaraba</i>
Retail / Consumer Banking	
Housing & Property Finance	<i>BBA/ Ijara Iktina / Diminishing Musharaka Ijara</i>
Hire Purchase	<i>Thumma Al-Bai</i>
Share financing	<i>BBA / Murabaha / Musharaka</i>
Working Capital Financing	<i>Murabahah / Bai Al-Einah/ Tawarruq</i>
Credit Card	<i>Bai Al-Einah/ Tawarruq</i>
Charge \card	<i>Qard hasan</i>

Table 2.2 (Continued)

Products/Services	Underlying Contract(s)
Corporate Banking/Trade Finance	
Project Financing	<i>Mudaraba/Musyaraka/BBA/Istisna/Ijara</i>
Letter of Credit	<i>Musyaraka/ Wakala/ Murabaha</i>
Venture Capital	<i>Diminishing Mudaraba/ Musyaraka</i>
Financing Syndication	<i>Musyaraka + Murabaha/ Istisna/ Ijara</i>
Revolving Financing	<i>Bai Al-Einah</i>
Short-term Cash Advance	<i>Bai Al-Einah/ Tawarruq</i>
Working Capital Finance	<i>Murabaha/ Salam/ Istijar</i>
Letter of Credit	<i>Murabaha</i>
Letter of Guarantee	<i>Kafala+Ujr</i>
Leasing	<i>Ijara</i>
Export/Import Finance	<i>Musyaraka/ Salam/ Murabaha</i>
Work-in-Progress, Construction Finance	<i>Istisna</i>
Bill Discounting	<i>Bai al-Dayn</i>
Underwriting, Advisory Services	<i>Ujr</i>
Treasury/ Money Market	
Investment Products	<i>Bai al-Einah</i>
Sell & buy-back agreement	<i>Mudaraba/Musyaraka + BBA/ Istisna/ Ijara</i>
Islamic Bonds	<i>Qard Hasan/ Salam/ Mudaraba</i>
Government Investment Issues	
Other Products & Services	
Stock-Broking Services	<i>Murabaha/ Wakala/ Joala</i>
Funds Transfer (Domestic & Foreign)	<i>Wakala/ Joala</i>
Safe-Keeping & Collection (Negotiable Instrument)	<i>Wakala/ Joala</i>
Factoring	<i>Wakala/ Joala/ Bai al-Dayn</i>
Administration of Property,	<i>Wakala</i>
Hiring of Strong Boxes	<i>Amana/ Wakala</i>
Demand Draft, Traveller's Cheques	<i>Ujr/ Joala</i>
ATM Service, Standing Instruction, Telebanking	<i>Ujr</i>

Source: Muhammad Obai. (2005).

2.11 The Development of Islamic Banking

Islamic banks in present times were created in conjunction with the Islamic resurgence, which took place within many Islamic communities especially at the end of the 1960s and in the early 1970s. One of the most important issues which was widely discussed during that period was the transformation of the economy from a capitalist basis to an Islamic foundation. Since the elimination of interest has generally been the first step for the Islamization of the economy, it is perhaps only natural that the formation and operation of Islamic banks were given the most attention (Khan & Mirakhor, 1987).

During the early stages of Islamic financial market growth in the 1980s, Islamic banks faced a dearth of quality investment opportunities, which created business opportunities for the conventional Western banks to act as.

Intermediaries are to deploy Islamic banks' funds according to the guidelines given by the Islamic bank. Western banks helped Islamic banks place funds in commerce and trade-related activities by arranging a trader to buy goods on behalf of the Islamic bank and to resell them at a mark-up. Gradually, Western banks realized to offer Islamic products through "***Islamic windows***" in an attempt to attract the clients directly, without having an Islamic bank as intermediary. Islamic windows are not independent financial institutions, but are specialized set-ups within conventional financial institutions that offer Shariah-compliance products for their clients.

Meanwhile, due to the growing demand for Shariah-compliance products and fear of losing depositors, non-Western conventional banks also started to offer “Islamic windows.” In general, Islamic Windows are targeted at “high net-worth” individuals who represent the wealthiest segment of investors who want to practice Islamic banking approximately 1 – 2 % of the world Muslim population.

The number of conventional banks offering “Islamic windows” is growing, as several leading conventional banks, such as the Hong Kong and Shanghai Banking Corporation (HSBC), are pursuing this market very aggressively. Citibank was one of the earliest Western banks to establish a separate Islamic bank – Citi Islamic Investment Bank, Union Bank of Switzerland (UBS), established No riba Bank and the trend is followed by a number of Gulf banks which are establishing Islamic subsidiaries. HSBC has a well-established network of banks in the Muslim world. With the objective of promoting Islamic asset securitization and private equity and banking in OECD countries, HSBC Global Islamic Finance (GIF) was launched in 1998.

The list of Western banks keeping “Islamic windows” includes, among others, American Express Bank Ltd., American Bank, ANZ Grindlays, BNP-Paribas, Chase Manhattan, UBS, and Kleinwort Benson. The leading non-Western banks with a significant size of “Islamic windows” are National Commercial Bank of Saudi Arabia, United Bank of Kuwait, and Riyadh Bank, table 2.2 shows the Development of Islamic Economics and finance.

Table 2.3

Development of Islamic Economics and Finance in Modern History

Pre – 1950s	<ul style="list-style-type: none"> Barclays Bank opens its Cairo branch in the 1890s to process the financial transactions related to the construction of the Suez Canal. Islamic scholars challenge the operations of the bank, in relation to its dealings with interest. This critique also spreads to other Arab regions, and to the Indian sub-continent where there was a sizeable Muslim community. Majority of Shariah scholars declare that interest in all its forms amounts to the prohibited element of <i>Riba</i>.
1950s-60s	<ul style="list-style-type: none"> Initial theoretical work in Islamic economics begins. By 1953, Islamic economists offer the first description of an interest-free bank based either on two-tier <i>Mudaraba</i> or <i>Wakala Basis</i>. Mitghamir Bank in Egypt and Pilgrimage Fund in Malaysia are established.
1970s	<ul style="list-style-type: none"> First Islamic commercial bank, Dubai Islamic Bank opens in 1974. Islamic Development Bank (IsDB) is established in 1975. Accumulation of oil revenues and Petro-dollars in creases demand for Shariah-compliance products.

Table 2.3 (Continued)

<i>The 1980s</i>	<ul style="list-style-type: none"> • Islamization of economies in Islamic Republics of Iran, Pakistan and Sudan where banking systems are converted to interest-free banking systems. • Increased demand attracts Western intermediation and institutions. • The Islamic Research and Training Institute (IRTI) is established by the Islamic Development Bank (IsDB) in 1981. • Countries like Bahrain and Malaysia promote Islamic banking parallel to the conventional banking system.
<i>The 1990s</i>	<ul style="list-style-type: none"> • Attention is paid to the need for accounting standards and regulatory framework. Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is established. • Islamic insurance (<i>Takaful</i>) is introduced. • Islamic Equity Funds are established. • Dow Jones Islamic Index and FTSE Index of <i>Shariah</i>- compatible stocks are developed.
<i>2000-Recent</i>	<ul style="list-style-type: none"> • Islamic Financial Services Board (IFSB) is established to deal with regulatory and supervisory, and corporate governance issues of the Islamic financial industry. • <i>Sukuks</i> (Islamic bonds) are launched.

Source: Iqbal and Mirahor (2007).

2.12 The Development of Financial Institutions in Thailand

The history and development of financial institution in Thailand can divide into two eras, early period of financial institution development (1885-1990) and globalised era (1990-present).

2.12.1 Early period (1885-1990)

Banking operation in Thailand started after rapid trade expansion that followed the signing of the Bowring Treaty in 1855. The demand for financial services rose rapidly to facilitate international trade. In this time, only foreigners conducted the financial institution, there were no local financial institutions in Thailand.

In 1888, the first commercial bank, a branch of the British-owned Hong Kong and Shanghai Bank was established in Thailand. Since then, several other European banks have opened their branches in Thailand. Most of these banks are based in countries, which conduct trade transactions in Thailand. The first Thai commercial bank, Siam Commercial Bank formally called the Thai Commercial Bank, was established in 1906 (BOT; 1992: 174).

2.12.2 Globalize Era (1990 – present)

In response to the pressure to open up the domestic financial sector in 1990, the Central Bank or the Bank of Thailand started reforming Thailand's financial system by liberalising the financial sector. It was believed that by liberalising the financial sector and allowing market mechanisms to work freely, domestic financial institutions would be better prepared for more competition from abroad (Vijit 1991, Rernchal, 1993 and Chaiyawat, 1995). The liberalization of the financial system is also aimed at mobilizing more long-term resources to finance investment and economic growth and to enhance the efficiency of Thai financial institutions (Chittima and Mathee, 1996).

The establishment of Bangkok International Banking Facilities (BIBFs) in 1993 further facilitates the economic development of the country as well as promotes the country into a regional financial centre.

2.13 The Financial Institutions System in Thailand

The current structure of financial institutions in Thailand as shown in Table 2.4. The classifications of these institutions are based on business activities and are supervised by different authorities. Generally, these institutions belong to two groups i.e. banking and non-bank financial institutions.

Table 2.4
The Financial Institutions in Thailand

	Item	Regulator	Law Related
1	The Bank of Thailand	Ministry of Finance	Bank of Thailand Act B.E.2485 and amended
2	Commercial Banks	Bank of Thailand	Financial Institutions Businesses Act B.E.2551
3	Foreign Bank branches		
4	Subsidiary		
5	Retail Banks		
6	Finance Companies	Bank of Thailand	Financial Institutions Businesses Act B.E.2551
7	Credit Foncier Companies		
8	The Government Savings Bank	Ministry of Finance/ Bank of Thailand	Government Savings Bank Act, B.E.2489
9	The Bank for Agriculture and Agricultural Cooperatives (BAAC)	Ministry of Finance/ Bank of Thailand	The Bank for Agriculture and Agricultural Cooperatives Act, B.E.2509
10	The Government Housing Bank	Ministry of Finance/ Bank of Thailand	Government Housing Bank Act, B.E.2496
11	The Export - Import Bank of Thailand (EXIM-Bank)	Ministry of Finance/ Bank of Thailand	The Export-Import Bank of Thailand Act, B.E.2536

Table 2.4 (Continued)

	Item	Regulation	Law Related
12	Small and Medium Enterprise Development Bank of Thailand (SME Bank)	Ministry of Finance/ Bank of Thailand/ Ministry of Industry	Small and Medium Enterprise Development Bank of Thailand Act, B.E. 2545
13	Islamic Bank of Thailand	Ministry of Finance/ Bank of Thailand	Islamic Bank of Thailand Act, B.E.2545
14	The Small Industry Credit Guarantee Corporation (SICGC)	Ministry of Finance/ Ministry of Industry	The Small Industry Credit Guarantee Corporation Act, B.E. 2534
15	Secondary Mortgage Corporation (SMC)	Ministry of Finance/ Bank of Thailand	Emergency Decree on Secondary Mortgage Corporation B.E.2540
16	Thai Asset Management Corporation (TAMC)	Ministry of Finance	Emergency Decree on the Thai Asset Management Corporation B.E.2544
17	Asset Management Companies	Ministry of Finance/ Bank of Thailand	Emergency Decree on the Asset Management Company B.E.2541
18	Money Changers	Ministry of Finance/ Bank of Thailand	Exchange Control Act, B.E.2485
19	Securities Companies	Securities and Exchange Commission	The Securities and Exchange Act, B.E.2535
20	Mutual Fund Management Companies		
21	Life Insurance Companies	Ministry of Finance/ Office of Insurance Commission	Life Insurance Act, B.E.2535 and amended
22	Agricultural Cooperatives	The Department of Cooperatives Promotion and the Department of Cooperative Auditing, Ministry of Agriculture and Cooperatives	Cooperative Act, B.E.2511 and amended
23	Savings Cooperatives		
24	Provident Fund	Securities and Exchange Commission	Provident Fund Act, B.E. 2530
25	Social Security Fund	Ministry of Labour	Social Security Act, B.E.2533
26	Pawnshops	Ministry of Interior	Pawn-shop Act, B.E.2505 and amended

Source: Bank of Thailand, 2010.

The assets of financial system in Thailand as show in Table 2.4, at the end of 2009, the total assets of Central Bank of Thailand were approximately 5,093 billion Baht. The total assets of Commercial Bank were approximately 10,723 billion Baht, the total assets of Finance Company were approximately 32 billion Baht (until November 2009) and the total assets of Specialized Financial Institution were approximately 2,912 billion Baht.

Table 2.5
Assets of the Financial System in Thailand

	2008 Baht (Billions)	2009 Baht (Billions)
Banking system		
- Central Bank of Thailand*	4,320	5,093
Banking Institution		
- Commercial Bank**	10,409	10,723
Non-Banking Financial		
- Finance Company***	42	32
-Specialized Financial Institutions****	2,440	2,912

* http://www2.bot.or.th/statistics/Download/EC_MB_010_S2_TH_ALL.XLS

** http://www2.bot.or.th/statistics/Download/EC_MB_012_S2_TH_ALL.XLS

*** http://www2.bot.or.th/statistics/Download/EC_MB_013_S2_TH_ALL.XLS

****http://www.bot.or.th/Thai/Statistics/FinancialInstitutions/DocLib_FinanceCompanies/XLS_FS_TH_001.xls (until November 2009)

2.13.1 The Banking Institution

The banking sector comprises commercial banks, restricted licensed banks, and International Banking Facilities (IBFs). Brief operations of three main institutions are given below:

a) Commercial Banks

Commercial bank plays a significant role in creating a financial environment favourable to the pursuance of economic development. As sources of finance and media of credit allocation, sound financial institutions are prerequisite for the stability of the financial system and its credibility among the local populace as well as countries, which are partners in economic and trade relations. Although the banking system in Thailand have undergone radical changes over the year, the financial structure of this country is still dominated by commercial banks, accounting about 70 per cent of all financial institution's total assets.

Commercial banks conduct banking businesses, generally defined as accepting time, savings, and demand deposits, issuing negotiable certificates of deposits, and borrowing and lending of money. While the concept of universal banking does not yet exist in Thailand, commercial banks may engage in a number of other banking-related businesses, including foreign exchange business and non-equity related investment banking activities such as financial consulting services.

By the end of 2008, there were 34 commercial banks operating in Thailand, of which 18 are locally incorporated¹ and 16 are branches of foreign banks. All commercial banking businesses undertaken by local and foreign banks in Thailand are supervised and regulated by the Bank of Thailand (BOT) and operate under the Commercial Banking Act B.E. 2505 (1962) amended in 1979, 1992, 1997, and 1998. The Act authorises the Ministry of Finance (MOF) and the BOT to issue regulatory guidelines on the type of business, prudential requirements, and reporting standards, etc. applicable to commercial banks.

b) Restricted Licensed Banks

Restricted licensed bank is permitted to engage in all commercial banking activities with the exception that it may not offer checking deposits. The restricted-licensed bank may, after a period of operation, apply for a full-licensed bank status under conditions set by the MOF. Generally, these conditions will be maintenance of a minimum capital adequacy ratio, volume of business, submission of a viable business plan, and maintenance of sound corporate governance practices. At present, only one application to set up a restricted licensed bank has been received; it is awaiting final approval from the Finance Minister. The restricted-licensed bank will be an incentive for mergers of non-bank financial institutions.

¹ Locally incorporated commercial banks consist of private banks majority owned by Thais, private banks majority owned by foreigners and state-owned banks.

c) International Banking Facilities (IBFs)

IBFs are offshore units of banks, which provide credits to both overseas and local businesses. Their sources of funds must be from overseas, generally from the head offices, in case of foreign banks. IBFs may be set up in Bangkok (BIBFs) or in the provinces (PIBFs). In general, IBFs transactions must not be denominated in Thai currency with the exception of out-out Baht transactions and a limited scope of transactions permitted by PIBFs. As of end December 2000, there are 40 BIBFs, and 8 PIBFs.

2.13.2 The Non-Banking Institutions

The non-banking financial institutions mainly cover finance companies, super finance companies, securities companies, credit foncier (housing finance) companies, and asset management companies.

As of end-December 2008, there are 16 finance companies, 4 finance and securities companies, 1 super finance company, 36 securities companies, 10 credit foncier companies, and 14 asset management companies (4 companies are majority owned by state-owned locally-incorporated banks and the remainder are majority owned by private locally-incorporated banks).

- a) Finance Companies, Super finance Companies, Finance and Securities Companies, Credit Foncier Companies and Securities Companies

Finance companies and finance and securities companies are established and operating within the Act on the Undertaking of Finance Business, Securities Business, and Credit Foncier Business, B.E. 2522 (1979) amended in 1992, 1997, and 1998. They are supervised by the BOT. Securities companies, however, are governed by the Securities and Exchange Act B.E. 2535 (1992) with the Securities and Exchange Commission (SEC) acting as the supervisory authority.

- b) Asset Management Companies (AMCs)

Asset management companies (AMCs) are set up by financial institutions and regulated by the BOT under the AMC Act B.E. 2541 (1998). The role of an AMC is to manage distressed assets transferred to it from financial institutions, usually its parent. The AMC may resolve bad assets through debt restructuring, foreclosure and sale of assets, or legal action. To facilitate debt resolution, AMCs may also provide additional credit facilities, securitize assets, or accept and hold equity in corporate debtors through debt-equity swaps.

2.13.3 Specialized Financial Institutions (SFIs)

SFIs are under the supervision of the Minister of Finance. Beginning in 1999, however, the Minister of Finance delegated its examination authority to the Bank of

Thailand. Currently; studies are under way to explore ways in which the operation and supervision of these institutions can be improved. There are 8 specialised financial institutions;

- 1) Asset Management Corporation
- 2) Bank for Agriculture and Agricultural Cooperative,
- 3) Export-Import Bank of Thailand,
- 4) The Government Savings Bank,
- 5) Government Housing Bank,
- 6) The Industrial Finance Corporation of Thailand,
- 7) The Small Industry Finance Corporation,
- 8) Secondary Mortgage Corporation.

2.14 The Historical and Development of Thai Commercial Banks

The history of Thailand's commercial bank can divide into 4 period, first period, before World War II (1888-1941), second period, during World War II (1941-1945), third period, after World War II (1946-1961), and Forth period (1962-present).

2.14.1 First period (1888-1931)

The Thailand's commercial banking business began during the reign of King Rama V. The first commercial bank to be established in Thailand was the branch of the Hong Kong and Shanghai Banking Corporation, which opened for business on 2 December 1888, 28 year after its establishment in Hong Kong. This was followed by the opening of other foreign banks, namely, the Chartered Bank of India, Australia, and China, in 1894, and the French bank, Banque de l' Indochine, on 27 February in 1897.

Most of these foreign banks tended to serve only Westerners ignoring businesses from Chinese and Thai clients. At that time, the only other financial institutions in Thailand were pawnshops, which had been operating since 1866. Book Club (Private Trust) was set up as pilot project instead, to allow a period of experimentation with basic commercial banking activities such as deposit taking, book keeping, and credit extension.

This venture began quietly with an initial capital of 30,000 baht on 4 October 1904 and, as a result of profitable and satisfactory operations, its business was extended to include foreign exchange services. On 1 April 1906, it was granted a Charter, registering as Siam Commercial Bank Co. Ltd., with shareholders comprising foreigners, nobleman, bureaucrats, Chinese merchants and the Office of the Privy Purse. Siam Commercial Bank offered the same commercial banking services as the foreign bank branches, with F. Killian as Manager of the International Department, and Phra Sunpakarnhirankij, Secretary to the Royal Treasury, as Manager of the Domestic Banking Department.

Following the establishment of Siam Commercial Bank, a number of other banks were also opened in Thailand. The founders and most of their shareholders represented the same group of individuals, namely, the noblemen and Chinese trader who held shares in the Siam Commercial Bank as well as other banks. In late 1900s, three banks were opened in rapid succession. The Provincial Bank Co. Ltd. with capital fund of 4 million baht was founded by Phra Sunpakarnhirankij in 1907; in February 1908, the Yu Seng Heng Company became the Chino-Siam Bank, and on 21 August 1909, the

Bangkok City Bank Co. Ltd. was opened. The latter subsequently merged with the Chino-Siam Bank on 12 December 1910. The Chino-Siam Bank failed three years later and was closed down on 8 January 1913.

On the first period, there were 12 commercial banks operated in Thailand, seven of them were foreign bank branches (three from England, two from China and one from both France and Japan), whereas five commercial banks of Thailand were managed and operated by Chinese and Europeans.

2.14.2 The Second period ((1941-1945)

Even through the history of Thailand commercial banks in this period last with 4 year. However, there were 5 other banks were establishing by the local residents. Due to the raising of the World War II, many foreign banks in Thailand were closed except for Yokohama Species Bank from Japan.

It is important to note that many commercial banks had been operated and reach its peak during this period, because there were no competitions involving foreign commercial banks. Such facility activities as exporting agriculture products and buying and selling foreign currency had grown high beside commercial banks which had stabled their position.

2.14.3 Third period (1946-1961)

The beginning of the third period was right after the World War II, until year 1946. Most of the foreign bank branches began to operate again after being closed due to war

crisis. A lot of change accrued within this period in which 12 new banks were being established, seven of them were local banks while the rest were bank branches from other foreign countries.

2.14.4 Fourth period (1962-2009)

This period was regarded as the modern era of the Thai banking industry, due to its fast expansion in various bank activity and branches. The Thai government began to put them under control. During this period, most of the commercial banks were under to The Thai Commercial Bank Act. This Act was formed in order to bring their financial institution along with the globalization era and to be able to face other crisis.

2.15 The Islamic Banking System in Thailand

This section deal with the over all of Islamic banking system in Thailand, it including the feature of Islamic banking system in Thailand, Classification of Islamic banking system, and the performances of Islamic banking system in Thailand..

2.15.1 The Feature of Islamic Banking System in Thailand

Thailand as a multi-religious country and Islam is the second largest religion with over six million followers. In Thailand, the Islamic banking system was established after some countries were already launched in South East Asia like Malaysia, Philippine, Indonesia and Brunei. The Islamic financial system in Thailand started with the establishment of a cooperative society.

These Islamic cooperative societies have successfully established themselves as viable financial institution in managing and mobilizing Muslim funds in their region. In addition, the launching of economic integration policy in Southeast Asian, The IMT-GT project, which cover southern Thailand area, northern state of Malaysia, and Sumatra area in Indonesia. It has given recognition to the functional of Islamic financial institution in the economic development particularly Islamic bank and emphasized to research with related to Islamic banking. As a result, many discussion and meeting in IMT-GT project suggest establishing of Islamic bank in Thailand for better economic development in this region (Haron & Yamirudeng; 2003).

2.15.2 The Development of Islamic Banking System in Thailand

The Islamic banking system in Thailand first started when the Government Savings Bank (GSB) introduced ‘Islamic window’ concept in 1998. Similar concept was also introduced by Bank for Agriculture and Agricultural Cooperatives (BAAC) in 1999 and followed by introduction of ‘Islamic Branch’ by Krung Thai Bank in 2001. The Islamic banking system became stronger when the Thai government in 2003 established Islamic Bank of Thailand.

The step of process in implementation of Islamic banking system in Thailand into three steps, firstly, GSB and BAAC as a specialized banks, which started in 1998 and 1999 through the “Islamic window” services and regulated by Government Savings Bank Act, B.E. 2489 (1946) and The Bank for Agriculture and Agricultural Cooperatives Act, B.E.2509 (1966), governed by Minister of Finance. Secondly, operated by Krung Thai Bank through the “Islamic full branch”, which under regulated

by Commercial Bank Act B.E. 2505 (1962) and amended. Lastly, establishment the Islamic Bank of Thailand as a specialized bank and under control by Ministry of Finance and governed by Islamic Bank of Thailand Act 2002 (Haron & Yamirudeng; 2003).

2.15.3 Islamic full-fledged (Islamic Bank of Thailand)

This concept was introduced after the progress of Islamic banking in Thailand was the setting up of full-fledged Islamic branch by the state owned Krung Thai Bank in 2002. In early year, The Krung Thai Bank has received 500 million baht in deposits to date from 15,000 customers, by the end of the year, the bank expects to open another 40 branches nationwide (Bangkok Post, 2003).

The first of Islamic banking full-fledged was The Islamic Bank of Thailand (ISBT). It was established under the Islamic Bank of Thailand Act, B.E. 2545 (A.D.2002), effective 22 October B.E. 2545 (A.D, 2002). The current paid up capital is THB 695.86 (USD 17.35m). Of this 10.453 million shares are owned by foreign interest representing 15% of the shareholding. According to ISBT Regulations, foreign holding are limited to 33% and a new organization structure after acquiring the financial business offered under the *Shariah* principles from Krung Thai Bank Public Company Limited on 9 November 2005. It was almost four years ago when ISBT opened the door of its first branch on 12 June 2003 under the Islamic Bank of Thailand Act, B.E 2545 (A.D. 2002) as a specific-purpose financial institution, supervised by Ministry of Finance. Later, the Islamic bank of Thailand has complied with the policy of the merger of the Ministry of Finance with Krung Thai Bank on 9 November 2005.

a) Shareholding Structure of Islamic Bank

According to Islamic Bank of Thailand Act of B.E. 2545 (A.D. 2002), the share capital of the Bank is Baht One Thousand million which is divided into 100 million ordinary shares, at a par value of Baht 10. As of 31 December 2008, Islamic Bank of Thailand's registered capital is Baht 31,230,000,000, which is divided into 3,123,000,000 shares at Baht 10 par value per share. The major shareholders of the Bank as of 31 December 2008 are as presented in table 2.6.

Table 2.6

The Major Shareholders of the Islamic Bank of Thailand (31 December 2008)

No	Name of Shareholders	Number of Share	Percentage
1	Ministry of Finance 1	515,894,614	48.540
2	Government Saving Bank	1,243,367,500	39.813
3	Krung Thai Bank Public Company Limited	306,990,000	9.830
4	Thailand Prosperity Fund	10,453,000	0.335
5	SMEs Venture Capital Fund	7,500,000	0.240
6	Thai Bank Public Company Limited	6,000,000	0.192
7	Bank Islam Brunei Darussalam Berhad	5,226,500	0.167
8	Perbadanan Tabung Amanah Islam Brunei	5,226,500	0.167
9	Dhipaya Insurance Public Company Limited	5,000,000	0.160
10	Siam City Bank Public Company Limited	4,000,000	0.128
11	Others (Private, Juristic Entities & Public)	13,341,886	0.427

Source: Islamic Bank of Thailand, Annual Report 2008.

b) The Performance of Islamic Bank of Thailand

The Islamic Bank of Thailand's deposits grew 111.5 per cent from Baht 40,759 million in 2009 to Baht 86,228 million at the end of 2010; compare to Islamic Bank of

Thailand's deposit growth raised Baht 3,570.48 million or 76.88 per cent at the end of 2005 to Baht 8,214.76 million a year later.

Table 2.7

Key Feature of Islamic Bank of Thailand (million Baht)

	2005	2006	2007	2008	2009	2010
Assets	2,652	8,773	16,786	23,835	45,343	98,557
Financing	3,844	6,904	11,007	16,687	37,958	86,698
Deposit	3,571	8,215	12,859	19,898	40,759	86,228

Source: Islamic Bank of Thailand Annual Report 2006-20010.

At the end of 2010, Islamic Bank of Thailand's assets grew 117.3 per cent increase from Baht 45,343 million in 2009 to Baht 98,557 million in 2010. Compare to Islamic Bank of Thailand's assets in 2006 were Baht 8,773.80 million, or an increase by Baht 2,652.06 million from the end of 2005 thanks largely to its active credit expansion. At the end of 2010, Islamic Bank of Thailand's net profit grew 252.1 per cent increase from Baht 355 million to Baht 1,250 million.

The Bank's total credits consisted of Baht 6,875.12 million credit and net accrued incomes; Baht 389.34 million investment in securities; Baht 359.38 million in net land, buildings, renovated buildings for rent and equipment; Baht 217.80 million worth of cash, Baht 578.69 million in inter-bank and money market transactions and Baht 353.47 million worth of assets. Investment in securities as of end of 2006 totalled Baht 389.34 million, which accounted for 4.44 per cent of its total assets.

ISBT has a policy to invest in securities of both listed securities in the Stock Exchange of Thailand and non-listed businesses as well as short-term government bonds

accrued incomes totalled Baht 6,875.12 million or Baht 3,045.66 million increases from the previous year, which accounted for 78.36 per cent of the total assets.

Islamic Bank of Thailand's major funding sources was deposits and liabilities. As of end of 2006, its deposits totalled Baht 8,214.76 million or Baht 3,570.48 million increases from a year before thanks to increasing public interests in ISBT. Other liabilities totalled Baht 393.10 million, which consisted of Baht 200 million inter-bank and money market transactions; Baht 73.21 million liabilities on demand; and other liabilities worth Baht 119.89 million. This year, ISBT paid a total of Baht 854.93 million as the cost of P/N used to fund the acquisition of the financial business under the *Shariah* principles from Krung Thai Bank Public Company Limited.

As of 31 December 2006, Islamic Bank of Thailand's credits totalled Baht 6,903.40 million or 79.60 per cent increase from the end of 2005 of Baht 3,843.82 million only thanks mainly to its clearer financial products that are strongly responded to customers' needs which allowed the Bank to extend its credits much more than before. This included credits extended to major and retail borrowers. Credits extended to the real estate and construction sector as well as housing credits was increasing from the year before.

Credits: As of end of 2006, a total of Baht 6,903.40 million was extended while the Bank gave priority to businesses in major sectors; namely, the manufacturing sector, the commercial sector and the service sector, which remained two main income generators for the country. Total credits extended to businesses in these sectors

generators for the country. Total credits extended to businesses in these sectors accounted for 23.27 per cent of ISBT's total credits. In addition, the Bank also focused at the real estate and construction sector where credits extended to this sector accounted for 19.07 per cent since they helped ISBT to generate incomes especially during the start of its business. Overall, credits were extended to major economic sectors as follows:

Table 2.8

Financing to Major Economic Sector

Credit extended by Sector	Percentage	Amount (Baht)
Real Estate and Construction	19.07%	1,316,647,659.34
Manufacturing	14.97%	1,033,445,825.00
Commercial	0.37%	25,746,515.83
Service	7.93%	547,651,683.67
Personal Consumption	49.24%	3,399,009,715.23
Other	8.42%	580,902,257.75
Total	100.00%	6,903,403,657.42

Note: Credits prior to the deduction of deferred incomes and excluding inter-bank and money market transactions.

Source: Islamic Bank of Thailand Annual Report 2006.

In 2006, Islamic Bank of Thailand earned Baht 279.91 million incomes from its credit extension, which was Baht 171.93 million higher from 2005, plus another Baht 127.41 million of other operation incomes; also up from last year by Baht 104.80 million. At the same time, the Bank recorded an operating expense of Baht 471.43 million due to requirements to upgrade its information technology to provide better service and the need to recruit additional staff for lending and other departments. As a result, the Bank suffered a net loss of Baht 269.85 million in 2006, which was Baht 111.76 million higher than the previous year. The net loss per share was Baht 3.85 or Baht 1.58 higher than in 2005.

However, with continuous growth projected for 2009, the Bank is developing and improving its service quality through local channels to meet our customer's various needs according to our dedicated philosophy. The Bank is the first financial institution to strongly follow Islamic principles, believing that the satisfaction of shareholders as well as communities is the first priority. To give emphasis to this plan, the Bank focuses on the using aspects of its operations in 2009:

a) Human resource development

The Bank plans to turn the organization into a workplace of learning and moral culture by applying the highest standards of good value towards service, operation and productivity as show as Islamic teaching and Islamic philosophy. Banks reward employees in accordance with high commitment and good ethical standard.

b) Enhancing organizational governance

The Bank implements good governance with transparency, measurability, democracy and honesty. Part of this policy involves the wide application of computerized systems that are convenient and provide rapid response. The Bank is also focussed on risk management policies that can be identified, measured, controlled and followed up, based on the formulae of the Bank of Thailand and the Islamic Bank of Thailand with emphasis principally on *Shariah* Compliance Risk and Rate of Return Risk.

c) Promotion and approach strategies

The Bank's approach and promotion strategies, through product information release, service and cross-selling methods, are designed to attract customers towards our brand. Our target customers are not only Muslim community, but also general public.

d) Credit and deposit customer expansion

To support the expansion of our target customer base, shifting from individuals to macro business, the Bank is establishing specific departments to be in charge of different target groups. To reduce risk in business activities, while continuously increasing revenues, a wide range of products is offered in order to meet customer's needs, while balancing the proportion of credit to deposit.

e) Product development and service expansion

The development of products and expansion of services to support dynamic business growth is the bank's ultimate objective. This service expansion is not only to be made available in Muslim high population areas, but also through convenience stores, post offices and the Bank's electronic service devices called Direct Debit/Direct Credit networks, all of which will stimulate our future growth. (Islamic bank is using wider channel of distribution to reach its customer) convenience for customer

f) Social and community activity support

The Bank is giving strong support for the enhancement of community living quality through financial services according to Islamic principles. To close the gap between rich and poor, the Bank will support financial funds through several projects and create a Zakat fund management service.

g) Liability improvement and control

As the Bank establishes a qualified department to take responsibility for improving and controlling liabilities, in particular NPLs, the Bank closely checks the credit approval process, while undertaking the restructuring of liabilities and reduction of NPLs.

h) Revenue increase and cost control

One of the Bank's objectives is to create more revenue through the granting of credit and support of investment. A key to achieving this is to have a larger number of channels, which allows the Bank to gain more income from handling fees and other sources. In the meantime, the Bank will continue to control costs by efficient management of on-hand assets and the monitoring of all investments.

i) Re-branding

To introduce a more modern and universal look to the general public, the Bank has changed its name from ISBT to I Bank. Other

changes include a new logo and redesigned staff uniforms. These moves are expected to boost an image of Islamic financial choice that opens up service to the general public with no discrimination. A road show and promotional campaign, branch promotions, a newsletter and other activities are key elements to support the Bank's re-branding.

j) More service providers

The Bank currently operates a total of 26 branches. However, this number will not be sufficient in the near future. To meet increasing needs, the Bank plans to provide more service outlets very soon, especially in predominately Muslim areas.

The Islamic bank of Thailand as a government-owned bank established to meet financial needs of the Muslim population as well as the general public. The government has been trying vigorously to push forward various financial policies to stimulate economic recovery. Among the projects such as grassroots credit project, the promotion of the Credit for Occupations Program in the project called "Loan for New Careers" and customer financing in the "Fast Track Loan Project", the "Relief" credit project, the "Smile and Fight the Economic Crisis under Sufficiency Economy" credit project, provision of startup investment capitals, the Islamic cooperatives business support project, the private Islamic school support project, and the Haj and Umrah business operation project. Furthermore, the Bank provided car hire purchase financing to create new jobs for individuals who ran inter-province shuttle van services.

In addition, the Islamic bank of Thailand provides Zakat accounts to allocate charitable fund as specified by *Shariah* principles. To adapt the economic environment, the Islamic Bank of Thailand adjusted its business plans to become more proactive to better reach the customers' target. The bank has launching of new product, establishment of new branches, business operations with alliances, and development and improvement of internal management and administration.

2.16 Summary

Islamic banking refers to a modern banking system practiced in the Muslim world from about 1975, which pays no interest on deposits. Although the Qur'an condemns the taking of interest (*riba* in Arabic) on the grounds that it is exploitative and unjust, not all Muslim countries have instituted interest-free banking. In countries with interest-paying and interest-free banks, Islamic banks can and do compete. Instead of paying interest on deposits and charging it on loans, these banks seek profit- and loss-sharing arrangements with depositors and borrowers. The Islamic Bank of Thailand was set up by the Islamic Bank of Thailand Act B.E. 2545 (2002), as a state enterprise under the Ministry of Finance, administered by a board of governors, with an advisory council on Islamic banking. The bank operates in accordance with the rules of Sharia, or the Islamic rules on transactions. There are presently 26 branches of the Islamic Bank of Thailand, scattered in all regions of the country. Pattani has two branches, one in the city, the Pattani Branch, and *Chabang Tiko* Branch in *Chabang Tiko* subdistrict, in *Mueang* district of Pattani, both making a substantial profit each month.

The proceeding chapter will highlight the various concepts and theoretical frame works that this study with special focuses on theories of banking operations and bank customers.

CHAPTER THREE

LITERATURE REVIEW

3.0 Introduction

This chapter will present the theories of banking, banking operations and bank customers. Include also is the theory on Islamic banking, its operations and the governing principles. The later part of this chapter will focus on the theory of consumer behaviour and empirical studies relating to the confidence and selection process of bank customer towards Islamic bank.

3.1 Related Theories from Conventional perspective

3.1.1 Theory of financial intermediation

The theory of financial intermediation posits that banks primarily function as an intermediary between a capital surplus unit and capital deficit unit (Mishkin & Eakins, 2006). In this context, capital surplus unit (CSU) is a person, organization, or corporation that has excess funds. Capital deficit unit (CDU) on the other hand is a person, organization, or corporation that required funding all capital. As an intermediary, a bank matches the needs of these two units. This concept is explained by theory of financial intermediation. The theory also suggests that frictions and asymmetric information between the CSU, banks, and CDU.

Further, Allen & Santomero (1996) extend the role of a bank as a facilitator of risk. This happens when bank needs to deal with more complex financial instruments and financial market. Hence, risk management becomes a key area of intermediary

activities these days. Since banks are increasingly more important as service providers and risk transfers, they should be seen more in the context of their function. This is iterated by Morton and Body (1995) as cited in Allen and Santamero (1996) which highlighted that financial system should be analyze in term of a “functional perspective” rather than an “institutional perspective”. A functional perspective is based on the service provided by the banks. The ultimate goal of a bank is to achieve profit and to give good return to its shareholders and stakeholders by providing services and offering products that meet its customers’ needs and expectations. Accordingly, the basic function of banks are

- Saving function
- Wealth function
- Liquidity function
- Credit function
- Payments function
- Risk function
- Policy function

Financial intermediaries have been long existed in the Muslim world. The concept and theory of financial intermediation is more comprehensive from the perspective of Islam.

3.1.2 Theory of Consumer Behaviour

Consumer behaviour can be defined as the decision-making process and physical activity involved in acquiring, evaluating, using and disposing of goods and services. This definition clearly brings out that it is not just the buying of goods/services that receives attention in consumer behaviour but, the process starts much before the goods have been acquired or bought. A process of buying starts in the minds of the consumer, which leads to the finding of alternatives between products that can be acquired with their relative advantages and disadvantages. This leads to internal and external research. Then follows a process of decision-making for purchase and using the goods, and then the post purchase behaviour which is also very important, because it gives a clue to the marketers whether his product has been a success or not. To understand the likes and dislikes of the consumer, extensive consumer research studies are being conducted. These researches try to find out:

1. What the consumer thinks of the company's products and those of its competitors?
2. How can the product be improved in their opinion?
3. How the customers use the product?
4. What is the customer's attitude towards the product and its advertising?
5. What is the role of the customer in his family?

Therefore, Consumer behaviour referred to the study of when, why, how, where and what people do or do not buy products. The theory suggests that consumer behaviour blends elements from psychology, social, anthropology and economics, and

attempts to understand the buyer decision making process, both individually and in groups. It influences the study of characteristics of individual consumers such as demographics and behavioural variables in an attempt to understand people's wants, and also tries to assess influences on the consumer from groups such as family, friends, reference groups, and society in general.

Customer behavior study is based on consumer buying behavior, with the customer playing the three distinct roles of user, payer and buyer. Research has shown that consumer behavior is difficult to predict, even for experts in the field (Armstrong, 1991). Belch & Belch (2007: 105) define consumer behaviour as the process and activities people engage in when searching for, selecting, purchasing, using, evaluating, and disposing of products and services so as to satisfy their needs and desire.

3.1.3 Black Box Theory

The Black box theory proposed that the mind is fully understood once the “Input” (information about products) and “Output” (benefits) is well-defined. This is very relevant in the context of marketing of financial services and buyers' buying behaviour in terms of their decision making and selection process. Consumer decisions and selections are very much influenced by many factors such as environmental factors and buyers characteristics.

The Black Box model in Table 3.1 shows the interaction of stimuli that is: consumer characteristics, decision process, and consumer responses. These stimuli can be distinguished between interpersonal stimuli (between people) or intrapersonal stimuli

(within people). The black box theory of behaviourism focuses not on the processes *inside* a consumer, but the *relation* between the stimuli and the response of the consumer. In the case of financial services, the marketing stimuli are planned and processed by the banks, whereas the environmental stimuli are given by social factors, based on the economic, political and cultural circumstances of a society.

The black box model also considers the buyers response as a result of a conscious, rational decision process, in which it is assumed that the buyer has recognized the problem. However, in reality many decisions are not made in awareness of a determined problem by the consumer. Once the consumer has recognized a problem, they search for information on products and services that can solve that problem. Belch and Belch (2007) explain that consumers undertake both an internal (memory) and an external search. Sources of information include:

- Personal sources
- Commercial sources
- Public sources
- Personal experience

The theory also posits that consumer behaviour is also influenced by internal and external factors. The internal factors that influence consumer behaviour are demographics, psychographics (lifestyle), personality, motivation, knowledge, attitudes, beliefs, and feelings. The external factors that influence consumer behaviour as suggested by the theory are culture, sub-culture, locality, royalty, ethnicity, family, social class, reference groups, lifestyle, and market mix factors.

Table 3.1
Black Box Model

Environmental Factors		Buyer's Black Lack Box		Buyer's Response
Marketing Stimuli	Environmental Stimuli	Buyer Characteristics	Decision Process	
1. Product	1. Economic	1. Attitudes	1. Problem recognition	1. Product choice
2. Price	2. Technological	2. Motivation	2. Information search	2. Brand choice
3. Place	3. Political	3. Perceptions	3. Alternative evaluation	3. Dealer choice
4. Promotion	4. Cultural	4. Personality	4. Purchase decision	4. Purchase timing
	5. Demographic	5. Lifestyle	5. Post-purchase behaviour	5. Purchase amount
	6. Natural	6. Knowledge		

Source: http://en.wikipedia.org/wiki/Consumer_behaviour

3.2 The Concept of Consumer Buying Behaviour

The consumer buying behaviour concept is a basic requirement of marketing to produce product that customers need (Lancaster *et al.*, 1999, 26). Sargeant *et al.* (2001) defined the customer and organizational buying behaviour as the environment and decision process affecting individuals and groups when evaluating, acquiring, using or deposing of goods, services or idea. While the organizational buying refers to the process by which firms and institutions purchase goods and services (Howard & Sheth, 1969). Therefore, organizational buying is the decision-making process by which organizations establish the need for purchased products and services, and identify, evaluate, and choose among alternative brands and suppliers (Loudon *et al.*; 1993, 658).

Solomon (1996, 383) argued that organizational buyers are people who purchase goods and services on behalf of companies for use in the process of manufacturing, distribution, or resale, which buy from business-to-business markets. Bogazzi *et al.* (1998) mentioned the organization buyers differ from individual consumers. There were four major characteristics of organizational buyer:

3.2.1 Size and Concentration

Two obvious differences between individual consumers and organizational buyers are their size and number. Organizational buyers usually represent a relatively small number of large entities that have substantial resources and influence on their market compared to those of the millions of individual customers for consumer product.

3.2.2 Multiple Decision Makers and Complex Decisions

Organizational buyers also differ from individual customers in that organization purchases often involve multiple decision makers from different areas of the organization acting together as a decision-making unit. The size of the decision unit depends on the type of purchase. In marketing, decision-making units are traditionally called buying centers. Individuals and groups who participate in purchase decision process and share common goals and risks arising from the decision (Webster and Wind; 1972). In organizations in which members function more autonomously and share many job responsibilities, decision-making units have also been called *buying networks* (Baristor and Ryan; 1987). Regardless of which term is used, decision units in organizations are unique in that their members often apply difference criteria to the same

buying decisions. Many organizational buyers also follow formal policies and procedures in making purchases.

3.2.3 Close and Intricate Relationships

Relationships between buyers and sellers in organizational markets tend to be closer and more intricate than relationships between consumer-products companies and their individual customers, partly because only a small number of large customers are involved. Such relationships also arise from the complex nature of the products and services purchased. Quite often, vendors adapt their products and services to the needs of buyers in terms of technology, lot sizes, delivery schedules, and other factors, in order to satisfy concerns from different areas of the buyer's business (Hallen et al.; 1991). Adaptation requires that buyers and sellers cooperate extensively throughout the transaction process and seek to build trust. Personnel at multiple levels of both buyer and seller organizations form extended networks during the development process, through which they try to understand one another, and commit to one another's success beyond what is typical in practically all buyer-seller dyads at the individual consumer level (Gadde and Mattson; 1987).

3.2.4 Professional Buyers

The relationship that sellers have with organizational buyers also differs from that with consumers because organizations often have professional buyers who manage the buying process. In small buying organizations, the owner often handles purchasing and makes primary decisions. In medium-sized and large organizations, however, professional buyers often oversee and coordinate the actual buying processes and

negotiate the prices and terms from vendors. Vendors work closely with professional buyers and gain access to all functional areas can influence the buying decision.

The organizational buying behaviour in some ways similar to consumer buying since it is not “organization” making the buying decisions but people within those organizations (Loudon *et al.*, 1993, 658). In consumer buying behaviour, there are different environment and decision related variables that can give impact on the decision to initiate, or not to initiate a purchase (Loudon *et al.*, 1993). With respect to banks as organizations that offer financial products and services, it is relevant for them to understand and to be aware of their customers buying behaviour (Tina, 2001).

According to Sheth (1974), there are four stages in the consumer buying behaviour theory. The first stage (1930-1950) of consumer buying behaviour theory assumed a “rational” (non-emotional) buyer and examined the market’s behavioural response instead of individuals’ psychological (emotional or non-economical) response. The second stage (the 1950s) was dominated by identification of elements that led to the establishment of buyer behaviour theory. Both sociologically (e.g., social satisfaction, role orientation) and psychological (e.g., loyalty, switching behaviour) concept were integrated to provide causal explanations to buyer behaviour. During the third stage (1960-1965) market researchers borrowed theories and concept from the behaviour science to explore certain aspects of buyer behaviour. The fourth stage (1965-1970) focus on the development of independent buyer behaviour theories (e.g., Howard & Sheth, 1969; Nicosia, 1966), this theories deemphasized the direct inclusion of the aforementioned behaviour science theories. During this phase, the buyer behaviour

phenomenon was stressed heavily as an antecedent to looking for constructs from other disciplines.

However, Shaihk *et al.* (1985) include another stage (fifth stage) by making strategic emphasis in buyer behaviour model and introduction of techniques to obtain more accurate results from empirical studies.

3.3 Consumer Buying Behaviour Model

The study of how and why people purchase goods and services is termed consumer buying behavior. The term covers the decision-making processes from those that precede the purchase of goods or services to the final experience of using the product or service. Buying Behavior is the decision processes and acts of people involved in buying and using products. It is to understand:

- why consumers make the purchases that they make?
- what factors influence consumer purchases?

A survey on literatures found that there are five models related to consumer buying behaviour. These models are AIDA model, Engel-Kollat-Blackwell model, Nicosia model, Howard-Sheth model, and Webster and Wind model. The discussion of the model as following:

3.3.1 AIDA Model

Lancaster and Reynolds (1999) mentioned that the most frequently cited buyer behaviour model was the 'AIDA' model (Awareness, Interest, Desire, and Action), was proposed by E.K. Strong in 1925. This model considered the stage leading to the

purchase as a successive process in which the potential buyer passes through a number of the stages starting from simple awareness and ending with action.

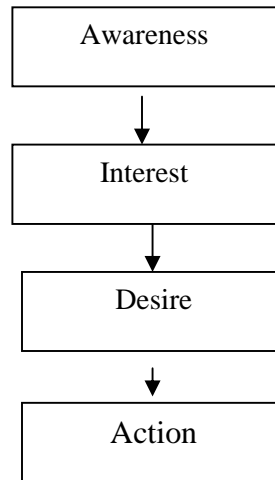


Figure 3.1
AIDA Model

3.3.2 Engel-Kollat-Blachwell Model

Traditionally, the prospective on consumer choice have conceptualized buying behaviour as a problem-solving decision process consisting of a number of separate but interlinked stages. The Engel-Kollat-Blachwell model (Engel *et al.*; 1968), which breaks decision-making process down into five discrete but interlinked stages, namely, problem recognition, information search, evaluation of alternatives, purchase decision, and post-purchase evaluation. A similar approach was adopted by Nicosia (1966), Howard-Sheth (1969), Baker (1983), McKechnie (1992), McKechnie and Harrison (1995), and Ennew & McKeshnie (1998).

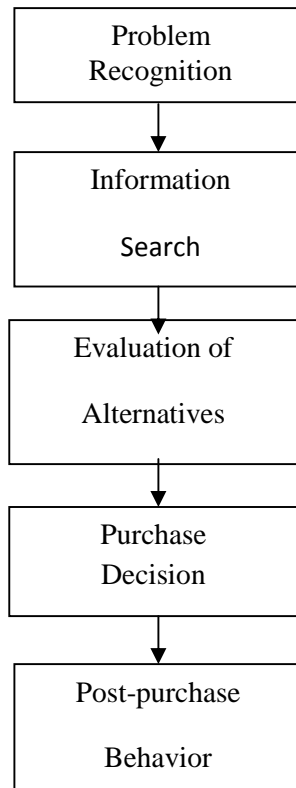


Figure 3.2
The buyer/decision model

A similar approach was adopted by Nicosia's (1966) Howard-Sheth (1969) model and Baker (1983), McKechnie; (1992), McKechnie & Harrison; (1995), and Ennew & McKechnie; (1998).

3.3.3 Nicosia Model

Nicosia model (1966), focus on the relationship between the firm and its potential consumers. In the broadest terms, the firm communicates with consumers through its marketing messages, and consumers communicate with the firm by their purchase responses. This model is divided into four major fields:

- (1) The consumer's attitude based on message exposure,
- (2) The customer's product search and evaluation,

(3) The act of purchase, and

(4) Feedback in form of consumer experience to both the firm and consumer

(Schiffman *et al.*, 1997, 620).

3.3.4 Howard-Sheth Model

The Howard-Sheth model (1969) is a major revision of an earlier systematic effort to develop a comprehensive theory of consumer decision-making. This model explicitly distinguishes between three levels of learning or stages of decision-making: (1) extensive problem solving, (2) limited problem solving, and (3) routinised response behaviour (Schiffman *et al.*, 1997, 621).

The conclusion from three models, namely, Engel-Kollat-Blacwell model (1968) identify information input and processing as central elements in decision making. Nicosia model (1966) identifies the search and evaluation of information, and Howard-Sheth model (1969) link the amount of information held with the extent of learning and thus problem solving. These models were relevant to consumer behaviour.

3.3.5 Webster and Wind Model

Webster and Wind (1972) provide a thorough and systematic description of forces that influence consumer buying behaviour (Figure 3.3). They developed a framework of four major determinants of buyer behaviour such as environmental factor, organizational factors, and interpersonal factors as external to organizational buyers. The fourth category is individual factors, as internal factors.

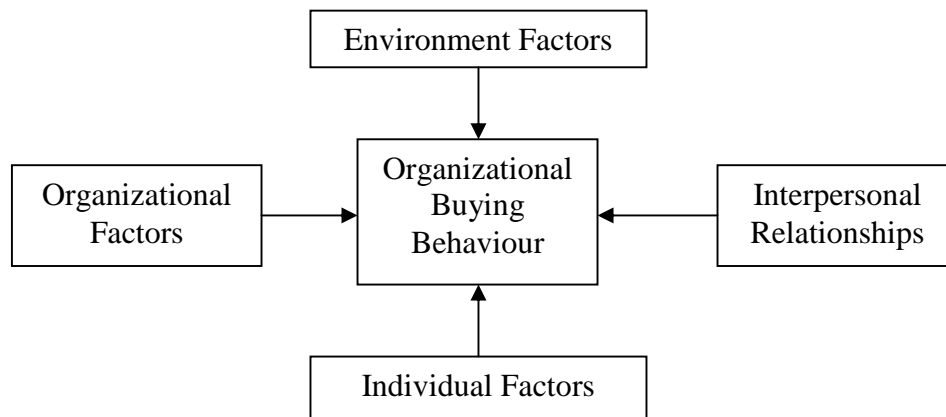


Figure 3.3

Determinants of Organizational Buying

Source: Adopted from Webster & Wind (1972), *Organizational Buying Behaviour*.

a. Environmental Factors

Organizational buyers are influenced by forces in their environment such as aggregate demand, inflation, interest rates, and economic outlook. Other environmental factors that affect organizational buyers are technological advancements, social and cultural changes, legal considerations, competitors' action and political interests.

b. Organizational Factors

Banks are also influenced by factors within their own organizations. Banks form goals and objectives against which they evaluate most major products and services. They also have policies, procedures, structural limitations, and human source constraints that influence what they may and may not do.

c. Interpersonal Relationships

When decision units have more than one member, service providers (such as bank) must consider interpersonal relationships and their effects on consumer behaviour. Members of typical decision units differ in their interests, their authority within the company, their knowledge of the products and services being considered, and their persuasive abilities.

Service provider who deals with multimember decision units need to observe interpersonal relationships during joint meetings and pay attention to any indication interpersonal alliances or conflicts may arise in the decision process. In the best situations, interpersonal relationships in a decision unit are positive and focused on common goals, and respect for others puts restraints on the use of power. In some situations, however, decision units may have negative and problematic interpersonal relationships that prevent the group from reaching agreement. Under these circumstances, the service provider can either try to bypass some decision unit members withdraw from actively marketing to that customer.

d. Individual Factors (Internal Factors)

Webster and Wind (1972) argued that service providers prepare their marketing strategies they need to consider customers' predispositions. Buying decisions, after all, are made by people who are affected by what has happened to them, by their person traits, and even by their gender. Webster and Wind's suggestions have been enrich by research on the frames of reference that buyers bring to decisions and social expectations imposed on them, both by their jobs and by their involvement in the decision process.

3.4 Theory of Planned Behaviour

According to Fishbein & Ajzen (1975), which modified and extended the multi-attribute attitude model to relate consumers' beliefs and attitudes to their behavioural intentions, introduced the Theory of Planned Behaviour. It assumes consumers consciously consider the consequences of the alternative behaviours under consideration and choose the one that leads to the most desirable consequences and that seems realistic to carry out. The outcome of this reasoned choice process is an intention to engage in the selected behaviour. This behavioural intention is the single best predictor of actual behaviour. In sum, the theory of planned behaviour proposes that any reasonably complex behaviour that is at least partly under volitional control is determined by the person's intention to perform that behaviour. The theory of planned behaviour is not relevant for extremely simple or involuntary behaviours.

According to this theory, people tend to perform behaviours that are evaluated favourably, that are popular with other people, and which they feel confident they can perform. They tend to refrain from behaviours that are regarded unfavourably, that are unpopular with others, and/or which they do not think they can perform. The components of the model are defined in term of a specific behaviour:

- a) Behaviours are specific actions directed at some target object. Behaviours always occur in a situational context or environment and at a particular time. Marketers need to be clear about these aspects of the behaviour of interest because the components of the theory of planned behaviour must be defined and measured in terms of these specific features.

b) Behavioural intention

Is a proposition connecting self and a future action. One can think of an intention as a plan to engage in a specified behaviour in order to reach a goal. Behavioural intentions are created through a choice/decision process in which beliefs about two types of consequences and about capabilities to perform the behaviour are considered and integrated to evaluate alternative behaviours and select among them. Behavioural intentions vary in strength, which can be measured by having consumers rate the probability that they will perform the behaviour of interest.

c) Subjective or social norm

(SN) component reflects consumers' perceptions of what they think other people want them to do. Consumers' salient normative beliefs regarding doing what other people want me to do and their motivation to comply with the expectations of these other people are combined to form Subjective or social norm. Along with *Attitude* (A), and perceived control, SN affects consumers' behavioural intentions.

d) Perceived control

(PC) component reflects to what extent the consumer believes that he or she is actually able to perform the behaviour. The powers of a factor to assist the action, weighted with the degree to which the consumer believes he or she has access to that factor are combined to form PC.

The theory of planned behaviour proposes that A, SN, and PC combine to affect behavioural intentions (BI) and that their relative influence varies from situation to situation. During the information integration process that creates BI, A, SN, and PC may

be weighted differently. Some behaviours are primarily affected by the SN, A, or PC factor.

3.5 Consumer Decision Making Theory

Consumer decision making is the process of making purchase decisions based on cognitive and emotional influences such as impulse, family, friends, advertisers, role models, moods and situation that influence a purchase.

According to Schiffman & Kanuk (2007) the process of customer decision making can be viewed as three distinct but interlocking stages; the input stage, the process stage, and the output stage. These stages are depicted in the simplified model of consumer decision making.

- a) The input stage influences the consumer's recognition of a product need and consist of two major sources of a information; the firm's marketing efforts (the product itself, its price, its promotion, and where it is sold) and the external sociological influences on the customer (family, friends, neighbours, other informal and non-commercial sources, social class and cultural and subculture membership).
- b) The process stage of the model focuses on how consumer makes decisions. The psychological factors inherent in each individual (motivation, perception, learning, personality, and attitudes) affect how the external input from the input stage influence the consumer's recognition of a need, pre-purchase search for information, and evaluation of alternatives.
- c) The output stage of the consumer decision-making model consists of two closely related post-decision activities purchase behaviour and post-purchase evaluation.

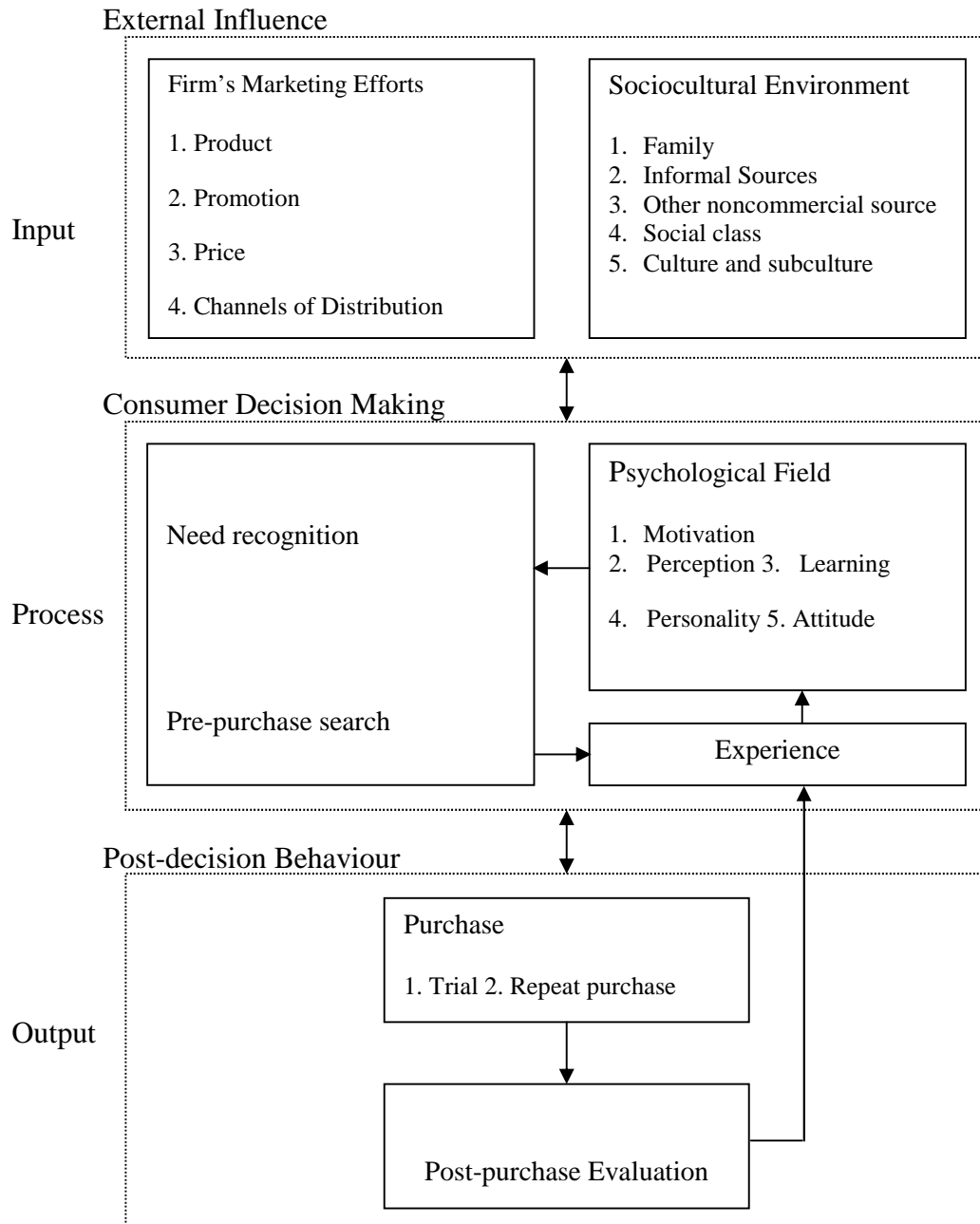


Figure 3.4

A Model of Consumer Decision Making

Source: Consumer Behavior: It Origins and Strategic Applications. Schiffman & Kanuk (2007)

According to Williams (1985, 150-151), there were some factors influencing customers' decision making:

- Internal variables include basic physiological needs, such as hunger and thirst; and the psychological structure of the individual, including processes such as perception, motivation, learning, attitude formation, value, and beliefs.
- External variable are those factors present in the external environment that affect the individual's psychological condition and therefore his behavior. External variables may arise from past experience, the present environment, and future expectation.
- Past experience in the form of prior leaning and attitude formation can be helpful in understanding and reacting to a present situation.
- Present experience has immediate relevance to a particular buying situation and includes physical factors such as the proximity of various stores, available transport, and the weather; economic factors such as the price of alternative product; the individual's current financial situation, and the state economy; and social variable, such as the opinions and experiences of preference group, and the individual's social class and culture.

- Future expectations including job prospects, health, the economic outlook, and possible changes in family circumstances can affect present buying decisions as shown in the table 3.2.

Table 3.2

Summary of Literature on Decision Making Determinants

Model	Variable	Category
Webster & Wind Model (1972)	- Legal, cultural, technological, economic, and physical-environment.	Environment
	- Technology, structure, goals and tasks, and actors.	Organizational
	- These variables include task (related to the specific buying situation) as well as non-task variables (related to the general structuring and functioning of the group).	Interpersonal/Social
	- Motivation, cognitive structure, learning, perceived roles, and preference structure.	Individual
Sheth Model (1973)	- Background of the individuals (education, role orientation, and lifestyle), information sources, their individual attempts at active search, perceptual distortions, and satisfaction with past purchases.	Psychological characteristic
	- One individual and those that involve a group of people.	Joint Decision Making
	- Goal, perception, and value systems	Conflict Resolution

Table 3.2 (Continued)

Model	Variable	Category
Hollensen Model (2003)	- Need, perception, memory, and attitude.	Psychological Variables
	- Age, social class, lifestyle, culture, reference group, family.	Socio-Demographic
	- Economic, Technological.	Environmental forces
	- Strategic solution, strategic role of purchasing.	Organization forces
	- The buying centre, user, influencers, buyer, deciders, gatekeepers.	Group forces
Summary	- Physical, Political, Economic, Suppliers Competitors, Technological, Legal, Cultural, Global.	Individual forces Environmental Influences
	- Size, Structure, Orientation, Technology Rewards, Tasks, Goals.	Organization Influences
	- Education, Motivation, Perceptions, Personality, Risk Reduction, Experience.	Individual Participant's Characteristics

3.6 Related Theories from Islamic perspective

3.6.1 Theory of Financial Intermediation from Islamic Perspective

Financial intermediation in Islam, in the early days of Islam were known as *sarrafs* who undertook many of the traditional and basic functions of a conventional financial function such as intermediation between borrowers and lender, operation of the secure and reliable domestic as well as cross-border payment system and offering services such as issuance of promissory notes and letters of credit (Zamir & Abbas,

2007). The *Shariah* provides a set of intermediation contracts, which facilitate an efficient and transparent execution of transactional and financing contracts. The set of contracts is comprehensive enough to provide a wide range of typical intermediation services such as asset transformation, payment system, custodial services, and risk management.

According to Zamir and Abbas (2007) intermediation contracts can be further sub-classified into three groups. The first group of intermediation contracts is the most significant one, is dealing with intermediation through forming a partnership of capital and entrepreneurial skills, This contract base on the principles of partnership include *Mudarabah* (a trustee finance contract) and *Musyarakah* (equity partnership). The second group, based on the concept of trust, deal with the placing of assets with intermediaries on the basic of trust for the sake of protection or security, this contract include such as *Wadiah* (Safe-keeping), *Amanah* (Trust), *Wikala* (Representation) and *Jo'ala* (Service Fee). Finally, the third group facilitates explicit and implicit guarantees of financial performance between economic agents, this contract include such as *Kifala* (Suretyship), *Rahn* (Pledge) and *Hawala* (Transfer of Debt).

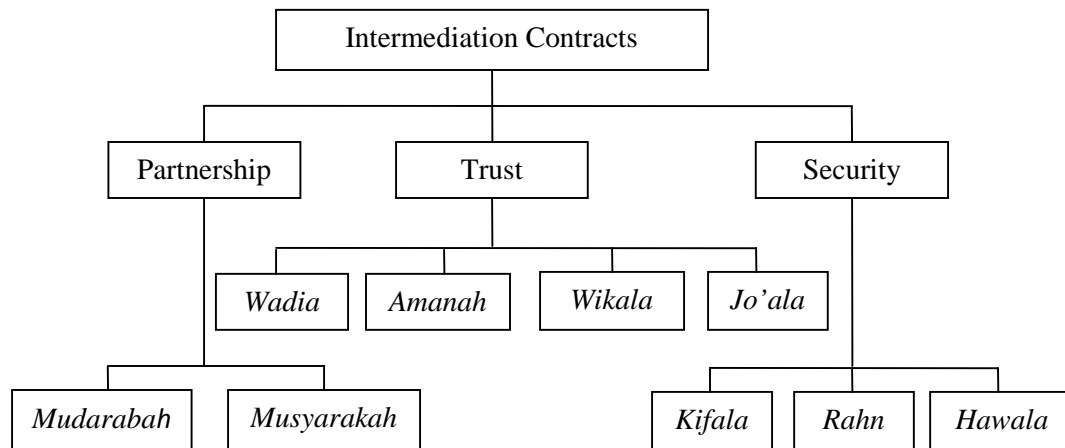


Figure 3.5

Intermediation Theories from Islamic Perspective

Source: Iqbal, Z. & Mirakhor, A. (2007). *An Introduction to Islamic Finance: Theory And Practice*. Singapore: John Wiley & Sons.

These contracts play a critical role. They provide stability and mitigate risk in the financial system that transactional and financial contracts coupled with intermediation contracts, offer a comprehensive set of instruments with varying financing purposes, maturities and degree of risk, to satisfy the needs of diverse groups of economic agents in the economy. This set of instrument can be used to design a formal model for the Islamic financial intermediation or an Islamic bank that can perform the typical functions of resource mobilization and intermediation.

Ali (1988) mentioned that the Islamic financial system cannot be introduced merely by eliminating *riba* but only by adopting the Islamic principles of social justice and introducing laws, practices, procedures and instruments which help in the maintenance and dispensation of justice, equity and fairness. For Islamic banks, the concept of profit is acceptable. What differentiate Islamic bank from conventional bank

is that the profit should be derived from operations which are free from interest or *riba* and they should be in accordance to *Shariah* principles. These operations include the provision of services and products.

3.6.2 Principles of *Shariah* in the Financial Services Delivery

Like any other financial institution, the main function of Islamic banks is to mobilise savings and idle funds in the economy and make them available to those who can make better and fuller use of them.

Since Islam prohibits interest in all forms, Islamic banks have to look for permissible rewards and business relationships between those who provide funds and those who use the same. Ultimately, the first step to be taken in this search is to make reference to the original source of Islamic laws, i.e. Al-Qur'an followed by *Hadith*. In the Al-Qur'an revelations, service providers are required to exercise fair justice, not to offer bribes, to give true evidence, and to give full weight and measure. Financial contracts in Islamic finance are safeguarded by Commands to put them in writing, to call witnesses, to give securities when there is no scribe available, to fulfil all obligations and to return a trust or deposit to its owners.

There are also other financial contracts such as *Salam* (sale in which price is abundant pertaining to sales, as paid for goods to be delivered later), renting, *al-Hawala* (transference of debt from one person to another), loans, payment of loans, freezing of property, bankruptcy, partnership, mortgaging, witnesses, and conditions. The brief

definitions of the main principles in the Islamic finance involving Islamic financial services and products are presented in following Table 3.3.

Banks, as financial intermediaries have to provide services and products that required by consumers. Consumers, on the other hand, have different tastes and preferences and also exhibit different consumer behaviour. The following section describes the theoretical aspects of consumer buying behaviour.

Table 3.3

Main Principles in Islamic Finance

<i>Mudarabah</i>	The provision of capital to a partial-equity partnership in return for a share of profits, but where the losses on funds lent is borne by the lender.
<i>Musyarakah</i>	Full-equity partnerships where the provider of funds and the entrepreneur directly and wholly share in the business.
<i>Murabaha</i>	An instrument used for financing the purchase of goods and services where the financial institution purchases these on behalf of the customer.
<i>Ijarah</i>	Lease financing in the form of operating leases only.
<i>Bai muajjal</i>	Deferred payments on products encompassed under <i>Murabaha</i> .
<i>Bai Salam</i>	advance or pre-paid sale contracts of goods and services.
<i>Istisna</i>	Manufacturing contracts to cover work in progress and paid by the financial institution on behalf of the customer.
<i>Qard Hassan</i>	Benevolent loans offered interest free.
<i>Takaful</i>	Islamic insurance in the form of cooperative self-help schemes.
<i>Wadiah</i>	Deposit of one's property with another person for safe-keeping with permission to use it without the intention of receiving any return from it.

Source: Iqbal and Mirahor (2007).

3.6.3 Theory of Consumer Buying Behaviour from Islamic Perspective

In previous section was discussed the theoretical buying behaviour from conventional perspectives. This section will highlight the concept of Islamic consumer behaviour. Muslim people recognize Al-Qur'an doctrine and *Hadith* as a way of life.

Kahf (1976, 22-24), a renowned Muslim scholar, mentioned that the economic behaviour of human being in the Islamic perspective is dominated by three general principles; (1) the belief in the Last Day, (2) the Islamic concept of success, and (3) the Islamic concept of riches. These principles can be elaborated as follows:

a) The belief in the Last Day

Islamic associates the belief in the Day of Judgment and the life in the hereafter with belief in Allah. Life before death and life after death are closely interrelated in a sequential manner. This has two affect as far as consumer behaviour is concerned. First, the outcome of a choice of action is composed of two parts, its immediate effect in this life, and its later effect in the life to come. As stated in verse 261 of *Al-Baqara*, Allah says:

(مثل الذين ينفقون أموالهم في سبيل الله كمثل حبة أنبئت سبع سنابل في كل سنبلة مائة حبة^٢ والله يضاعف لمن يشاء^٣ والله واسع^٤ عليم)

The parable of those who spend their substance in the way of Allah is that of a grain of corn: it groweth seven ears, and each ear Hath a hundred grains. Allah giveth manifold increase to whom He pleaseth: And Allah careth for all and He knoweth all things.

(2: 261)

The Prophet (PBUH) is reported as saying:

“If the Day of Judgement has come to one of you while he has a small plant in his hand, he should plant it”.

(Narrated by Imam Ahmad following Anas ibn Malik)

Therefore, the utility derived from such a choice is the total of the present value of these two effects. Second, the number of alternative use of one's income is increased by the inclusion of all the benefits that would be gained only in the hereafter. These two verses have significant influence on the buying behaviour of Muslims because any action taken by a Muslim today will be accountable in the Judgement Day.

b) The Islamic concept of success

Success is defined in Islam in term of the “consent of Allah” and not in those of the “accumulation of wealth”. Verse 15 of *Al-Mulk* reads:

(هو الذي جعل لكم الأرض ذلولاً فامشوا في مناكبها وكلوا من رزقه وإليه النشور)

“It is He who has made the earth manageable for you, so traverse ye through its tracts and enjoy of the Sustenance which He furnishes: but unto Him is the Resurrection”.

(67: 15)

Therefore, material progress and perfection are in themselves moral values in Islam. The Prophet (PBUH) is reported as saying:

“Verily, Allah likes you, when you make something, to make it with perfection”

(Narrated by Al-Baihaqi)

c) The Islamic concept of riches

The concept of wealth and income (known in Arabic as *Mal*) is unique in Islam, whether looked at as wealth or income, is a bounty from Allah. It is a tool that may be used for good or for evil. Heaven is not only open to the poor, but it is also an equally

opens to the rich. *Mal* is a tool that may be used for good or for evil. The Al-Qur'an classifies spending as an act of goodness or an evil in *Al-Baqara* verse 265 and *Al-E-Imran* verse 117. Poverty is, in some instances, associated with disbelief and riches are considered as a gift from Allah.

Since riches are a bounty from Him, they must be used for the benefit and satisfaction of human wants. *Mal* is a tool to buy a goods and services which bring about satisfaction; it should be spent for that purpose and not hoarded.

From these three principles, consumer behaviour in an Islamic perspective can be described as a maximization of success (known in Arabic as *Falah*). In corresponding with consumer choice, as the level of obedience to Allah derived from the satisfaction of one's material wants and the exhibition of the effect of Allah's bounty by extracting enjoyment of *Mal* given by Allah and the enrichment of one's life hereafter.

However, this study will focus on supplier side or depositor's behaviour. According to Haron (1996) these principal also give impact on customers to the decision-making process and influence on their perception towards Islamic banking. The choice of action is not only based on the profit motive but rather to gain the blessings to Allah.

The Prophet (PBUH) is reported as saying:

“If the Day of Judgement has come to one of you while he has a small plant in his hand, he should plant it”.

(Narrated by Imam Ahmad following Anas ibn Malik)

“Poverty is almost disbelief”.

(Narrated by Al-Baihaqi)

“You better leave your heirs rich than leaving them poor and dependent on asking other people”.

(Narrated by Al-Bukhari)

“You don’t really possess of your Mal but that you eat and use up, that you dress and wear up, and that you spend on charity and preserve (for the life hereafter)”.

(Narrated by Muslim and Ahmad)

These principles were expected to have a significant impact on the decision-making process of Muslims and also to have influence on their perceptions towards Islamic bank (Haron & Shanmugam, 1997). In Islamic principle, the Islamic banks have relationship with its suppliers and the users of fund. The status of the relationship with the suppliers of fund can be that of trustee and beneficiary, debtor and creditor, investor and entrepreneur, and between partners. Similarly, the relationship with the users of fund can comprise of debtor and creditor, investor and entrepreneur, principle and agent, trader and customers and between partners (Haron, 1997, 38).

3.7 Past Studies

This section reviews past studies relevant to the study with an emphasis on factors affecting the consumer buying behaviour of financial services, leading to decision making on selecting particular bank.

A past studies highlight various dimension of customer behaviour of Islamic bank customers such as customer's bank selection criteria, role of customers demographic factors in shaping customers' attitude, knowledge and confidence (Erol & El-Bdour (1989), Erol *et al.* (1990), Haron *et al.* (1994), Hegazy (1995), Edris (1997), Gerard & Cuningham (1997), Naser *et al.* (1997), Almosawi (2001), Dusuki & Abdullah (2007)). Some of the findings were as follows: Bank selection decision by bank customers are predominantly religious-based decision (Metawa & Amossawi (1998), Naser *et al.* (1999), Dusuki & Abdullah (2007)). A large majority of respondents were satisfied with the Islamic bank's name and with the bank's stability to provide confidentiality (Nazer & Jamal, 1999). Attitude as positive or negative feeling is considered to be the most important factor influencing the customer selection of any bank (Erol & El-Bdour (1989), Erol *et al.* (1990)).

Many studies have investigated the consumer buying behaviour in financial institution. These studies focused on customer loyalty (e.g. Jain et al., 1987; Meidan & Moutinho, 1988), customer expectation (e.g. Lewis, 1991), perception (e.g. Erol et al., 1981; Meidan & Moutinho, 1988; Lewis, 1991; Turnbull, 1983; Rosenblatt, 1988; Yorke, 1990; Haron, 1994; Metawa, 1998; Ahamad et al., 2002), attitude (e.g. Erol et al., 1981, 1990; Kaynak & Yucelt, 1984; Chan & Ma, 1990; Lewis, 1991; Gerard et al., 1997), selection criteria (e.g. Anderson, 1976; Laroche & Manning, 1984; Turnbull & Gibbs, 1989; Rosenblatt, 1989; Javalgi, 1989; Boyd, 1994), service quality (e.g. Rosenblatt, 1988; Turnbull & Gibbs, 1989; Chan & Ma, 1990; Chan, 1990; Ennew,

1990; Ennew & Binks, 1996; Lewis, 1991; Othman, 2001), and marketing segmentation (e.g. Harrison, 1994; Edris, 1997).

3.7.1 Confidence

Several authors have indicated that confidence is potentially an important factor influencing consumer behaviour (Bredahl, 2001). Confidence is generally described as a state of being certain either that a hypothesis or prediction is correct or that a chosen course of action is the best or most effective (Wikipedia.org).

The New Oxford English Dictionary (1998) cited in Flanagan *et al.* (2005) describes four meanings to the word “confidence”: (1) Feeling/belief that one can have faith in something” where faith is in turn defined as “trust/strong belief. (2) State of feeling certain about the truth of something. (3) Self-assurance arising from appreciation of one’s own capabilities/qualities, and (4) Telling of matters of mutual trust.

Siegrist *et al.* (2003) defined confidence as “the belief that future events will occur as expected”. Harrison (2000) defined confidence as an act of trust occurs when one person has some confidence in their expectation for the other’s behaviour. Confidence that the financial institution will honour its promise can be build up from a number of sources.

Confidence and satisfaction appear to be closely related but distinct concepts. Whereas satisfaction is a customer's post experience judgment, confidence is their prior assessment of the abilities of an organization. Confidence, a feeling of belief and trust in

an organization, even without experience, affects a customer's disposition toward that organization, and may also affect the organization's ability to deliver service or at least the quality of service delivered. Confidence is affected by both internal (controllable) and external (less controllable) factors. The controllable factors include visibility, familiarity and communication.

Many studies showed that factor confidence make people to selected financial institution (Islamic banking) as studied by Dusuki and Abullah (2007) examined the main factors that motivate customers to deal with Islamic banks and discussion on factors relating to corporate social responsibility initiatives as part of potential customers' banking selection criteria. They found that the selection of Islamic banks were combination of Islam and financial reputation, service quality, good social responsibility practice, convenience, and product price.

Financial institutions that wish to build and maintain long-term relationship need to take the holistic approach to dealing with their customers. However Harrison (2000) mentioned that several key factors which determine the ultimate success of a relationship are: understanding the nature and role of trust or confident, service quality, the role of employees, and managing customer complaints. The role of trust, financial institutions should attempt to increase their trustworthiness in the eyes of their customers in order to improve their relationship with them. The confidence which an individual feels for a company is dependent on perceived risk, contractual safeguards, corporate culture, and overall confidence.

In essence, confidence is about having belief, trust, or faith in an organisation, its staff and services. The importance of trust is well recognised in the literature especially in terms of its role in underpinning both business-to-business and business-to-consumer relationships (Mohr and Spekman, 1994; Dyer, 1997; Morgan and Hunt, 1994; Gill and Butler, 2003; Ford *et al.*, 2003).

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Many studies showed that factor confidence make people to selected financial institution (Islamic banking) as studied by Erol & El-Bdour (1989), Erol *et al.* (1990) Haron *et al.* (1994), Gerrard & Cunningham (1997), Naser *et al.* (1999), Otman & Owen (2002), Abbas *et al.* (2003), Dusuki & Abullah (2007), Ahasanul Haque *et al.* (2009), and Rashid & Hassan (2009).

3.7.2 Bank selection decision

Bank selection decision is an important factor that may affect overall customer's satisfaction (Levesque & McDougall; 1996). These findings review to the retail and

corporate customers choosing to their banks, both conventional and Islamic banks. It is important for banks to clearly identify the process of bank selection and the criteria used in this process and difference customers may have difference behaviours and preference (Meidan, 1984: 135).

Much has been conducted since 1960s on the matter of bank selection criteria process. Various empirical research using different methodologies and approaches have been applied in various part of the world to examine the criteria, which motivate clients in selecting their bank. Among the researchers on consumer bank choice behaviour were conducted in the West (e.g., Anderson *et al.*, 1976; Evans, 1979). A minority of studies has been conducted in the Middle East (e.g., Yavas, 1988; Erol & El-Bdour, 1989; Erol *et al.* 1990; Kaynak *et al.*, 1991; Almossawi, 2001), more particularly South East Asia (e.g., Tan & Chua, 1986; Haron *et al.* 1994; Gerrard & Cunningham, 1997). While there is relatively a lot of literature on bank selection criteria towards conventional banks but very limited published research on Islamic bank.

In addition, various approaches have been used to evaluate consumer choice preferences with regard to bank selection. For example, determinant attribute analysis has received wide use to determine preferences (e.g., Anderson *et al.*, 1976; Laroche *et al.*, 1986; Javalgi *et al.* 1989), using the analytic hierarchy process (Lavagi *et al.*, 1989), and decision-making heuristics (Lee & Marlowe, 2003). Another approach involves direct estimation of attribute preferences and assessment of these preferences along several dimensions using factor analysis (for example, Arora *et al.*, 1985; Kaynak &

Kucukemiroglu, 1991) and the researchers were conducted this studies focus on retail customer and corporate customer.

Among the researchers who have studied bank selection decision towards retail customers are Anderson *et al.* (1976), Lewis (1982), Keynak and Yucelt (1984), Laroche and Manning (1984), Arora *et al.* (1985), Martenson (1985), Tan and Chua (1986), Javalgi *et al.* (1989), Laroche *et al.* (1986), Kaynak (1986), Riggall (1980), Meidan & Moutinho (1988), Lewis (1991), Boyd *et al.* (1994), Levesque & McDougall (1996).

Anderson *et al.* (1976) carried out a determinant attribute analysis of bank selection criteria in the USA and stratified their samples according to convenience-oriented bank customers and services-oriented bank customers. Based on fifteen selection criteria, convenience customers selected recommendation by friends as the most important factor, followed by location, reputation, service charges and friendliness of bank staff. The service customers ranked availability of credit as the most important factor, followed by reputation, recommendation by friends, friendliness of staff and interest charged on loans. Results of the analysis for the total sample indicate that the bank selection decision is based primarily on five determinant selection criteria; friends' recommendations, reputation, availability of credit, friendliness, and service charges on checking accounts.

Evans (1979) investigated the influence of situation on an individual's choice of a bank. He divided selection criteria into two factors, i.e. service factors and situational factors. Factors such as near and convenient location, waiting line, pressure owing to

time, depositing and withdrawing money, loan transactions, and portfolio services were considered "situational factors", whereas factors such as free chequing service, adequate drive-in service, and accurate bank statement service were considered as service factors. The findings showed that each of the factors had not indicated the same degree of importance in influencing an individual's behaviour in his/her selection of a bank.

Riggall (1980) surveyed a sample of 250 customers who had just opened accounts six months before, and found that convenience of location was cited as the key factor in selecting a bank. Laroche and Taylor (1988) explored attitude towards bank selection and found that convenience is the principal reason for bank selection, followed by parental influence with respect to the status of the bank.

Lewis (1982) studied in the UK and he found that the choice of bank was influenced by two main factors, perceived convenience location and recommendations of friends and family. In addition, bank advertising and promotion appeared to have had little effect on this customer segment.

Arora *et al.* (1985) examined the bank selection criteria used factor analysis. They were identified 38 potential dimensions of financial institutions and result show that seven factors such as dependability of the institutions, convenience and speed in transaction, variety of services and size of the organization, accessibility, convenience of non-person banking, the availability of loan, and competitive interest rates.

Martenson (1985) investigated the customer choice criteria in Sweden and base on a survey to 588 bank customers and 53 branch managers. The bank selection criteria were bank location, availability of loan, and payment of salary.

Tan & Chua (1986) was a pioneer study conducted in South East Asia and they discussed the factors influencing bank selection in Singapore and they found that advice of friends, neighbours and family members has a stronger influence on customers' decisions, compared with other variables in selecting financial institutions, namely, convenient location, courteous personnel and high interest rates on deposit. This finding is consistent with the ethos of oriental culture, which emphasizes social and family ties.

Laroche *et al.* (1986) to investigating services used and factors considered important in bank selection on 140 Canadian households. He found that friendliness of staff was the primary choice determinant followed by hours of operations, size of waiting lines, convenience of location, efficiency of personnel, speed of processing items, parking facilities and accessibility, availability of credit, bilingualism of staff, and interest on savings.

Despite convenience of location or recommendation of friends and family, other researcher have found difference criteria to be most important, for example Javalgi *et al.* (1989) studied in the USA, using analysis hierarchy process to determine the bank selection criteria, reported that safety of one's funds to be the main criterion followed by paying highest interest rates on savings, location, reputation, availability of loans, low

interest rates on loans, ease of qualifying for current account by maintaining a minimum balance and, lastly, Saturday banking.

Kaynak (1986) who also conducted research in Canada divided his sample into two groups, bank customers and bank managers. These two groups were asked the same question, "What is the most ideal bank according to your perception?" The customers preferred a bank with factor fast and efficient service, while the managers chose factor reputation as the main factor.

These studies have identified a number of such factors: convenience (i.e. the location), friends' recommendations, reputation of bank, availability of credit, competitive interest rates, friendliness of bank staff, service charges, adequate banking hours, availability of ATM, special services and the quality of services on checking accounts. The relative importance of these factors varies from one country to another depending upon the age, gender, income, marital status, occupation and cultural background of customers as well as the type of bank (Islamic or conventional bank). For example, convenient location has been identified as a critical factor influencing the choice of a bank by customers (Anderson *et al.*, 1976; Laroche & Taylor, 1988).

Kaynak *et al.* (1991) reported differences in bank selection criteria according to buyer characteristics, namely, gender, age and educational background of bank customers in Turkey. They reported that factors like the bank's reputation and its image, business hours, parking facilities, a wide range of services offered, recommendations of friends and relatives, fast and efficient service, being able to pay utility bills and

financial counselling services were considered as more important by male customers than the female customers in their selection of a commercial bank in Turkey. Furthermore, the bank location played a more important role for bank customers under the age of 40 as compared to other age groups that were studied. Kaynak *et al.* (1991) also reported that bank customers who had more than a primary school education considered friendliness of bank employees, fast and efficient service, the bank location and availability of credit more important than the customers who only had a primary school education.

Denton & Chan (1991) studied to bank selection criteria of multiple bank users from person's 120 responses in Hong Kong. They found that convenience factor (location of branch and automatic teller machines) was highly influential.

Khazeh & Decker (1992) investigated the consumers' decision-making criteria without specifying a particular product and found that a consumer's choice of a financial institution depends on the service-charge policy (price), reputation (position), and competitiveness of its loan rates (price).

Kaynak & Kucukemiroglu (1992) used a sample 300 respondents from cross-section of the Hong Kong. This study was to determine the factors patronage and respondents divided into frequent versus infrequent. The result showed that the criteria used in bank selection was seven factors, service facilities (the availability of credit, lower service charges, lower interest charge on loan, confidentiality of bank, overdraft privileges), physical facilities (interior comfort, counter partitions in bank), external

factor (recommendations of friends or relatives, external appearance of bank), promotion (bank reputation and image, wide range of services), customer treatment (reception at the bank, friendliness of bank personnel), and customer benefits (location being near home and work, highest interest payments).

Boyd *et al.* (1994) examined 188 households in a medium-sized of the USA and using 10 selection criteria. They found that for the age group under 21 year, a bank's reputation plays a major role in determining their bank selection, followed by location, hour of operation, interest on saving account and the provision of convenient and quick services. The least important factors for this age group were found to be the friendliness of bank employees and the modern nature of their facilities.

In their study, Levesque & McDougall (1996) looked into the major determinants of customer satisfaction in the retail-banking sector in Canada. They collected information from 325 respondents who rated their respective banks on various aspects such as service quality, service problem recovery, service features, product usage, satisfaction, and future intentions. Their study found that customer satisfaction in retail banking was driven by a number of factors. These factors included service quality, the bank's features (like location), the competitiveness of the bank's interest rates, the customers' judgment about the bank employees' skills and whether the customer was a borrower or not. The study also found that whether the customer was a single or multiple bank users was not a significant factor. The study confirmed and reinforced the idea that unsatisfactory customer service would lead to a drop in customer satisfaction and

willingness to recommend the service to a friend. This could result in increased switching by customers.

Kennington *et al.*, (1996) investigated the selection criteria used by Polish consumer. They found that reputation, rates, service and convenience. While Owusu-Frimpong (1999), which claimed that, Ghanaian bank customers look out for efficient service, understanding and high rate of interest when opening accounts.

Che Wel & Mohd Nor (2001) examined the influences of personal and sociological factors in Malaysia. They found that the family and social relationship were still highly valued and personal factors have greater influences in bank selection decision compared to sociological factors.

Lee & Marlowe (2003) use decision-making criteria and decision-making heuristics to customers when choosing their financial institutions for a checking account. As a result the most important criterions were convenience (location, payroll deduction, and direct deposit), retail fees and minimum balance requirements and range of services offered.

Among the researchers who have studied the corporate customers buying behaviour are Turnbull (1983, 1990), Rosenblatt *et al.* (1988), Turnbull and Gibbs (1989), Chan and Ma (1990), Chan (1990), Zeneldin (1995), Ennew and Binks (1996), and Tyler and Stanley (1999) as shown in the Table 3.4.

Table 3.4

Summary of Banking Personal Customer Behaviour

Author(s)	Field of Study	Countries	Key Finding(s)
Anderson (1976)	Determinant attribute analysis of bank selection criteria	USA	Convenience customers selected recommendation by friends, location, reputation, service charges, and friendliness of bank staff. The service customers ranked by availability of credit, reputation, recommendation by friends, friendliness of staff and interest charged on loans.
Lewis (1982)	Choice criteria	UK	Location convenience and recommendations of friend and family.
Laroche & Manning (1984)	Information processing activity of consumer bank selection	Canada	Existence of a 'foggy set' of bank brands rather than a 'hold set'
Arora, Cavusgil & Nevin (1985)	Choice criteria used in financial institutions	US	Common criteria for bank and saving/loans customer: e.g. dependability of institution, convenience and ease of transactions, variety of services and size of institution

Table 3.4 (Continued)

Author(s)	Field of Study	Countries	Key Finding(s)
Martenson (1985)	Consumer choice criteria in bank selection	UK	Random decisions by a third of respondents; importance of bank location, availability of loans, bank where salary paid through, and parental influences.
Tan & Chua (1986)	Bank selection criteria	Singapore	Advice of friends, neighbours and family members has a stronger influence on customers' decisions, convenient location, courteous personnel and high interest rates.
Laroche, Rosenblatt & Manning (1986)	Factors influencing choice of bank	UK	Importance of location convenience, speed of service, competence and friendliness of bank personnel
Jain, Pinson & Maholtra (1987)	Customer loyalty in retain banking	US	Customer loyalty is a useful construct; bank non-loyal segment swayed by economic rationale, whereas greater emphasis placed on human aspects of banking by bank loyal segment
Meidan & Moutinho (1988)	Bank customer perceptions and loyalty	UK	Banks should develop ATM usage; financial institutions should review basic banking services, e.g. considering a service package; customer loyalty a function of more than one single variable
Javalgi (1989)	Analysis hierarchy process	US	the determine of bank selection criteria, that "safety of one's funds" "paying highest interest rates on savings", "location", "reputation", "availability of loans", "low interest rates on loans", "ease of qualifying for current account by maintaining a minimum balance" and, lastly, "Saturday banking".

Table 3.4 (Continued)

Author(s)	Field of Study	Countries	Key Finding(s)
Joy, Kim & Laroche (1991)	Link between ethnicity and use of financial services	Canada	Ethnicity should be considered as a construct having strong potential impact on consumption.
Leonard and Spencer (1991)	Importance of banking image as a competitive strategy for increasing customer traffic flow	Canada	Preference for banks amongst students as providers of financial services; greater confidence in large-medium-sized banks; importance of courtesy of personnel, competitive deposit rates, loan availability.
Lewis (1991)	International comparison of bank customers' expectation and perceptions of service quality	UK, US	Very high expectations of service quality and high perceptions of service received, yet gaps did exist.
Ennew (1992)	Consumer attitudes to independent advice	UK	More importance may be attached to image and reputation of an independent financial adviser than their status
Kaynak & Kucukemirglu (1992)	Selected patronage factors and perceived usefulness.	Hong Kong	Fast and efficient services, and friendliness of bank personnel, efficiency of transaction... [Need additional writing]
Boyd et al. (1994)	Consumer choice criteria in financial institution selection	US	Reputation and interest rates (loans/savings) more important than friendliness of employees, modern facilities, drive-in service
Harrison (1994)	Segmentation of market for retail financial services	UK	Distinct segments identified based on financial maturity (based on likely range of product holdings) and perceived knowledge of financial services
Goode, Moutinho & Chien (1996)	Satisfaction with ATMs	UK	Levels satisfaction and overall usage of services influenced by customer expectations and by perceived risk
Kennington, Hill & Rakowska (1996)	Study of banking habits and bank choice in a transitional economy	Poland	Consumers in a transitional economy select banks using the same criteria as consumers in other countries, although pricing concerns do appear to be particularly significant.

Turnbull (1983) was among the first researcher who studied the perceptions of corporate customers towards their banks. He examined the relationship between 44 corporate customers in United Kingdom and their bankers and found that size played an important role in maintaining split banking practices. Another important finding of Turnbull (1983) was that large corporations tend to foreign banks than the local banks.

Rosenblatt *et al.* (1988) sampled 423 Canadian corporate treasury personnel in their study to determine the responsible person (a) in selecting bank(s) for their organization, factors attributed to the selection of the bank(s), and perceptions of these personnel on the bank's service quality. They found that almost half of these corporate treasures were solely responsible in the selection of the bank(s). The two factors that influenced their decision-making were banks with better branching networks and which offer quality services. Half of the respondents in this survey also preferred the bank to assign special officer who had the most knowledge about the customers' business operations. The corporate treasurers were also more concerned about quality products and services than innovative products. They also were not keen on the concept of "one-stop banking centre".

Turnbull and Gibbs (1989) conducted a study using 'large' and 'very large' companies in South Africa. The objectives of their study were to find factors that were considered important among corporate customers in selecting their banks and to find information whether companies have single or split banking relationship. The finding

generally showed that the corporate customers perceived that quality of service was the most important factor in establishing a relationship. Other influential factors were quality of staff, bank manager's attitude, and price of service. Although very large companies considered quality of service as the most important factor, both price and quality of staff were equally important. Split banking relationship practice was common among the corporate customers. Almost all of the treasurers agreed that physically appearance of the banks had no impact on their selection process.

Chan & Ma (1990) study in Hong Kong aimed at understanding corporate customers' behaviour on split banking, bank-switching, factors that attribute to patronage, level of awareness, and the usage of banking product and services. They found that corporate customers preferred to use big and reputable banks, and split banking. Corporate customers would only switch their banks if the new bank were able to show that the quality of its products and services were more superior to others'. The importance of attributes for choosing the new main banker were: quality of service, the wish to expand borrowing facilities, the variety of banking services, the convenience of location, the personal relationship between executives of bank and company, and international banking network.

Chan (1990) studied the demand and supply indices for banks in the UK. His findings reveal that quality of services, relationship with bank manager and speed of decision are of overriding importance to small business.

Turnbull & Demades (1995) were conducted to determine the nature of bank usage and buying behaviour as well as perceptions of service quality among corporate customers in Cyprus. They found that the companies use a variety of criteria for evaluating banks, the most important being speed of operations and quick decision-making, cost of service, rates charges and commissions, bank reputation and reliability, flexibility and bank personnel.

Zineldin (1995) surveyed 300 business firms in Sweden from 179 companies, comprised of small and medium sized firm. Five major factors that determined the choice of the bank were the trust and confidence (81 percent), price competitiveness on loan (66 percent), flexibility in tailoring services (43 percent), contacts with bank decision makers (42 percent), and the speed of the decision and of processing transaction (36 percent). Kennington *et al.* (1996) study to consumer banking habits in Poland and the most important variables influencing customer choice are reputation, price and service.

Zineldin (1996) found that the determinants of bank selection in Sweden. A list of 19 potential factors was identified. The quality factors (friendliness and helpfulness of personnel, accuracy in account transaction management, efficiency in correcting mistakes, and speed of service and decision making clearly) were a more important factor, while convenience of location, price and advertising had a minor impact on bank selection. Athanassopoulos & Labroukos (1999) examined issues related to the behaviour of 468 corporate customers towards financial services in Greece. They found that price very popular selection criteria.

Tyler & Stanley (1999) used orthodox grounded theory in their study with the objective of identifying key elements of perceived service quality by large corporations. They found that elements considered important were reliability, assurance, empathy, responsiveness and pro-activity.

Jones *et al.* (2001) surveyed 2,500 firms in Australia and examined various factors affecting the bank selection process with 15 possible factors. They found that the three most important factors for large firms were competitive price (A), long-term business relationship (G), and efficient in its day-to-day operation (C) and for small firm were long-term business relationship (G), accommodate your customer's credit need, and competitive price (A). This study showed that there were significant differences between the small and large firms with respect to factors that influenced the selection process, the summary of the banking corporate customer behaviour is shown in Table 3.5.

Table 3.5

Summary of the Banking Corporate Customer Behaviour

Author(s)	Field of Study	Countries	Key Finding(s)
Turnbull (1982a)	Purchase of international financial services by medium/large sized UK companies` with European subsidies.	UK	Greater effort required to understand the nature of customer needs and bank/customer relationships through detailed application of the Interaction Theory.
Turnbull (1982b)	Role of branch bank manager in bank services marketing	UK	Lack of customer-orientation amongst bank branch managers.
Turnbull (1982c)	Use of foreign bank by UK companies	UK	High concentration of decision making and extent of split banking; crucial importance of development and maintenance of a company bank relationship.
Turnbull (1983)	Relationship between banks' corporate customers and their sources of financial services	UK	Small/medium-sized companies do not always consider major UK banks as in appropriate source for all financial services.
Teas, Dorsch & Alexander (1988)	Measurement of aspects of die long-term bank and commercial customer relationship: banker's customer knowledge, personal working relationship with batik, banker's reactive and proactive behaviour	US	Banks should take an active interest in the welfare of their commercial customers to be in a better position to develop long-term relationships in them.
Turnbull & Gibbs (1989)	Relationship between large companies and its lead and closet substitute bank	South Africa	Predominant bank selection criteria: importance of quality of service, quality of staff and price of services; split banking common.

Table 3.5 (Continued)

Author(s)	Field of Study	Countries	Key Finding(s)
Chan & Ma (1990)	Corporate customer buying behaviour for banking services	Hong Kong	Great importance attached to banks understanding their clients' attitudes in order to serve them better. The importance of attributes for choosing the new main banker were: quality of service, the wish to expand borrowing facilities, the variety of banking services, the convenience of location, the personal relationship between executives of bank and company, and international banking network.
Yorke (1990)	Interactive perceptions of supplier and corporate clients in marketing of professional services	UK, Canada, & Sweden	Need to consider atmosphere in which relationship is being conducted to build picture of mutual perceptions of parties into medium to long-term planning activity.
File & Prince (1991)	Purchase dynamics of SME market and financial services	US	Existence of 3 distinctive socio-graphic segments adopting innovations in bank services: return seekers, relevance seekers and relationship seekers.
Edwards (1992)	Current and future use of foreign banks by UK middle corporate market	UK	Very conservative approach to domestic banking with foreign banks used as secondary banks.
Turnbull & Demades (1995)	Attitude and buying behaviour	Cyprus	Criteria for evaluating banks, speed of operations and quick decision-making, cost of service, rates charges and commissions, bank reputation and reliability, flexibility and bank personnel.
Zeneldin (1995)	Bank-company interactions	Sweden	Smaller companies tend to have stable relationships with a single bank but larger organisations operate with a variety of banking relationships. There is evidence of low levels of satisfaction among smaller companies
Ennew & Binks (1996a)	Impact of service quality on customer retention	UK	Both product characteristics and service quality affect potential for small businesses to switch bank.
Kennington <i>et al.</i> (1996)	Consumer selection criteria	Poland	Reputation, and price and service.
Zineldin (1996)	Bank selection criteria	Sweden	Quality, convenience of location, price and advertising.

The bank selection by Islamic banks' customers, many researchers have looked into bank selection criteria by customers to select a Islamic banks (e.g., Shook & Hassan, 1988; Erol & El-Bdour, 1989; Erol, 1990; Haron *et al.*, 1994; Hegazy, 1995; Gerrard *et al.* 1997; Edris, 1997; Metawa *et al.* 1998; Othman *et al.* 2001a, 2001b; Ahmad *et al.* 2002; Dusuki & Abullah; 2007, Khan *et al.* (2007). Rashid & Hassan (2009), Mokhlis (2009), Wan Marhaini *et al.* (2008), Omar & Orakwue (2006), Gait & Bukhari (2011), Ahmad *et al.* (2011), Lee & Ullah (2011), Hamid & Masood (2011).

Erol *et al.* (1989) and Erol (1990) study on Islamic banking find that in considering motives responsible for selecting Islamic banks as depository institutions, religious motives did not stand out as being the only significant ones; but also profit. The evidence generated in the study did not find an important consideration of the new branches' role in increasing the utilisation of services provided by Islamic banks; peer group influence plays an important role in selecting Islamic banks as depository institutions; and there is a high degree of awareness on the part of bank customers of the advantage of the profit-loss-sharing modes of investment and of the economic and social development role of the Islamic banking system. They found that customers who patronized Islam banks perceived that the three most important criteria in bank selection were the provision of a fast and efficient service, bank's reputation and image, and confidentiality.

Attwergy (1988) evaluate the U.S. perceived acceptability of Islamic banks' practices and investigated Islamic banking and financial management concepts, banking practice, and prospective opportunities and obstacles of application in the U.S. He

collected data in three groups: bankers, Muslim bankers, U.S./Western bankers familiar with Islamic banking system, and U.S. bankers unfamiliar with Islamic banking system. He found that all aforementioned three groups of respondents perceived at least ten out of 20 Islamic banking and finance practices as acceptable in the U.S. Those ten practices were investment account, transfer of fund, cost plus finance, profit and loss sharing, trust financing, leasing, lease purchase, letters of guarantee, flexible investment of deposits, and trustee role.

Haron *et al.* (1994) sought to establish the selection criteria used by Muslim customers in Malaysia when selecting their banks. The three most important criteria perceived by Muslims in Malaysia were the provision of a fast and efficient service, the speed of transaction, and friendly bank personnel. Another important contribution from this study was the potentiality of individual customers in patronizing an Islamic bank when they had knowledge of this new system. 80 percent of Muslim and 53 percent of non-Muslim respondents indicated that they would consider establishing a relationship with an Islamic bank if they had substantial understanding of its operations.

Hegazy (1995) has investigated bank selection criteria for both Islamic banks and commercial banks. He concluded that the selection attributes for Islamic banks are different from those for commercial banks. For the selection of Islamic banks, it was found that the most important factor was the advice and recommendations made by relatives and friends. Convenience of location, friendliness of personnel, and the bank's vision of serving the community regardless of the expected profitability, timeliness, and efficiency, were also found to play important roles in the selection of Islamic banks.

Radiah (1995) was examined the banking behaviour of the difference categories of BIMB customers and determined the factors that have influenced them to bank at BIMB, and also examined the perception of the Muslim non-depositors towards BIMB. A total of 380 depositors were randomly sampled of which 210 were BIMB depositors being sampled for a period of two weeks. She used a list of 14 variables, which were likely to have influenced depositors' decision to choose this bank. The result showed that the criteria used in bank selection was seven factors, being an Islamic bank (profits paid on saving, no interest on savings, profit-sharing investment, on interest on loan, run on Islamic principles), convenient location (distance from home, public transport convenience, distance from work, parking facilities available, number of branches available), loan opportunity (opportunity to get loan, types of loan offered), social influence (encouragement of relatives and friends, bank opening publicity).

Gerrard *et al.* (1997) studied to Islamic banking in Singapore involving both Muslims and non-Muslims customers. The two separate groups have different attitudes towards the Islamic banking. Their findings show that 62.1 percent of Muslims said they would keep their deposits within the Islamic banking movement, while 66.5 percent of non-Muslims said they would withdraw their deposits. However, both groups agree that being paid higher interest on savings or high return (for Muslim) is very important in bank selection.

Metawa *et al.* (1998) focused their study to customers of Bahrain Islamic Bank and Faisal Islamic Bank of Bahrain. They found that customers of these two Islamic banks perceived Islamic principle as the most important factor while selecting Islamic

banks. The second important factor was reward extended by the banks, followed by influence of family and friends, and convenient location. These also indicate that socio-demographic factors such as age, income and education were important criteria in bank selection. This finding indicating religion as the most important reason for customer patronizing Islamic banks contradicts those findings by Haron *et al.* (1994), and Gerrard and Cunningham (1997).

Metwally (1998) surveyed the situation in such system in United Arab Emirates, Saudi Arabia and Egypt. The results showed that major reason for customers' preference for Islamic banks is religion, but there believes that the comparative advantage offered by the profit/loss sharing principle could be highlight to appeal to further customers.

Naser *et al.* (1999) The Islamic banking system is expected to face strong competition not only from the Islamic banks but also from well-established conventional banks offering Islamic products and services. In this study, an attempt is made to assess the degree of customer awareness and satisfaction towards an Islamic bank in Jordan. The analysis of their responses revealed a certain degree of satisfaction of many of the Islamic banks facilities and products. The respondents expressed their dissatisfaction with some of the Islamic banks services. Although the respondents indicated that they are aware of a number of specific Islamic financial products like *Murabaha*, *Musharaka*, and *Mudaraba*, they show that they do not deal with them.

Naser & Moutinho (1997) have recently assessed the marketing effectiveness of the Islamic banks and indicated that the Islamic banking system needs to do more to

activate its marketing effectiveness. They concluded that the Islamic banks should put more coherent efforts to improve their long-term competitive position. Another study conducted by Gerrard and Cunningham (1997) investigating the degree of awareness of the Islamic banking system in Singapore revealed that there was a general lack of awareness of the culture of Islamic banking in both Islamic and non-Islamic communities.

Othman *et al.* (2001a) examined the performance of alternative measures of service quality, this study indicated that it is important for Islamic banks to put cultural difference at the front when adopting SQ, and suggested a new model to measure service quality called CARTER, which is based on 34 items. The study showed significant validity for all CARTER items that have appeared in both important items' weights and percentages. Also, the strong link between service quality and customer satisfaction has been discussed and the study has defined it as a system of CARTER-items process inputs and overall satisfaction outputs. Finally the study suggests a scenario plan for KFH to adopt service quality and showed the importance of training to do so.

Othman *et al.* (2001b) examined the multidimensionality of SQ model and adapted the CARTER measure of the importance of SQ items. This paper has proposed that service quality is an important issue in Islamic banking industry. However, the CARTER model that measure service quality found to be a multidimensional variable and expectations conceptualisation needs clarification and qualification in term of all factors especially, religious and cultural factors. In conclusion, the CARTER claims to

offer a unique and original measure of customers' expectations in Islamic banks. The study proved that all six dimensions and most of the 34 items were loaded in FA test.

Ahmad *et al.* (2002) studied the perception of corporate customers towards Islamic banking in Malaysia, finding that almost half of the individual surveyed who financial decision-making authority in Malaysia corporate sectors had believed that the Islamic banking system had a good potential as an alternative to the conventional system. Islamic products and services have not done enough in educating customers and marketing their product. Finally, the most important factor perceived by corporate customers in selecting their banks in the cost of the services and products. Khan *et al.* (2007) investigated the banking behaviour of Islamic bank customers in Bangladesh. It showed that religious principles is the key bank selection criterion, while customers demography plays some role in determining which selection criteria matter more than other do.

Dusuki & Abdullah (2007) examined the main factors that motivate customers to deal with Islamic banks and discussion on factors relating to corporate social responsibility initiatives as part of potential customers' banking selection criteria. They found that the selection of Islamic banks were combination of Islam and financial reputation, service quality, good social responsibility practice, convenience, and product price. Table 3.3, provides a summary of the customers' selection criteria based on the patronage studies on Islamic banking. Depicts patronage studies on Islamic banking have so far largely focused on the combination of various religious, reputation,

commercial, service satisfaction, staff, confidentiality and convenience factors, see Table 3.6 for more studies on Islamic banking selection.

Table 3.6
Studies on Islamic Banking Selection

Literature	<i>Religious factor</i>	<i>Cost benefit</i>	<i>Service delivery</i>	<i>Size& reputation</i>	<i>Staff factor</i>	<i>Convenience</i>	<i>Confidentiality</i>	<i>Friends & relative' Influence</i>	<i>Mass media advertising</i>
Erol & El-Bdour (1989)	-	+	+	+	+	+	+	+	+
Erol <i>et al.</i> (1990)	-	+	+	+	+	+	+	+	+
Haron <i>et al.</i> (1994)	-	+	+	+	+	+	+	+	+
Kader (1993)	+	-	+	+	N/A	+	N/A	+	+
Kader (1995)	+	-	+	+	N/A	+	N/A	+	+
Gerrard & Cunningham (1997)	±	+	+	+	+	+	+	+	+
Metawa & Amossawi (1998)	+	+	N/A	N/A	N/A	+	N/A	+	N/A
Naser <i>et al.</i> (1999)	+	+	+	+	+	+	+	+	N/A
Otman & Owen (2001)	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Otman & Owen (2002)	+	+	+	+	N/A	+	+	N/A	+
Ahmad & Haron (2002)	-	+	+	+	+	+	N/A	N/A	N/A
Omer (1992)	+	+	N/A	N/A	N/A	N/A	N/A	+	N/A
Abbas <i>et al.</i> (2003)	±	+	+	N/A	+	+	+	+	N/A

Note: + indicates a positive important result; ± indicates an equivocal result- indicates negative or no significant result and N/A indicates variable

Source: Dusuki and Abullah (2007)

Haque *et al.* (2009) investigate major factors that influence customers' perception and satisfaction on Islamic banking in Malaysia. The results showed that the significant positive relationship of quality of services, availability of services, social and religious perspective and confidence in bank with customers' perception about Islamic bank. These factors are expected to have great role for influencing customer mind. In

conclusion, customers can derive a better understanding of the activities that are undertaken by bank and how the way these activities are being dealt with.

Rashid & Hassan (2009) examine the impact of demographic disparities on the bank selection criteria applied by diversified customers of domestic Islamic banks in Bangladesh. We have run regression analysis after controlling for four demographic groupings such as Gender, Marital Status, Age and Educational Qualification. Mostly, non-Islamic factors such as Corporal Efficiency, Core-Banking services, Confidence, etc. were given higher weights by majority of the respondents. The report recommends introducing complete E-Banking solution, to increase advanced marketing efforts and to hire experienced human resources for better Islamic Banking activities in Bangladesh.

Mokhlis (2009) shows some differences in choice factors employed by male and female customers in selecting a bank for patronage. Factors of which both male and female had variation are attractiveness, marketing promotion, ATM service, proximity, people influences and financial benefits. Given this finding, it is recommended that bank marketers should treat male and female customers as distinctive segments when designing their marketing strategies.

Wan Marhaini *et al.*, (2008) study examines the role of religiosity in shaping consumer's choice of banking. Based on an index calculated to measure religiosity, the findings show that there are significant differences between a Muslim's level of religiosity and Islamic banking as his main choice of bank. The level of religiosity itself is mostly influenced by the Muslim's formal religious education as well as maturity. For

the banking selection criteria, among the Muslims, “availability of ATMs” topped the ranking. Further analysis reveals customer and electronic services related factors. Findings suggest that even if Islamic Banking favours the well of Muslims in Malaysia, the majority of them still patron conventional banking. And if Islamic bankers want to retain and attract them, the focus should be in developing and expanding their electronic services in order to fulfil their preference for faster and more efficient services.

Omar & Orakwue (2006) studied banks determine the factors that are relevant to the customer's selection process in Nigeria. By using a survey of households, this study evaluates the relative importance attached to retail bank selection criteria used by bank customers in Nigeria. The results suggest few differences between male and female customers in bank selection and in bank facility usage. The findings can assist Nigerian bankers in refining their marketing strategies as a means of overcoming the intense competition that exists in the Nigerian banking system.

Gait & Worthington (2008) studied the attitude, perceptions and knowledge of Islamic financial products and services. It was finding that while religious conviction is a key factor in the use of Islamic financial, consumers also identify bank reputation, service quality and pricing as being of relevance.

Hayat & Khuram (2011) to determine the conditions under which Islamic banks can successfully compete with conventional banks by understanding customer attitudes towards Islamic banking products. They found that most of the customers value product features and quality of service as major factors for making selection of Islamic banks,

and give lesser importance to religious belief as influential factor in selecting an Islamic bank. Findings suggest that there is a lack of awareness about basic conventions of Islamic financing options among respondents and customers of both the pure Islamic banks and conventional banks with IBBs do believe that the bank's staff lacks ability to provide credible information about religious compliance of Islamic banking financial services.

Ahmad *et al.* (2011) tested this within a positivistic empirical framework and among the younger generation in Malaysia. They found that whilst the importance of religion is a major driver in the choice of Islamic banking the fundamental differences between Islamic and conventional banking are poorly understood. What is important is brand, ease of use and the quality of the customer interaction.

Lee & Ullah (2011) found that Islamic banks' customers highly value *Shari'a* compliance in their banks and that non-compliance with *Shari'a* principles leads to disgruntled customers. An interesting pronouncement is that if an Islamic bank is involved in repeated violations of *Shari'a*, the customers are inclined to switch their banks. Nonetheless, the findings reveal that *Shari'a* compliance is not the only satisfaction yardstick for Islamic banks' customers; they also expect their banks to be convenient, technologically advanced and provide security of their capital.

Ayesha & Omar (2011) the results indicate that the *shariah* principle, fast and efficient services, price, bank reputation, and terms and conditions of product flexibility

are the five most important factors considered by customers in choosing Islamic financial institution.

From the reviews, it show that the published literature has been sourced which explains the background of Islamic banking, the attitude of Muslims to Islamic banking in a country where Islamic banking has been well developed and the bank selection criteria of people living in countries which have majorities of Muslims in their population. Identifying the main selection attributes will allow Islamic banks to develop appropriate marketing strategies. Since Islamic banks operate according to profit-loss sharing principles (prohibition of interest), they are expected to develop this competitive advantage around those crucial selection attributes emerging from comprehensive customer surveys.

From the review of empirical results, it shows that most of the factors influencing to decision-making process to choice their bank were the internal factors and external factors. Firstly, the most important internal factor, such as religion, attitude, knowledge, confidence and perception and the second important external factors were selection criteria such as service, reputation, quality, which elaborate to social, and environment factors, such as recommendation by friend and family, convenience of location, Table 3.7 summarizes the customer buying behaviour in Islamic banking, while Table 3.8 shows the summary on bank selection decision.

Table 3.7

Summary of the Customer Buying Behaviour in Islamic Banking

<i>Author(s)</i>	<i>Field of Study</i>	<i>Countries</i>	<i>Key Finding(s)</i>
Erol & El-Bdour (1989)	Attitude of bank customers, unique characteristics of Islamic bank, bank product usage, bank selection criteria.	Jordan	Interpersonal contact and individual effort played an important role in terms of attracting individuals to utilize banking services, respondents are aware of Islamic banking services being utilized by their relatives and neighbours. Profitability motives and religious motivation did not appear to be the primary criteria for the selection criteria. Three factors of bank selection criteria, convenience and public relations, financial strength, and availability of credit.
Erol (1990)	Customers attitudes, bank product usage, bank selection criteria	Jordan	Bank customers do not differentiate between the services offered by conventional and Islamic banks.
Haron <i>et al.</i> (1994)	Customers' patronage factor	Malaysia	Three most important criteria perceived, fast and efficient services, speed of transaction, and friendly bank personnel.

Table 3.7 (Continued)

Author(s)	Field of Study	Countries	Key Finding(s)
Institute of Banking Studies, Bhattacharyay (1995)	Bank marketing strategy, Bank selection criteria, Bank product usage. Satisfaction, service quality	Gulf Co-operation Council (GCC)	Bank has to initiate or increase their strategic planning effort. The strategic thrust of banks is likely to be one of consolidation in a tough over-banked and somewhat recessionary domestic market while pursuing regional niche strategy and seeking a prominent role through mergers, acquisitions and restructuring.
Hegazy (1995)	Bank selection criteria	Egypt	The most important factor was the advice and recommendations made by relatives and friends, convenience of location, friendliness of personnel, the bank's vision of serving the community regardless of the expected profitability, timeliness, and efficiency.
Gerard & Cuninghnam (1997)	Attitude, Bank selection criteria	Singapore	There were many difference in attitude and similarities in the ranking of certain criteria as between Muslims and non-Muslims.
Edris <i>et al.</i> (1997)	Segmentation analysis tool for bank marketing strategies, bank selection criteria	Kuwait	Key determinant factors of bank selection to attract business customers should be concentrated on size of the bank assets, efficiency of staff, help in financial emergencies, bank experience, friendliness of staff, bank image, communications with customers, knowledge of firms' activities, prompt provision of services, and availability of branches abroad.

Table 3.7 (Continued)

Author(s)	Field of Study	Countries	Key Finding(s)
Naser & Moutinho (1997)	Marketing effectiveness	Arab world	An effective performance evaluation system of Islamic bank such as Islamic business ethics, customer satisfaction, innovation of product/services, financial position, and operational improvement.
Metawa & Almossawi (1998)	Attitude, perception, and banking behaviour	Bahrain	Adherence to Islamic principles to be important selection criteria, followed by rate of return, the recommendation made by family and friends, and convenience of location.
Metwally (1998)	Consumers to choose Islamic bank.	UAE, Saudi Arabia Egypt	The major reason for customer's preference for Islamic banks is religion.
Naser <i>et al.</i> (1999)	Customer awareness and satisfaction,	Jordan	They are aware of a number of specific Islamic financial products like <i>Murabaha Musyaraka</i> and <i>Mudaraba</i>
Othman <i>et al.</i> (2001a)	Adopting and measuring customer service quality	Kuwait	This study indicated that it is important for Islamic banks to put cultural differences at the front when adopting service quality, and suggested a new model to measure service quality called CARTER, which is based on 34 items. The study showed significant validity for all CARTER items that have appeared in both important items' weights and percentages. Also, the strong link between service quality and customer satisfaction has been discussed and the study has defined it as a system of CARTER-items process inputs and overall satisfaction outputs. Finally the study suggests a scenario plan for KFH to adopt service quality and showed the importance of training to do so.

Table 3.7 (Continued)

Author(s)	Field of Study	Countries	Key Finding(s)
Othman <i>et al.</i> (2001b)	Multi-dimensionality of CARTER model to Measuring customer service quality.	Kuwait	This paper has proposed that service quality is an important issue in Islamic banking industry. However, the CARTER model that measure service quality found to be a multidimensional variable and expectations conceptualisation needs clarification and qualification in term of all factors especially, religious and cultural factors. In conclusion, the CARTER claims to offer a unique and original measure of customers' expectations in Islamic banks. The study proved that all six dimensions and most of the 34 items were loaded in FA test..
Almossawi (2001)	Bank selection criteria, Bank product usage.		Bank's reputation, parking space, friendliness of bank personnel, and ATM.
Ahmad <i>et al.</i> (2002)	Perception of corporate customers.	Malaysia	Half of the individuals surveyed believed that the Islamic banking system had a good potential as an alternative to the conventional system. Products and services have not done enough in educating customers and marketing their products. Selecting their banks is the cost of the services and products.
Jabnoun & Khalifa (2005)	Service Quality	UAE	Four dimensions: personnel skills, reliability, value, and image.
Dusuki Abdullah (2007)	Bank selection criteria	Malaysia	The selection of Islamic banks were combination of Islam and financial reputation, service quality, good social responsibility practice, convenience, and product price.

Table 3.8
Summary of Bank Selection Decision

Author(s)	Religion	Convenience	Confidence	Staff	Cost benefit	Product	Size/ Reputation	Service delivery	Friendliness of Bank Personnel	Mass Advertising
Anderson et al. (1976)		/			/		/		/	
Evan (1979)		/			/	/		/		
Riggall (1980)		/								
Lewis (1982)		/								
Arora (1985)		/			/	/	/			
Martenson (1985)		/				/		/		
Tan & Chua (1986)		/			/					
Laroche et al. (1986)		/			/	/		/	/	
Javalgi (1989)		/			/	/	/	/		
Kaynak (1986)								/		
Laroche & Tayler (1988)		/					/			
Kaynak et al. (1991)		/				/	/	/		
Khazeh & Decker (1992)					/		/			
Kaynak & Kucukemiroglu (1992)		/			/	/		/		
Levesque & McDougall (1996)										
Che Wel <i>et al.</i> (2002)										
Turnbull (1983)							/			
Rosenblatt <i>et al.</i> (1988)								/		
Turnbull & Gibbs (1989)					/			/	/	
Chan & Ma (1990)		/				/	/		/	
Chan (1990)								/		
Turnbull & Demades (1995)					/		/	/	/	
Zineldin (1995)		/			/		/	/	/	
Kennington <i>et al.</i> (1996)					/		/	/		
Zineldin (1996)		/			/			/		
Athanassopoulos & Labroukos (1999)					/					
Tyler & Stanley										
Jones <i>et al.</i> (2001)										
Erol & El-Bdour (1989)	/				/					
Erol (1990)		/					/	/		
Haron <i>at al.</i> (1994)								/	/	
Hegazy (1995)		/						/	/	
Radiah (1995)		/				/		/		
Gerrard at al. (1997)					/					
Metwa (1998)		/								
Ahmad <i>et al.</i> (2002)					/	/				
Dusuki & Abdullah (2007)										

3.7.3 Religions motive

Religiosity is one of the components that frequently being used to study Islamic banks' consumer selection behaviour as cited in Omar (1992), Kader (1993), Hegazy (1995), Metawa & Almossawai (1998), Naser *et al.* (1999), Dusuki and Abdullah (2007), Haque *et al.* (2009), Wan Marhaini *et al.*, (2008), Gait & Worthington (2008), Awan & Bukhari (2011), Lee & Ullah (2011), Ahmad *et al.* (2011) and Hamid & Masood (2011). They find that religion has significant, positive relationship with customers' selecting decision. Additionally, the religious issue is also perceived as one of the important criteria to be considered for the selection of Islamic banking services.

Contradictory to these findings, there is a point of view that religious beliefs are not the sole reason to select an Islamic bank (Erol & El-Bdour, 1989; Erol *et al.* (1990); Haron *et al.* (1994).

3.7.4 Bank Reputation

Studies to determine the relationship between customers' buying behaviour with banks reputation have been done by numerous researchers in the past (Erol and El-Bdour (1989), Erol *et al.* (1990), Haron *et al.* (1994), Kader (1993), Gerrard and Cunningham (1997), Naser *et al.* (1999), Otman and Owen (2002) and Ahmad and Haron (2002).

Reputation is found to be as a key factor in Islamic banking selection. Bank reputation and it image, confidentiality of bank, external appearance of bank, internal appearance of bank, and confidence in bank manager.

3.7.5 Customer Knowledge

As studied by Haron *et al.* (1995) almost 100 percent of the Muslim population is aware of the existence of the Islamic bank; the sources of knowledge are mainly from newspapers and magazines, television and radio, and family members. Many of the Muslim respondents visit the bank's branch and seek information about the bank services and operations on their own initiative. For non-Muslims, about 75 percent of the respondents know of the existence of the Islamic bank from information derived mainly from newspapers and magazines. Other sources of information are not so effective for the non-Muslims.

Even though it has been nearly a decade since the Islamic bank was first established in Malaysia, only about 63 percent of the Muslims have understood either partly, or completely, the differences between the Islamic bank and conventional banks. Non-Muslims showed much less understanding. Only 12 percent of the Muslims and 32 percent of the non-Muslims believe that the Islamic bank is for Muslims customers only. In terms of why people patronized the Islamic bank, about 39 percent of the Muslim respondents believe that religion is the only reason why people patronize the Islamic bank, and, surprisingly, the percentage is much lower for non-Muslims. More than half of both respondent groups have indicated the possibility of establishing a relationship with the Islamic bank if they have a complete understanding about the operations of an Islamic bank.

Ahmad and Haron (2002) studied to the level of understanding of the concepts and principles of Islamic banking among customers. They found that 65 percent of

Table 3.7 (Continued)

Author(s)	Field of Study	Countries	Key Finding(s)
Naser & Moutinho (1997)	Marketing effectiveness	Arab world	An effective performance evaluation system of Islamic bank such as Islamic business ethics, customer satisfaction, innovation of product/services, financial position, and operational improvement.
Metawa & Almossawi (1998)	Attitude, perception, and banking behaviour	Bahrain	Adherence to Islamic principles to be important selection criteria, followed by rate of return, the recommendation made by family and friends, and convenience of location.
Metwally (1998)	Consumers to choose Islamic bank.	UAE, Saudi Arabia Egypt	The major reason for customer's preference for Islamic banks is religion.
Naser <i>et al.</i> (1999)	Customer awareness and satisfaction,	Jordan	They are aware of a number of specific Islamic financial products like <i>Murabaha Musyaraka</i> and <i>Mudaraba</i>
Othman <i>et al.</i> (2001a)	Adopting and measuring customer service quality	Kuwait	This study indicated that it is important for Islamic banks to put cultural differences at the front when adopting service quality, and suggested a new model to measure service quality called CARTER, which is based on 34 items. The study showed significant validity for all CARTER items that have appeared in both important items' weights and percentages. Also, the strong link between service quality and customer satisfaction has been discussed and the study has defined it as a system of CARTER-items process inputs and overall satisfaction outputs. Finally the study suggests a scenario plan for KFH to adopt service quality and showed the importance of training to do so.

Hasan & Ahmad (2002) realized that 55 percent of bankers and 69 percent of customers believed that the mere faith in Islam to be the basis of development of Islamic banking system in Bangladesh. About 15 percent and 23 percent of them, respectively, believed that the intention is to earn profit.

3.7.7 Convenience

Several studies were conducted to test the importance of convenience on customers' bank selection decision such as (Erol and El-Bdour (1989), Erol *et al.* (1990), Haron *et al.* (1994), Kader (1993), Gerrard and Cunningham (1997), Metawa and Amossawi (1998), Naser *et al.* (1999), Otman and Owen (2002), Ahmad & Haron (2002), and Abbas *et al.* (2003).

3.7.8 Services

Erol and El-Bdour (1989), Erol *et al.* (1990), Haron *et al.* (1994), Kader (1993), Gerrard and Cunningham (1997), Naser *et al.* (1999), Otman and Owen (2002), Ahmad & Haron (2002), and Abbas *et al.* (2003) in their study found that service is an important factor to determine customers' bank selection decision.

Service quality has been viewed as a significant issue in the banking industry. It is because the service quality is both directly and indirectly related to bank loyalty via satisfaction of the customers. Therefore, nowadays the banks managers are more focused to enhance their service to enable banks to maintain their competitive advantages.

Satisfaction loosely means enough or not enough to excess. Thus, the customer satisfaction can be defined as the customer's fulfilment response. Services are often characterised as intangibility, heterogeneity, and simultaneity. In the banking industry, the service quality had been viewed as an important issue for the banker. Since financial services are generally undifferentiated products, it becomes imperative for banks to strive to improve service quality if they want to distinguish themselves from the competitor.

Therefore, according to Roth and Velde (1991) and Bennet (1992) found there were positive relationship between high levels of service quality and improved financial performance has been established. In addition, according, customer's perception will influence the service quality performed by the staff. Spathis (2004) demonstrated that gender differences as a factor influencing customer perception of service quality also. As a result, the gender factor was mainly affecting the service quality perceptions factor when they choosing a bank to utilize. Hassan and Shirley (2009) examined the customer's perception on service quality in retail banking in the Middle East at Qatar. They found that tangible factor such as infrastructure facilities of bank was the most important dimension influencing customers perceptions to the service quality of bank, followed by the empathy dimension such as timing of bank and returns on deposit. The lower perceptions were the competence dimension such as the method of imposing service charges, and reliability dimension such as customers 'guidance.

The study shows that service will remain a critical factor in determining customer satisfaction with financial services offered by different banks such as hour of

operation, fast and efficient service, reception at the bank, friendliness of bank personnel, parking space availability, knowledgeable about your business, and inter-branch facilities.

4.7 Summary

This chapter discusses the theories of banking, such as theory of financial intermediation and the role of banking system in the national economy. The theories and concepts of Islamic banking, including its operation and regulation are also discussed. The empirical studies can be divided into individual and corporate will also focus.

CHAPTER FOUR

METHODOLOGY

4.0 Introduction

This chapter describes the research methodology used to examine the factors influencing customers' confidence and decision making to select Islamic banking system in Thailand. The discussion of methodology is structured as follows: Section 4.1 describes the research framework and section 4.2 presents hypothesis development. Section 4.3, deal with research design, which covers the data collection. Section 4.4 looks at measurement and operationalization of variables, analysis of reliability of instruments, analysis of instruments, and then followed by the data collection in section 4.5. Section 4.6 highlights the reliability and validity method of assessment. Lastly, section 4.7 discuss to technique of data analysis.

4.1 Research Framework

This study is based on Theories of Consumer Behaviour (conventional and Islamic), Consumer Buying Behaviour, Consumer Decision Making and Theory of Planed Behaviour. The starting point for the model is the attributes related to the factors' confidence that are linked to bank selection decision. The conceptual framework illustrates the relationship between the variables used in this study. The conceptual framework is developed based on the literature review on the consumer buying behavior, consumer decision making and bank selection decision.

The survey of literature review on Islamic banking points out that confidence is an important element before customers make decision to select a bank (Erol & El-Bdour

(1989), Erol *et al.* (1990) Haron *et al.* (1994), Gerrard & Cunningham (1997), Naser *et al.* (1999), Otman & Owen (2002), Abbas *et al.* (2003), Dusuki & Abullah (2007), Ahasanul Haque *et al.* (2009), and Rashid & Hassan (2009). This is also premised on the factor that a Muslim is tied to the six pillars of belief. One of these six pillars is the belief in the Judgment Day which can guide a person's behavior to do what is permissible and not permissible according to Islamic. In the Islamic banking context, we hypothesized that the determinant of Islamic banking has a connection with confidence level before they make a decision to select the Islamic banking.

This study investigates the factors influencing customer confidence and their linkage to selection Islamic banking in Thailand. From Factor analysis, some factors emerge as important factors influencing customer selection of Islamic banking. These are reputation, convenience, service and confidence. Further analysis from literature review, we find three variables have been identified as significant factors influencing customer selection criteria. These factors are religion, attitude and knowledge. The factors selected for testing are:

- (1) Religion,
- (2) Reputation,
- (3) Customer Knowledge,
- (4) Customer Attitude,
- (5) Convenience,
- (6) Service.

The dependent variables are Confidence and Bank Selection Decision.

Figure 4.1 illustrates the theoretical relationship of eight variables of the study (six independent variables and two dependent variables). The relationship demonstrates the direct and indirect relationship of six independent variables, i.e. Religion, Reputation, Customer Knowledge, Customer Attitude, Convenience, and Service to Confidence and Bank Selection Decision (as dependent variables).

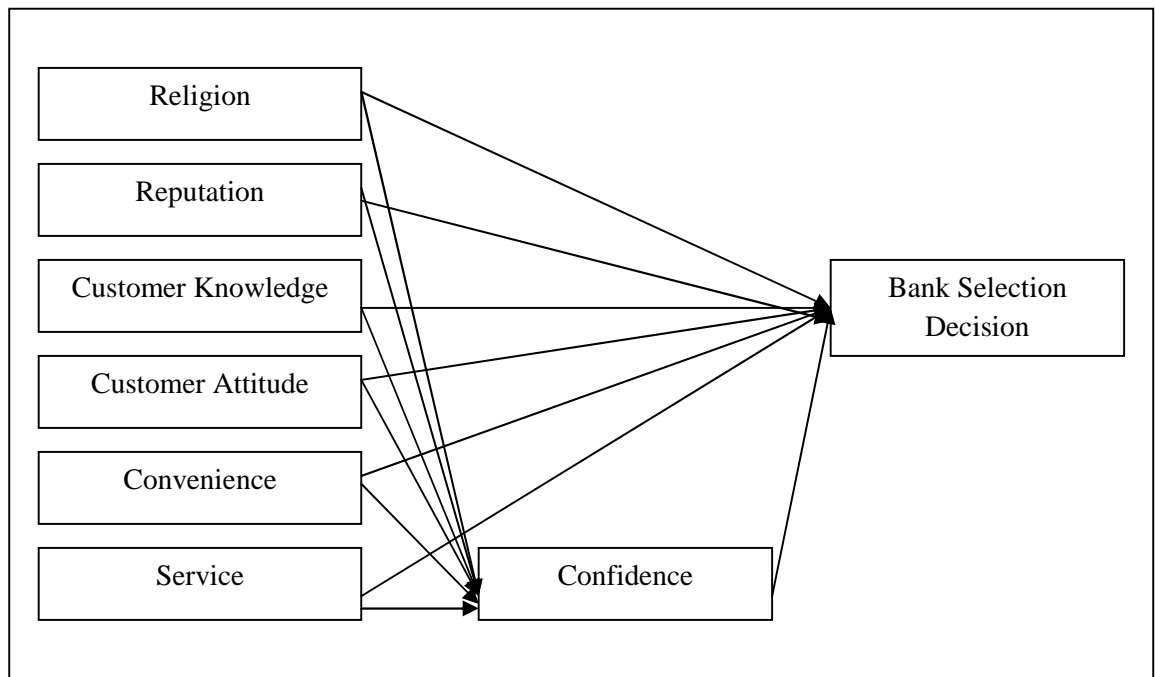


Figure 4.1
The Conceptual Framework of the Study

4.2 Hypothesis Development

The reviews on relevant theories and past studies are useful in developing the conceptual framework for this study as presented in Figure 4.1. This section outline the research hypothesis based on relationship of the factors to confidence and linkage to bank selection decision in Thailand. We also hypothesize that there exists direct and indirect paths between customer's confidence and customers' bank selection decision as depicted in the conceptual framework.

We hypothesize that the mentioned six independent variable are correlated to the confidence level of customers in Islamic banks. Further to this, we also hypothesize that there exist direct and indirect path between the six factors with confidence and bank selection decision. Based on this study, confidence level of customers is dependent on religion, reputation, customer knowledge, customer attitude, convenience, and service. In this model, religion, customer knowledge, and customer attitude are internal factors, while bank reputation, service, and convenience are external factors.

The model will test the following hypotheses:

4.2.1 Religion to Confidence

The first hypothesis is the relationship between religion factor and confidence. As mention in the underpinning theory of financial intermediation from Islamic perspective (Zamir & Abbas; 2007). The financial intermediation in Islam to provides a set of intermediation contract, which facilitate an efficient and transparent execution of transaction and financing contract. As far as the theory of consumer buying behavior from Islamic perspective is concerned, Kahf (1976) mentioned that the behavior of

human is dominated by three principles; namely the belief in the Last Day, the Islamic concept of success, and the Islamic concept of riches. These principles have a significant impact on the decision making of customer (Haron & Shanmugam, 1997). In line with Kader (1993); Kader (1995); Metawa & Amossawi (1998); Naser *et al.* (1999); Otman & Owen (2002); Dusuki & Abdullah (2007); Haque *et al.* (2009); Awan & Bukhari (2011); Ahmad *et al.* (2011); Lee & Ullah (2011); Hamid & Masood (2011); there is a positive and significant relationship between religion and confidence to selection decision on Islamic banking.

For example a person who has strong religion might choose to do transaction with an Islamic bank by acting as his faith, as he believes that an Islamic bank will operate based on *Shariah* principles and therefore, accepted by Allah. This is a hypothesized direct relationship between religion to confidence and bank selection decision. Hence, the hypothesis statement between religion and confidence is stated as:

H₀: There is no significant effect of religion on confidence.

H_a: There is a significant effect of religion on confidence.

4.2.2 Reputation to Confidence

The second hypothesis is the relationship between Reputations to Confidence. Bank reputation can be a determinant factor for building self-confidence of customers. Researches show that, bank reputation can draw attention of many customers, which can be the reason the customer confidence. The relationship could happen between bank reputation and bank selection decision through confidence. Review of literatures showed

that reputation is one of the significant factors in bank selection. Research by Erol & El-Bdour (1989); Erol *et al.* (1990); Haron *et al.* (1994); Kader (1993); Kader (1995); Gerrard & Cunningham (1997); Naser *et al.* (1999); Otman & Owen (2002); Ahmad & Haron (2002); Dusuki & Abdullah (2007); Gait & Worthington (2008); Gait & Worthington (2008); Hamid & Masood (2011) showed that, there is a positive and significant relationship between reputation and confidence. The relationship between Reputation (defined by bank reputation and its image, confidentiality of bank, external appearance of bank, internal appearance of bank, confidence in bank manager) and bank confidence is evident. In this study, a higher reputation on the Islamic bank is expected to achieve offer better confidence, hence we hypothesize as follows;

H₀: There is no significant effect of Reputation on confidence.

H_a: There is a significant effect of Reputation on confidence.

4.2.3 Customer Knowledge to Confidence

Erol & El-Bdour (1989); Erol *et al.* (1990); Haron *et al.* (1994); Gait & Worthington (2008); provides evidence that customer who have knowledge about Islamic banking tend to have greater confidence to select Islamic banking, hence we hypothesize as follows;

H₀: There is no significant effect of Knowledge on confidence.

H_a: There is a significant effect of Knowledge on confidence.

4.2.4 Customer Attitude to Confidence

According to Erol & El-Bdour (1989); Erol *et al.* (1990); Haron *et al.* (1994); Gait & Worthington (2008); Awan & Bukhari (2011), provide evidence that customer's attitude have impact on bank selection in this case we hypothesize that customers who have positive attitude towards Islamic banking operations and practices would develop greater confidence to select Islamic banking. Hence the hypothesis is:

H₀: There is no significant effect of attitude on confidence.

H_a: There is a significant effect of attitude on confidence.

4.2.5 Convenience to Confidence

In line with Erol & El-Bdour (1989); Erol *et al.* (1990); Haron *et al.* (1994); Kader (1993); Kader (1995); Gerrard & Cunningham (1997); Metawa & Amossawi (1998); Naser *et al.* (1999), Otman & Owen (2001); Ahmad & Haron (2002); Abbas *et al.* (2007); Dusuki & Abdullah (2007); Lee & Ullah (2011), it is hypothesized that there is a positive and significant relationship between convenience and confidence. The relationship between convenience (defined by available parking space nearby, knowledgeable about your business, inter-branch facilities) and bank confidence is evident from the past studies. The rationale for this hypothesized relationship is that customers tend to judge the facilities available and their perceived understanding is that the more facilities a bank provides, the better the customers. Hence, we state the hypothesis as:

H₀: There is no significant effect of convenience on confidence.

H_a: There is a significant effect of convenience on confidence.

4.2.6 Service to Confidence

In line with Erol & El-Bdour (1989); Erol *et al.* (1990); Haron *et al.* (1994); Kader (1993); Kader (1995); Gerrard & Cunningham (1997); Naser *et al.* (1999); Otman & Owen (2002); Ahmad & Haron (2002); Abbas *et al.* (2007); Dusuki & Abdullah (2007); Haque *et al.* (2009); Wan Marhaini *et al.* (2008); Rashid & Hassan (2009); Gait & Worthington (2008); Awan & Bukhari (2011), there is a positive and significant relationship between service and confidence. The relationship between service (defined by hour of operations, fast and efficient service, reception at the bank, friendliness of bank personnel, and a wide range of services offered) and bank confidence is evident. For an example, a higher service quality by Islamic bank is expected to achieve better confidence from customers to choose services of Islamic bank. Hence, the statement is hypothesized as:

H₀: There is no significant effect of service on confidence.

H_a: There is a significant effect of service on confidence.

4.2.7 Confidence to Bank Selection Decision

In line with Erol & El-Bdour (1989); Erol *et al.* (1990); Haron *et al.* (1994); Gerrard & Cunningham (1997); Naser *et al.* (1999); Otman & Owen (2002); Abbas *et al.* (2003); Haque *et al.* (2009); Rashid & Hassan (2009); is found to have an influence

on bank selection decision. The difference is that past studies are confidence as an independent variable whereas in this study, confidence is located as a moderating variable, which suggest that confidence would drive or strengthen the selection process. Hence, the hypothesis is stated as:

H₀: There is no significant effect of confidence on bank selection decision

H_a: There is a significant effect of confidence on bank selection decision

4.3 Research Design

This section pays attention to the presentation of research design. Zikmund (2003: 58) defined research design as a master plan that specifies the methods and procedures for collecting and analysing the needed information; it is a framework for the research plan of action. This study has been conducted to find out the factors influencing the confidence level of customer in Islamic banks and tracing the path linking this confidence to the customers' decision making to select Islamic banking in Thailand, through moderating variable, confidence. The moderating effect of confidence is measured using structural equation modelling using AMOS system.

This study employs survey technique on a sample of Islamic banking customers in the southern province of Thailand, namely, Yala, Pattani, and Narathiwat as show in Figure 4.2. As stated by Cronin (1997) customers and financial institutions both seek mutual relationships. Hence, exploring relationship information through survey studies is relevant especially to the banks' management that need to formulate the appropriate

brand and marketing strategies necessary to attract new customers and also to retain existing ones (Kaynak & Kucukemiroglu, 1992).



Figure 4.2
The Map of Southern Pprovinces of Thailand: Yala, Pattani and Narathiwat

A self-administered questionnaire was distributed to the customers of Islamic banks in the regions. The data collected from the survey was examined by Factor Analysis. This analysis was conducted to extract key constructs that represent the main factors that affect customer confidence. These constructs or factors were subsequently analysed using Structural Equation Modelling to identify their impact or influence on customers' confidence in Islamic banking as well as their linkage to selection of Islamic banking. The constructs that were selected were those with factor loading of 0.7 and above. They are religion, convenience, reputation, service, customer attitude and customer knowledge, which are used as independent variables in the conceptual model.

Analysis was conducted to test the direct and indirect paths/relationships based on the output of the SEM technique.

The direct and indirect relationships are hypothesised based on the Intermediation Theory. From Islamic perspective, a customer and a banker enters into an Islamic contract based on trust. In other words, when the customers trusts or has confidence in the bank as a financial intermediary as stimulated in the intermediation theory, they will decide to select the bank to conduct their banking transaction. Similarly, a bank will trust its customers to provide correct information when applying for banking facilities which present them from exposed to agency problems and able to carry out their function to monitor and invest the customers' money. This is an essence of the Diamond Delegated Monitoring Theory on the banker, customer fiduciary relationship.

4.4 Measurement and Variables Operationalization

This section deals with measurement among variables, including operationalization, instrument development, and scale. As discussed before, the first dependent variable of this study is customer confidence and this variable also function as independence variable for bank selection decision. The second dependent variable is bank selection decision. The first regression model comprises religion, reputation, customer knowledge, customer attitude, convenience, and services, which the second layer is customer confidence. The development of the measurements for all variables is summarized in Table 4.1.

Table 4.1

Summary of Variables and Measurement of Instruments

Construct	Scale	Number of Items
Confidence	1 – 5 points	3
Bank selection decision	1 – 5 points	23
Religion	1 – 5 points	1
Reputation	1 – 5 points	5
Customer knowledge	1 – 5 points	15
Customer attitude	1 – 5 points	9
Convenience	1 – 5 points	3
Service	1 – 5 points	5
Total Items		64

4.4.1 Confidence

This section will discuss the question, how the respondents viewed a series of factors in influencing the confidence on Islamic banking system, on a five-point Likert-type scale, ranging from 5 = very important, 4 = Important, 3 = Not sure, 2 = Not important, and 1 = Not very important. The confidence construct is operationalized into three dimensions (Size of bank, Location being near home or work, Recommendation from friend or relative) based on the literature review and adapted from Anderson *et al.* (1976); Kaynak (1986); Laroche *et al.* (1986); Erol & El Bdour (1989); Haron *et al.* (1994); Ahmad & Haron (2002); and Dusuki & Abdullah (2007).

4.4.2 Bank selection decision

This section will discuss the question, how respondents viewed a series of factors in selecting the Islamic banking system”, on a five-point Likert-type scale, ranging from 5 = very important, 4 = Important, 3 = Not sure, 2 = Not important, and 1 = Not very important. The bank selection construct is operationalized into four dimensions (bank reputation, convenience, bank service, and confidence) based on the literature review and adapted from Anderson *et al.* (1976); Laroche *et al.* (1986); Kaynak (1986); Erol & El Bdour (1989); Haron *et al.* (1994); Ahmad & Haron (2002); and Dusuki & Abdullah (2007).

4.4.3 Religion

This section will discuss the question, how respondents viewed religion in choosing the Islamic banking system”, on a five-point Likert-type scale, ranging from 5 = very important, 4 = Important, 3 = Not sure, 2 = Not important, and 1 = Not very important. The religion construct has been used by Anderson (1976), Kaynak (1986), Laroche (1986), Erol & El Bdour (1989), Haron (1994), Ahmad & Haron (2002), and Dusuki & Abdullah (2007) in their past study.

4.4.4 Reputation

This section will discuss the question, how respondents viewed reputation in choosing the Islamic banking system”, on a five-point Likert-type scale, ranging from 5 = very important, 4 = Important, 3 = Not sure, 2 = Not important, and 1 = Not very important. The reputation construct is operationalized into seven dimensions that is Financial counselling services provide, Bank reputation and its image, Confidentiality of bank, External appearance of bank, Internal appearance of bank, and Confidence in bank

manager based on the literature review and adapted from Anderson *et al.* (1976), Kaynak (1986), Laroche *et al.* (1986), Erol & El Bdour (1989), Haron *et al.* (1994), Ahmad & Haron (2002), and Dusuki & Abdullah (2007).

4.4.5 Customer Knowledge

The dimension of customer knowledge was developed based on the concept of Islamic banking, its theory and application. The study employed a five-point scale to measure the knowledge of respondents, where 1 = absolutely untrue, 2 = Untrue, 3 = Not sure, 4 = True, and 5 = Absolutely true. Items for customer knowledge were derived and adopted from Erol & El Bdour (1989); Erol *et al.* (1990); and Haron *et al.* (1994). Customer's knowledge is measured using 15 questions:

1. Knowing the existence of Islamic banking system.
2. Source of knowledge of Islamic banking system (respondents can give more than one source).
3. The reasons, which motivate people to deposit their money at an Islamic bank,
4. Islamic banking system was introduced because Muslims are prohibited from associating themselves with the element of interest practice by conventional banking system.
5. Both Islamic and conventional banks must adopt profit maximization principle in order to survive in this competitive business environment.
6. The profit-sharing principle is the only principle that can replace the element of interest in the operations of Islamic banking system.

7. Islamic banking is a financial intermediary; it involves direct participation in business on the principles of sharing profit and loss in order to ensure social equity, fair and justices
8. The concept of *Mudharabah* and *Musyarakah* can be created an entrepreneur in community
9. The application of *Shariah* principles available for use by Islamic banking in delivering their products and services into four categories, namely, profit and loss sharing, fee or charge, free service, and ancillary.
10. There are three sources of funds for Islamic banking, namely, contributions made by the owner (s), short-term liabilities and depositors' money.
11. The first type of Islamic banking system in Thailand is Islamic Window, which introduced by Thai Saving Bank.
12. Is it true that the Islamic banking products available in Thailand are similar to the products of conventional banks except that the banks use different names in highlighting those products?
13. Islamic banking system in Thailand is for Muslim customers
14. Understanding the differences between Islamic banking system and conventional bank.
15. How do you rate your overall knowledge in the Islamic banking system?

4.4.6 Customer Attitude

The dimension of customer attitude was developed based on the attitude of customer as studied by Erol & El Bdour (1989); Erol *et al.* (1990); and Haron *et al.* (1994). The study employed a five-point scale to measure the attitude. Where, 5 = strongly agree, 4 =

Agree, 3 = do not know, 2 = disagree, and 1 = strongly disagree. Customer attitude is measured using 9 questions:

1. Do you agree that if more branches of Islamic banking open up throughout the country, more people will utilize the services provided by these banks?
2. Do you agree that the granting of interest-free loans by Islamic banks is considered a contribution on the part of the bank to help the community in a just and efficient manner?
3. The elimination of interest rate charged on loan provided for investment projects, housing construction, purchasing a car or truck and financing on the basis of profit-loss-sharing between the bank and borrower will be advantageous to the borrower.
4. The fact that Islamic banks are on the increase in numbers and in operation as compared with a decline in interest-based banking will result in an improvement of the community's economic condition by way of wealth redistribution between the rich and poor in a just manner.
5. Policy of the Thai government to merge the Krung Thai Syariah bank and Islamic bank of Thailand is right decision for maintenance future efficiency and stability.
6. The establishment of foreign Islamic banks (as branches) in Thailand will bring more choice to customers thus expands the Islamic financial system as a whole.
7. In case the Islamic bank announce that it will not distribute any profit on investment and saving deposits this year, what would you do if you were an investor and depositor?

8. The potential of Islamic banking products in Thailand.
9. Do you think that Islamic banks have done enough in marketing their products to customers?

4.4.7 Convenience

This section will discuss “how the respondents convenience viewed in choosing the Islamic banking system”, on a five-point Likert-type scale, ranging from 5 = very important, 4 = Important, 3 = Not sure, 2 = Not important, and 1 = Not very important.

The bank selection criteria construct is operationalized into four dimensions:

1. Available parking space nearby,
2. Knowledgeable about your business,
3. Inter-branch facilities,
4. Mass media advertising

4.4.8 Service

This section will discuss “how the respondents viewed service in choosing the Islamic banking system”, on a five-point Likert-type scale, ranging from 5 = very important, 3 = Important, 3 = Not sure, 2 = Not important, and 1 = Not very important.

The bank selection criteria construct is operationalized into nine dimensions:

1. Available credit with favourable terms,
2. Lower service charges,
3. Lower interest charges on loan,
3. Higher interest payment,
4. Hours of operations,
5. Fast and efficient service,

6. Reception at the bank,
7. Friendliness of bank personnel,
8. a wide range of services offered.

4.5 Data Collection

The data used in this study is primary data, collected from the questionnaires sent to the respondents. The respondents consist of Islamic banking customers who live in the southern region of Thailand and have accounts with Islamic banks in the region. Some statistics based on secondary data and information in the development of Islamic banking in Thailand are also extracted from various published documents to present the background development of Islamic banking in Thailand.

The questionnaire was back translated from English to Thai and Thai to English as to ensure functional equivalence of its items in the two languages. A pilot test was conducted using questionnaires. From the pilot test, we find some questions were not clear and ambiguous in term of wording. Correspondingly, the researcher has modified and improved the questionnaire according to the feedback from the bank managers.

4.5.1 Sampling Method

This research required a comprehensive list of customers. The survey conducted was with customers of Islamic banking, both financing customers (borrowers) and depositors of the leading full-fledged Islamic bank in Thailand that is Islamic Bank of Thailand. The sample covers three branches located in southern border provinces of Thailand namely, Yala, Pattani, and Narathiwat.

A study conducted in Yala, Pattani, and Narathiwat was considered necessary and desirable for three major reasons. Firstly, most of the Islamic bank's customers were located in these provinces. Secondly, these provinces represented a competitive banking environment compared with other provinces and thirdly, Islamic banking system has been operating in these areas. Total population of Islamic bank customers is approximately 50,000 people base on the three branches in the three provinces. Base on for Krejcie and Morgan (1970) the desired sample size is 381 for the last ten years. A total of 450 questionnaires distributed, 327 were returned, out of which 300 were usable (valid and completed), thereby yielding a response rate of about 67 per cent. The sampling method is purpose random sampling method.

4.5.2 Instrumentation

A questionnaire was developed to address Objective 1 to Objective 4. The questionnaire was adapted from previous related questionnaire developed by Erol (1989), Erol & El Bdour (1990), Haron *et al.* (1994). The questionnaire contains five sections as follow:

1. Section A: Respondents' profile (demographics and socio-economic characteristics of respondents).
2. Section B: Questions about key determinants of bank selection criteria made by Islamic banking customers.
3. Section C: Questions to investigate the knowledge of Islamic bank' customers.
4. Section D: Question about respondents' attitude on Islamic banking.

5. Section E: Questions about customers' confidence to decision making on Islamic banking selection.

4.5.3 Data Collection Procedure

This study employed two methods of data collection strategy, and they are: (1) questionnaire administration on the customers, and (2) conduct interview with bank managers. The objective of the interview is to ensure questions are fully covered, so that we can get opinions from practitioners. This study is a field survey by nature. Data required for this study were hand delivered to respondents and self-administered questionnaires distributed by student workers. They were personally collected.

The interview with the bank managers with the aid of questionnaires that this study employed also has a great deal of advantages, as supported by Kerliger (1986) and Miller (1991). Personal interviews were conducted during the pilot study to improve the questionnaire. Respondents were randomly selected from Islamic banks' customers who visited the sampling locations during various working hours of the same day (morning and evenings) during working days of the week to reduce any potential bias owing to high concentration of bank customers during certain hours of the day, or certain days of the week or month. This study uses the time period of 3 months, covering five days a week during working hours.

4.6 The Reliability and Validity Assessment

A systematic pilot test was conducted to ascertain the reliability and validity of the instruments used to measure the variable of this research. Measurement error represents one of the major sources of error in survey research (Biemeret *et al.*, 1991;

Malholtra & Grover, 1998). Prior to data analysis, the research instrument was assessed for its reliability as well as construct validity.

Reliability indicates dependability, stability, predictability, consistency and accuracy, and refers to the extent to which a measuring procedure yields the same results on repeated trials (Kerlinger, 1986; Carmines & Zeller, 1979). Reliability is assessed after data collection, four most common methods used to estimate reliability are: test-retest method, alternative form method, split halves method, and internal consistency method. Cronbach's coefficient alpha was computed for each variable to test for reliability as shown in Table 4.2.

Table 4.2
Reliability Level of Instruments – During Pilot Study

Construct	Cronbach Alpha Before Adjustment	Dropped Items
1. Bank selection criteria	0.882	None
2. Customer Knowledge	0.731	None
3. Customer Attitude	0.874	None
4. Confidence	0.832	None

4.6.1 Validity Test

Construct validity is the most complex and the most critical to substantive theory testing (Bagozzi *et al.* 1991). To analyse for convergent and discriminant validity of the constructs, factor analysis was used. In this study, factor analysis is applied for bank selection criteria.

4.7 Techniques of Data Analysis

The data analyses were presented in the form of descriptive statistics, correlation, factor analysis output (principal component analysis and varimax rotation) and structural equation modelling.

4.7.1 Descriptive Statistics

Descriptive analysis is a measure of central tendencies and dispersion. It is often useful to describe a series of observations in a data set parsimoniously and in a meaningful way, which would enable individual to get an idea of the basic characteristics of the data. Standard descriptive statistics such as mean, standard deviations, variance, and the like were reported for all variables to provide a fundamental picture of the data set. Ranges and frequencies distributions were be used to assess the accuracy of data entry. Skewness and Kurtosis were also reported to provide evidence of normal distributions of the variables.

4.7.2 Correlation

Correlation is a statistical technique that can show whether and how strongly pairs of variables are related. The purpose correlation is a measure of the relation between two or more variables. The measurement scales used should be at least interval scales, but other correlation coefficients are available to handle other types of data. Correlation coefficients can range from -1.00 to +1.00. The value of -1.00 represents a perfect negative correlation while a value of +1.00 represents a perfect positive correlation. A value of 0.00 represents a lack of correlation.

4.7.3 Factor Analysis

A statistical tool designed to summarize such inter-relationships is principal component analysis. One of the functions performed by the principal component analysis is to group variables into new factors that retain a maximum of information contained in the original variable set. Factor analysis assumes that the covariance between a set of observed variables can be explained by a smaller number of underlying latent factor.

In factor analysis, the present study sets the following three criteria; (1) minimum number of items contained under a factor is three, (2) cut-off factor loadings were considered significant at or above the ± 0.500 level, and (3) factors loaded with less than three items were not retained. Friendly (1995) argued that at least 2 variables are need to form factor, however, it is better to have at least 3 to 5 variables believed to measure each factor. In this study, the internal consistency of the extracted factor, the degree to which items intercorrelate, was measured by Cronbach's coefficient alpha.

4.7.4 Structural Equation Modelling (SEM)

Structural Equation Modelling or SEM, is a very general statistical modelling technique, which is widely used in the behavioural sciences. It can be viewed as a combination of factor analysis and regression or path analysis. The interest in SEM is often on theoretical construct, which are represented by the latent factors. The relationships between the theoretical constructs are represented by regression or path coefficients between the factors. The structural equation model implies a structure for the covariance between the observed variables, which provides the alternative name covariance structure modelling (Hox & Bechger; 1998).

Structural equation modelling provides a very general and convenient framework for statistical analysis that include several traditional multivariate procedures, for example factor analysis, regression analysis, discriminant analysis, and canonical correlation, as special case. Structural equation models are often visualized by a graphical path diagram. The statistical model is usually represented in a set of matrix equations (Hox & Bechger; 1998).

The advantage of path analysis over regression is that it concurrently performs multiple regression analyses while it produces an overall assessment of the model's fit, usually based on a chi square statistic (Singh and Wilkes, 1996). In addition, several goodness-of-fit indexes are available to better judge the model's fit. The AMOS (Analysis of Moment Structure) version 6, statistical package was used at this stage.

a) Goodness of Fit Index

The first step in SEM is to conduct confirmatory factor analysis (CFA) to determine if the proposed factor solution fit the data by assessing factor loading of the variables. At this stage, indices of goodness of fit Index (GFI) and Root Mean Square Error of Approximation (RMSEA) test results are reported to check for exactness of fit, and the goodness of fit is recorded based on Goodness of Fit Index (GFI). GFI values of greater than 0.90 are considered good. RMSEA is another measure that attempts to correct for the tendency of the measurement for goodness of fit and it bests represents how well a model fits a population, not just a sample used for estimation. Lower RMSEA values indicate better fit. Typically values are below 0.10 for most acceptable

models. One key advantage in using RMSEA is that a confidence interval can be constructed giving the range of RMSEA value for a given level of confidence. For example, it enables us to report that RMSEA is between 0.03 and 0.08, with 95% confidence. RMSEA less than or equal to 0.08 indicates a reasonable error of approximation while a value above 0.10 indicates significant problems with the model.

The second step is to examine the convergent validity of constructs in order to determine that all measurement is internally consistent, reliable and valid for further analysis (Byrne, 1998). The composite reliability was computed to verify the internal consistency of measurement scale. This study calculated the composite reliability and assessed the internal consistency of the measurement model. Construct reliability can be calculated as follows: square of the summation of the factor loading divide with square of the summation of the factor loading plus summation of standard error. The interpretation of the result coefficient is similar to Cronbach's alpha, except that composite reliability takes into account the actual factor loading rather than assuming that each item is equally weighted in the composite load determination.

A Parsimonious fit measure is improved either by a better fit or by a simpler model. Normed Chi-Square (CMIN/DF), ratio between 1 and 2 is a good measurement for parsimonious fit model (Hair *et. al*, 1998). The parsimonious nomad fit index (PNFI) is another useful measure for determining model parsimony with the higher values reflecting greater model parsimony (Hair *et. al*, 1998; Johlke and Duhan, 2001). Wheaton et al. (1998) suggest a ratio of approximately five (5) or less as beginning to be reasonable. Carmines and McIver (1981) suggested the ratio in the range of 2 to 1 or 3 are indicative of an acceptable fit between the hypothetical model and the sample size.

In this study, the ratio value (CMIN/DF) for final structural model is 2.827 which indicates that this model has a good fit measurement for parsimonious model, meaning that this model is within the acceptable level between the model and the sample size.

The third step in SEM is to develop complete path model which can be depicted in a path diagram. In this complete path model, all variables are latent variables measured by multiple indicators which have associated error terms in addition to the residual error factor associated with the latent dependent variable (Hair *et. al*, 2010).

b) Mediation Effect Using SEM

A mediation effect is created when a third variable/construct intervenes between two other related constructs. The mediation effects in structural model in term of direct and indirect effects.

Direct effects are those relationships that link two constructs with a single arrow. Indirect effects are those relationships that involve a sequence of relationships with at least one intervening construct involved. Thus, an indirect effect is a sequence of two or more direct effects (compound path) and is represented visually by multiple arrows. The following Figure 4. 3 show both a direct effect (K → E) and an indirect effect of K on E in the form of a K → M → E sequence. The indirect effect represents the mediating effect of construct M on the relationship between K and E.

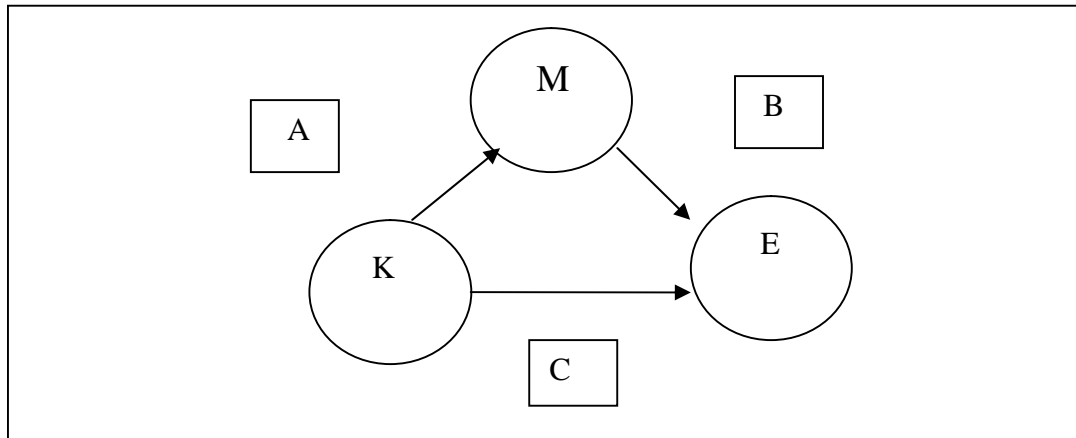


Figure 4.3
Direct and Indirect Effect

Mediation requires significant correlations among all three constructs. Theoretically, a mediation construct facilitates the relationship between the other two constructs involved. Complete mediation as the mediation construct completely explains the relationship between the two original constructs and partial mediation that there is still some of the relationship and that is not explained away by the mediator.

A researcher can determine if mediation exists, and whether it is complete or partial, in several ways. First, if the path labelled C is expected to be zero due to mediation (representing complete mediation), a SEM model can present mediation by including only the paths A and B in the model. It would not include a path directly from K to E. If the estimated model suggests the sequence K → M → E provides a good fit, it would support a mediating role for M. In addition, the fit of this model could be compared with the SEM results of a model including the K → E path (C). If the addition of path C improves fit significantly as indicated by the χ^2 , then complete mediation is not supported. If the two models produce similar χ^2 then mediation is supported.

According to Hair *et al.* (2010), a series steps to evaluate mediation are as follows:

Estimate an initial model with only the direct effect (C) between K and E. Then estimate a second model adding in the mediating variable (M) and the two additional path estimates (A and B). Then assess the extent of mediation as follow:

- a. If the relationship between K and E (path C) remains significant and unchanged one M is included in the model as an additional predictor, then mediation is not supported.
- b. If C is reduced but remains significant when M is included as an additional predictor, then partial mediation is supported.
- c. If C is reduced to a point where it is not statistically significantly after M is included as a mediating construct, then full mediation is supported.

In this study, confidence was examined as mediator.

4.7.5 Mathematical Model

Based on the factor analysis and the literature review, the model of this study is as follows:

$$BSD = X_0 + X_1 CON + e_{it} \dots\dots\dots (i)$$

$$CON = \beta_0 + \beta_1 REL + \beta_2 REP + \beta_3 KNO + \beta_4 ATT + \beta_5 CNV + \beta_6 SER + e_{it} \dots\dots\dots (ii)$$

Where,

CON = Confidence

BSD = Bank Selection Decision

REL = Religion

REP = Bank Reputation

KNO	=	Customer Knowledge
ATT	=	Customer Attitude
CNV	=	Convenience
SER	=	Service
$X_{0, 0}$	=	Constant,
e_{it}	=	standard error of item i in time t

4.8 Summary

This chapter discussed on theoretical framework, hypothesis development, research design, variables measurement, data collection, analysis of validity and reliability, that being used in this study. The results and analysis are presented in the Chapter Five.

CHAPTER FIVE

RESULTS AND DISCUSSION

5.0 Introduction

This chapter presents the results of data analysis of this study. The results obtained are presented in three sections. Section 5.1 explains the demographic analysis of the respondents in relation to objective 1. Section 5.2 presents the factors identified from factor analysis as in objective 2. Section 5.3 discusses the SEM results in relation to Objective 3 and 4 of this study.

5.1 Descriptive Statistics

5.1.1 Profile of the Respondents

A total of 450 sets of questionnaire have been sent and 300 were useable making the respond rate of 67.0 percent. Table 5.1 presents the profile of the respondents in this study. It is found that retail customers and corporate customers make up 48.3 percent and 51.7 percent respectively. Another important demographic characteristic is gender. The results show 63 percent of the respondent are female while 37 percent are male. 62 percent of the respondents' age is in the range between 20 to 40 years old. This shows that Islamic bank customers are mostly young and highly educated since 41 percent are degree holders. Majority of the respondent' income (49 percent) earned up to 5,000 to 10,000 Baht per month, with a quarter of them earning 10,000 to 20,000 Baht per month. This finding indicates that most of Islamic bank customers earning between 5,000 to

20,000 Baht, thus, most of Islamic bank customers are middle-class households. This table provide banks with market segmentation information which could be used for formulating appropriate strategies:

Table 5.1
Respondents' Profile (n=300)

	Total	%
Types of Customer		
<i>Retail Costumer</i>	145	48.3
<i>Corporate Costumer</i>	155	51.7
Total	300	100.0
Gender		
<i>Male</i>	111	37.0
<i>Female</i>	189	63.0
Total	300	100.0
Age		
<i>20-29 years</i>	186	62.0
<i>31-40 years</i>	76	25.3
<i>41-50 years</i>	30	10.0
<i>51-60 years</i>	8	2.7
Total	300	100.0
Region		
<i>Yala</i>	100	33.3
<i>Narathiwat</i>	100	33.3
<i>Pattani</i>	100	33.3
Total	300	100.0
Resident		
<i>Urban</i>	155	51.7
<i>Rural</i>	145	48.3
Total	300	100.0
Level of Education		
<i>Secondary</i>	175	58.3
<i>University/College</i>	125	41.7
Total	300	100.0

Table 5.1 (Continued)

	Total	%
Category of employers		
<i>Businessman</i>	23	7.7
<i>Entrepreneur</i>	33	11.0
<i>Government/public agency</i>	86	28.7
<i>Employee</i>	59	19.7
<i>Commerce</i>	10	3.3
<i>Agriculturer</i>	2	0.7
<i>Student</i>	31	10.3
<i>Teacher Private School</i>	54	18.0
<i>Professional</i>	2	0.7
Total	300	100.0
Income		
<i><5000 Baht</i>	52	17.3
<i>5000-9999 Baht</i>	148	49.3
<i>10000-19999 Baht</i>	77	25.7
<i>20000 - 29999 Baht</i>	13	4.3
<i>30000 - 39999 Baht</i>	3	1.0
<i>> 40000 Baht</i>	7	2.4
Total	300	100.0

Table 5.1 also show that corporate customers make up 51.7 percent of the total respondents, while retail customers make up 48.3 percent. This distribution to a certain extend is due to the fact that many branches of Islamic Bank of Thailand are located in city centres. Hence, many customers of Islamic bank are corporate customers. The corporate customers differ widely from the retail customers in term of their structure and characteristics. Corporate customers are generally smaller in number but larger in business size and more complex than retail customers (McKechnie & Harrison, 1990).

Since the customer composition of Islamic Bank of Thailand is largely corporate customers, therefore, the bank has to consider different marketing strategies to this

market segmentation; i.e., to cater for their various banking needs for Islamic banking products and services.

Table 5.2
Corporate Customer Respondents' Profile

	Total	%
Types of Business		
<i>Single owner</i>	69	23.0
<i>Partner</i>	15	5.0
<i>Ltd. Co.</i>	11	3.7
Category of Business		
<i>Retail Trade</i>	25	8.3
<i>Wholesale Tread</i>	21	7.0
<i>Manufacturing</i>	8	2.7
<i>Service sector</i>	31	10.3
<i>Other</i>	5	1.7
Year on Job/business		
<i>Less than 1 year</i>	6	2.0
<i>2 to 3 years</i>	23	7.7
<i>3 to 4 years</i>	15	5.0
<i>5 year or more</i>	46	15.3
No of owners		
<i>Single</i>	71	23.7
<i>2 to 3</i>	11	3.7
<i>4 to 5</i>	5	1.7
<i>More than 5</i>	3	1.0
Monthly sale		
<i><10,000 Baht</i>	14	4.7
<i>>10,000-30,000 Baht</i>	29	9.7
<i>>30,001-50,000 Baht</i>	9	3.0
<i>>50,001-100,000 Baht</i>	4	1.3
<i>>100,000 Baht</i>	34	11.5

The next set of results is presented in Table 5.2, which identifies background of corporate customers of the Islamic bank. The types of business are divided into single owner (23 percent), following by partnership (15 percent) and company limited (11

Table 5.1 (Continued)

	Total	%
Category of employers		
<i>Businessman</i>	23	7.7
<i>Entrepreneur</i>	33	11.0
<i>Government/public agency</i>	86	28.7
<i>Employee</i>	59	19.7
<i>Commerce</i>	10	3.3
<i>Agriculturer</i>	2	0.7
<i>Student</i>	31	10.3
<i>Teacher Private School</i>	54	18.0
<i>Professional</i>	2	0.7
Total	300	100.0
Income		
<i><5000 Baht</i>	52	17.3
<i>5000-9999 Baht</i>	148	49.3
<i>10000-19999 Baht</i>	77	25.7
<i>20000 - 29999 Baht</i>	13	4.3
<i>30000 - 39999 Baht</i>	3	1.0
<i>> 40000 Baht</i>	7	2.4
Total	300	100.0

Table 5.1 also show that corporate customers make up 51.7 percent of the total respondents, while retail customers make up 48.3 percent. This distribution to a certain extend is due to the fact that many branches of Islamic Bank of Thailand are located in city centres. Hence, many customers of Islamic bank are corporate customers. The corporate customers differ widely from the retail customers in term of their structure and characteristics. Corporate customers are generally smaller in number but larger in business size and more complex than retail customers (McKechnie & Harrison, 1990).

Since the customer composition of Islamic Bank of Thailand is largely corporate customers, therefore, the bank has to consider different marketing strategies to this

percent). The categories of business are retail trade (8 percent), wholesale trade (7 percent), and service sector (10 percent). Most of corporate customer own one firm (23.7%). Which largely have been operating between 5 years or more.

5.1.2 Factors Determining Islamic Bank Selection

Table 5.3 shows the key factors which customers identified as important in selecting Islamic banking. From the table, it was found that the most important criteria chosen by the customers is fast and efficient services (Mean=4.57, SD=0.72), followed by reception at the bank (Mean=4.46, SD=0.76), confidentiality of bank (Mean=4.41, SD=0.67), religious motives (Mean=4.32, SD=0.83), and financial counselling service provide (Mean=4.31, SD=0.91). Other results indicate that the reputation, confidence, and religious motives still maintain strong influence on some of the customers of Islamic bank in Thailand's decision making selection process.

These findings are similar to the findings of earlier studies, fast and efficient service is similar to Erol & El-Bdour (1989), Turnbull & Gibbs (1989), Haron (1996), Kaynak (1996), Abbas *et al.* (2003), and Dusuki & Abdullah (2007). Additionally, the religious issue is also perceived as one of the important criteria to be considered for the selection of Islamic banking service. This result supports Erol *et al.*, (1990); Haron *et al.*, (1994); Metawa & Almosawi, (1998); Naser *et al.*, (1999); Ahasanul Haque *et al.*, (2009).

Table 5.3
Factors Influencing Islamic Bank Selection

Items	Mean	SD	Rank
1. Available credit with favourable terms	3.99	0.75	17
2. Lower service charges	4.10	0.78	13
3. Lower interest charges on loan	3.91	0.96	19
4. Higher interest payment	3.97	1.06	18
5. Hours of operations	4.20	0.88	9
6. Fast and efficient service	4.57	0.72	1
7. Reception at the bank	4.46	0.76	2
8. Friendliness of bank personnel	4.30	0.82	6
9. A wide range of services offered	4.08	0.87	14
10. Financial counselling services provide	4.31	0.91	5
11. Bank reputation and its image	4.27	0.85	7
12. Religious motives	4.32	0.83	4
13. Confidentiality of bank	4.41	0.67	3
14. External appearance of bank	4.13	0.83	11
15. Internal appearance of bank	4.21	0.73	8
16. Confidence in bank manager	4.16	0.91	10
17. Size of bank	3.63	0.98	22
18. Location being near home or work	3.73	0.98	21
19. Recommendation from friend or relatives	3.44	0.92	23
20. Available parking space nearby	4.06	0.94	15
21. Knowledgeable about your business	4.11	0.76	12
22. Inter-branch facilities	4.06	0.83	16
23. Mass media advertising	3.82	0.95	20

5.1.3 The Customer's Knowledge on Islamic Bank

It is observed that most of the Islamic bank customers in the 3 provinces perceived that Islamic banking was introduced because Muslims are prohibited from associating themselves with the element of interest practiced by conventional banking system. The customers also perceived that the profit/loss sharing principle is the only principle that can replace the element of interest in the operations of Islamic banking system, and Islamic banks must adopt profit maximization principle in order to survive in this competitive business environment. It is expected that all of the customers totally disagree that Islamic banking system in Thailand is only for Muslim customers.

When asked about their action should Islamic Bank announces to not distribute any profit for the year or making loss, majority of the respondents (41%) said they would withdraw all of their deposits. 34.3% of the respondents will consult relatives before taking any action. Only 12% of the respondent will keep the deposits because of religion and the other 12.7% of them will remain the deposits with Islamic bank in anticipation of setting higher return next year.

a) Knowing about the existence of Islamic Banking System

Out of 300 respondents, 282 (94%) of them know about the existence of Islamic Banking System in Thailand. It is described in Table 5.4. It is found more female than male respondents know about the Islamic banking system. It is also found that 173 of them (58%) are high school education while the rest have university or college education. This statistic shows that the Islamic banking customers are educated and the approach towards marketing Islamic products to them should be information.

Table 5.4

Knowing the Existence of the Islamic Banking System

	Yes	No	Total
Gender			
<i>Male</i>	104	7	111
<i>Female</i>	178	11	189
Total	282	18	300
Level of Education			
<i>Secondary school</i>	173	2	175
<i>University/College</i>	109	16	125
Total	282	18	300

b) Customers' Knowledge on Islamic Banking Product and Services

The respondents were asked about their knowledge about Islamic Banking product and services. The results of their knowledge are described in Table 5.5. The mean value for all categories in Customers' Knowledge of Islamic Banking is greater than 2.65 out of a total score of 5 (with an exception of one category). This indicates that the level of knowledge on Islamic banking system and product is moderately high. However, the knowledge that Islamic banking is not associated with interest or *riba* is very high (Mean=3.77). The customers' knowledge on profit-sharing concept as a tool to eliminate *riba* in business transaction is also high (Mean= 3.23).

However, the respondents know that both Islamic and conventional banks must adopt profit maximization principle in order to survive in this competitive business environment (Mean=3.08, SD=1.24). However, our findings also reveal that the respondents know that Islamic banking system in Thailand is not only for Muslim customers (Mean=2.23, SD=1.28). Of greater interest is the finding that the concept of

Mudharabah and *Musharakah* in community is agreed by majority of the respondents was important.

Table 5.5
Customers' Knowledge on Islamic Banking Product and Services

Items	Mean	SD	Rank
4. Islamic banking system was introduced because Muslims are prohibited from associating themselves with the element of interest practiced by conventional banking system.	3.77	1.45	1
5. Both Islamic and conventional banks must adopt profit maximization principle in order to survive in this competitive business environment.	3.08	1.24	3
6. The profit-sharing principle is the only principle that can replace the element of interest in the operations of Islamic banking system.	3.23	1.22	2
7. Islamic banking is a financial intermediary; it involves direct participation in business on the principles of sharing profit and loss in order to ensure social equity, fair and justices.	2.77	1.15	8

Table 5.5 (Continued)

Items	Mean	SD	Rank
8. The concept of <i>Mudharabah</i> and <i>Musyarakah</i> can create entrepreneurs in a community.	3.05	1.17	4
9. The application of <i>Shariah</i> principles available for use by Islamic banking in delivering their products and services into four categories, namely, profit and loss sharing, fee or charge, free service, and ancillary.	2.78	1.18	7
10. There are three sources of funds for Islamic banking, namely, contributions made by the owner (s), short-term liabilities and depositors' money.	2.88	1.19	5
11. The first type of Islamic banking system in Thailand is Islamic Window and was introduced by Thai Saving Bank.	2.87	1.14	6
12. Is it true the Islamic banking products available in Thailand are similar to the products of conventional banks except that the banks use different names in highlighting those products?	2.65	1.25	9
13. Islamic banking system in Thailand is not only for Muslim customers.	2.23	1.28	10

5.1.4 Customer's Attitude towards Islamic Banking

Table 5.6 shows the customers' attitude towards Islamic banking in the three southern provinces in Thailand. 41.0 percent of the respondents expressed their wish to withdraw all deposits in the event when Islamic banks do not distribute any profit on investment and saving deposits, while 34.3 percent would get consultation from their relatives.

Table 5.6
Attitude on the Prospect of Islamic Banking System

Items	Frequency	Percentage
<i>In case the Islamic bank announce that it will not distribute any profit on investment and saving deposits this year, what would you do if you were an investor and depositor?</i>		
keep the deposits	36	12.0
withdraw all deposit	123	41.0
remain a deposit	38	12.7
consults relatives	103	34.3
Total	300	100.0
<i>The potential of Islamic banking products in Thailand</i>		
very good potential	33	11.0
good potential	9	3.0
some potential	25	8.3
no potential	146	48.7
no potential at all	87	29.0
Total	300	100.0
<i>Do you think that Islamic banks have done enough in marketing their products to customers?</i>		
more than enough	19	6.3
Enough	9	3.0
just enough	26	8.7
not enough	131	43.7
not enough at all	115	38.3
Total	300	100.0

The result suggest that many Islamic bank's customers view return as important, to the extent that they might close their account with Islamic bank if no profit is declared. However, 34.3 percent out of the 300 respondents that say that they would consult their relatives (approximately 103 respondents) suggest that they are not sure

what to do in the event of Islamic banks do not declare profit. This also reflects the influence of relatives' opinion over their decision. On the other hand, 34.3 percent of the respondents reflect the opportunity of Islamic bank to attract this market segment to select Islamic banking.

On the question of whether there is potential for institutions very interesting results were obtained. The results show that 77.7 percent of the respondents answered that they see no potential (48%) and no potential at all (29%) for Islamic banking product in Thailand. This is a surprising result; one that the Islamic Bank of Thailand should take a serious view about present attitude of the respondents. This revealing finding suggests that Islamic bank in Thailand should identify what are the factors that could induce people to consume Islamic banking products and services, or what actions should be taken to expose customers to the potential of Islamic banking products. In other words, there should be clearer product differentiation between Islamic and conventional banking products, so that customers will be more confident about *Shariah* application in Islamic banking and therefore be able to make a better selection.

This need for appropriate marketing strategies is reflected in the subsequent respondents' response. The main response on the question "Do you think that Islamic banks have done enough in marketing their product?" shows that 82.0 percent (not enough = 43.7 percent; not enough at all = 38.3 percent) clearly stated that the marketing efforts to promote Islamic banking products are not enough. Hence, the potential of Islamic banking products are not sufficiently visible to attract more customers.

5.2 Factor Analysis

The factor analysis conducted on the factors show that six variables have been viewed by customers as important in selecting Islamic banking in Thailand. The variables are

- (i) Bank Reputation,
- (ii) Knowledge,
- (iii) Convenience,
- (iv) Attitude,
- (v) Service, and
- (vi) Customer's Confidence.

Having identified these factors, the model for the Islamic banking selection was developed. Another factor was included that is Religion Motives. This factor was included based on past studies that found religion as a strong motive in customers' selection of an Islamic bank (Omar (1992), Hegazy (1995), Metwally (1996), Gerrard and Cunningham (1997), Metawa and Almosawai (1998), Naser *et al.* (1999), Al-Sultan (1999), Ahmad and Haron (2002), Zainuddin (2004), Okumus (2005), Wan Marhaini *et al.* (2008), Gait and Worthington (2008), Haque *et al.* (2009), Ahmad *et al.* (2011), Awan & Bukhari (2011).

5.2.1 Factor Analysis on Knowledge (Customers' Knowledge)

Knowledge construct comprises of 10 items. A 5-point Likert scale was used for items in the knowledge measurement, in which 1 is equal to "absolutely untrue", 5 is equal to "absolutely true", and 3 is equal to "not sure". The varimax rotation method was used to determine the number of factors in the model and the number of significant items loading under each factor.

The result of the analysis shows two factor solutions, however, the second factor (which contains item no. P4_10 and P4_11) falls short of meeting the acceptable criterion in which the factor with three or more loadings above 0.500 in absolute value are reliable. Thus, this factor was not retained in this study. The result also indicated that item no. P4_5 has low factor loading which is below .500. After deleting these contaminated items, namely, item no. P4_5, P4_10, and P4_11, the second PCA produces unidimensionality of knowledge.

The overall correlation of variables (items) was examined and it shows acceptable MSA value (0.798) which is still above the recommended value (0.700). The P-value of Bartlett's test of Sphericity (0.000) was significant. Examination of the MSA values for each variable from the Anti-image correlation matrices identified that item number P4_12 and P4_13 have lower values, which were below 0.700. These problematic items were omitted from the component analysis.

Table 5.7

Factor Analysis on Knowledge (Pattern Matrix after Varimax Rotation)

Construct	Code	Items	Factor loading
Knowledge	P4_4	Islamic banking system was introduced because Muslims are prohibited from associating themselves with the element of interest practice by conventional banking system.	0.645
	P4_6	The profit-sharing principle is the only principle that can replace the element of interest in the operations of Islamic banking system.	0.776
	P4_7	Islamic banking is a financial intermediary; it involves direct participation in business on the principles of sharing profit and loss in order to ensure social equity, fair and justices.	0.740
	P4_8	The concept of <i>Mudharabah</i> and <i>Musyarakah</i> can create entrepreneurs in a community.	0.793
	P4_9	The application of <i>Shariah</i> principles available for use by Islamic banking in delivering their products and services into four categories, namely, profit and loss sharing, fee or charge, free service, and ancillary.	0.850

The construct validity of the knowledge measurement was firstly assessed using PCA with a varimax rotation after deleting item number P4_12 and P4_13. The result of the analysis shows two factor solutions, however, the second factor (which contains item number P4_10 and P4_11) falls short of meeting the acceptable criterion in which the factor with three or more loadings above 0.500 in absolute value are reliable. Thus, this factor was not retained in this study. The result also indicated that item number P4_5 has low factor loading which is below 0.500. After deleting these contaminated items, namely, item number P4_5, P4_10, and P4_11, the second PCA produces unidimensionality of knowledge as shown in the table 5.7.

The variances accounted and total variance explained (overall fit) by this factor is 58.313 percent which was still acceptable for academic purposes. The eigenvalue (2.916) was higher than 1.0 and thus conclusion could be made about the reliability of knowledge as a factor. The internal consistency as measured by Cronbach's coefficient alpha is high (0.805).

5.2.2 Factor Analysis on Attitude (Customers' Attitude)

The result of the factor analysis revealed a single factor structure. The variances accounted and total variance explained (overall fit) by this factor is 74.460 % which was higher than the recommended value (60.00). The eigenvalue (2.978) was higher than 1.0 and thus conclusion could be made about the reliable factor of attitude. The internal consistency as measured by cronbach's coefficient alpha is high (0.883).

There are six items of the customer attitude that also subject to the same factor analysis procedure with a varimax rotation to determine which items should contribute to the separate scale score and allow for correlations among the factors. The respondents used a 5-point Likert scale to indicate their feeling as to how much they disagree or agree with the statement which reflects their attitudes, ranging from 1 (strongly disagree) to 5 (strongly agree).

Table 5.8

Factor Analysis on Attitude (Pattern Matrix after Varimax Rotation)

Construct	Code	Items	Factor loading
Attitude	P6_1	Do you agree that if more branches of Islamic banking open up throughout a country, more people will utilize the services provided by these banks?	0.828
	P6_2	Do you agree that the granting of interest-free loans by Islamic banks is considered a contribution on the part of the bank to help the community in a just and efficient manner?	0.860
	P6_3	The elimination of interest rate charged on loan provided for investment projects, housing construction, purchasing a car or truck and financing on the basis of profit-loss-sharing between the bank and borrower will be advantageous to the borrower.	0.907
	P6_4	The fact that Islamic banks are on the increase in numbers and in operation as compared with a decline in interest-based banking will result in an improvement of the community's economic condition by way of wealth redistribution between the rich and poor in a just manner.	0.855

The MSA value (0.813) indicates significant overall item-correlation. The null hypothesis was rejected when the P-value of Bartlett's test of Sphericity was significant at 0.000. The individual items indicate significant correlations since all items have MSA values higher than the acceptable range (0.700). The results of the above examination of assumptions in factor analysis justify the application of PCA.

The result of the factor analysis revealed a single factor structure as shown in table 5.8. However, item number P6_5 and P6_6 were excluded due to low factor loading and negative factor loading respectively, in order to make a reliable and interpretable pattern matrix.

5.2.3 Factor Analysis on Bank Selection Criteria

There are 23 items that being used to measure bank selection criteria. The respondents used a 5-point Likert scale to indicate their feeling as to how much they think the factor is important for them to select the bank, ranging from 1 (very not important) to 5 (very important). The varimax rotation method was used to determine the number of factors in the Bank Selection Criteria instruments, and the number of significant items loading under each factor.

The overall correlation variables (items) were examined and the MSA value is above the recommended value. However, items number P2_1, P2_2, P2_3, P2_4, and P2_12 were excluded from the list due to their MSA value were less than 0.700. These

items were considered as problematic and the exclusion has increased the overall MSA value from 0.862 to 0.878.

The construct validity of the Bank Selection Criteria (BSC) instrument was firstly assessed using PCA with a varimax rotation. However, the result of the analysis shows that the factor matrix is hard to interpret, due to existence of problematic items. Hence, items with low factor loading (items number P2_10 and P2_23) were identified and deleted to improve the model. After the problematic items were deleted, the BSC instrument was reanalyze using PCA varimax rotation method, and a 4-factor solution was extracted from the instrument.

Table 5.9 shows the 4 factor solution obtained after eliminating problematic items. The first component which includes item number P2_11 (Bank reputation and its image), P2_13 (Confidentiality of bank), P2_14 (External appearance of bank), P2_15 (Internal appearance of bank), and P2_16 (Confidence in bank manager) shared the common label of “bank reputation”. This factor contributes around 36 percent of the reason for selecting Islamic banking. Since factor 1 has the highest eigenvalue and variance, it necessarily represents the most important factor that has influenced on customers’ bank selection.

The second component which comprises item number P2_20 (Available parking space nearby), P2_21 (Knowledgeable about your business), and P2_22 (Inter-branch facilities) share the common label of “bank convenience” and it contributes

approximately 10 percent to customers' selection decision. The third component (item number P2_5 (Hour of operations), P2_6 (Fast and efficient service), P2_7 (Reception at the bank), P2_8 (Friendliness of bank personnel), and P2_9 (A wide range of services offered)) was labelled as "bank service" due to its sharing behaviour.

The last component (item number P2_17 (Size of bank), P2_18 (Location being near home or work), and P2_19 (Recommendation from friend or relatives)) shared the common label of "customer confidence". A summary of factor loading, eigenvalues and total variance explained is also shown in the table.

Table 5.9

Factor Analysis on BSC (Pattern Matrix after Varimax Rotation)

Construct	Code	Items	Factor loading
Bank Service	p2_5	Hour of operations	0.630
	p2_6	Fast and efficient service	0.567
	p2_7	Reception at the bank	0.637
	p2_8	Friendliness of bank personnel	0.713
	p2_9	A wide range of services offered	0.535
Bank Reputation	p2_11	Bank reputation and its image	0.540
	p2_11	Confidentiality of bank	0.686
	p2_14	External appearance of bank	0.706
	p2_15	Internal appearance of bank	0.601
	p2_16	Confidence in bank manager	0.584
Customer Confidence	p2_17	Size of bank	0.687
	p2_18	Location being near home or work	0.657
	p2_19	Recommendation from friend or relatives	0.752
Convenience	p2_20	Available parking space nearby	0.659
	p2_21	Knowledgeable about your business	0.825
	p2_22	Inter-branch facilities	0.604

In determining the number of factors to be retained, two main criteria were used. First, a factor to be retained must have a cut-off of 1.00 or greater of eigenvalue. The results for the extraction of common factors show that 4-factor have an eigenvalue of greater than one. The second method is an inspection of the graphical Scree test. The plot typically shows a break between the steep slope of the initial factors and the gentle one of the latter factors.

The factors to be extracted are those which lie before the point at which the eigenvalues seem to level off. The Scree test of eigenvalues reveals a steep descending slope for the first factor before the breaking point where the eigenvalue starts to level off. The second, third, and fourth factor seems to be less descending since its eigenvalues were not as high as those of the first factor. The variances accounted for by the first, second, third, and fourth factor are 35.670 percent, 9.608 percent, 8.381 percent, and 6.389 percent respectively. The total variance explained (overall fit) by the 4-factor is simply the sum of their eigenvalues, which, in this case, was 60.048 percent and was acceptable for academic purposes. Hair *et al.* (1998) suggested that it is not uncommon to consider a solution for social sciences that accounts for 60 % of the total variance and in some instances even less as satisfactory.

The internal consistency of the Bank Selection Criteria instrument, the extent to which items in the instrument have commonalities, was measured by Cronbach's coefficient alpha (see Table 5.10). Cronbach's coefficient alpha for the whole scale was

0.872, and four sub-components were 0.768 for bank service, 0.766 for bank reputation, 0.669 for customer confidence, and 0.715 for bank convenience.

Table 5.10
Internal Consistency Index

Component	Number of Items	Cronbach's Coefficient Alpha
Bank Service	5	0.821
Bank Reputation	5	0.766
Customer Confidence	3	0.669
Bank Convenience	3	0.715
Total Scale	16	0.872

In summary, seven items were deleted due to low Anti-image values and low factor loading. The remaining 16 items were then subjected to the final PCA procedure using the varimax rotation method. The result of analysis reveals 4-factor solutions. This 4-factor solution using 16 items with loadings ≥ 0.500 , and is able to explain 60 percent of the total variance.

Hence, from the literature review and factor analysis, factors emerge as important factor in determining customer confidence in Thailand are religion, reputation, knowledge, attitude, convenience, and service.

5.3 Validity Test

Table 5.11 shows the result for validity test which include Cronbach alpha values, Composite Reliability, Variance Extracted. Based on the Table 5.12 all variables show high reliability.

Table 5.11
Validity Test

Construct (exogenous)	Cronbach's	Composite Reliability	Variance Extracted
Reputation	0.766	0.957	0.636
Knowledge	0.805	0.990	0.923
Attitude	0.883	0.974	0.865
Convenience	0.715	0.945	0.757
Service	0.768	0.964	0.794

Note: Composite Reliability and Variance Extracted are above the 0.7 and 0.5 thresholds respectively.

The results show that while most of customers are confident about Islamic teaching, they are not confidence about their application to bank operation or organization. This is indicated by the results that when the bank announced that it would not distribute any profit on investment and saving deposits, 41 percent of customers state they would withdraw the money from the bank. When asked the potential of Islamic banking of Thailand, the result showed that most of customers said that there is no potential of Islamic banking in Thailand. Also not enough that Islamic bank have done in marketing to customers. The result also indicates that the bank performance is a main factor to make people confident to the bank. In other words, in the early stages of Islamic banking, customers select Islamic banking on grounds of religion, but eventually the selection on Islamic banking also include other factors such as the factor of cost and benefit or rate of return.

In 2005 a larger bank, the Krung Thai Syariah Bank was taken over by a smaller bank the Islamic Bank of Thailand. As a result of this acquisition, losses occurred to Islamic Bank of Thailand due to the excess staff and higher operating costs. This led the government to increase its share of capital to Islamic Bank of Thailand. With some restructuring the bank began to record profits in 2009. But the profitable rate was still regarded small (low). This means that efficiency measures implemented by the bank's administrators were still insufficient. Moreover, the services facilities offered by the bank to its customers were limited when compared to other banks. This led the confidence towards the Islamic Bank of Thailand is still low.

The Islamic Bank of Thailand has administrative staffs in which 50 percent of them are Muslims. Most of the top management administrators are non-Muslims as well as its Managing Director. Although the bank has set up a *shariah* board, but their duties are limited to control and verify the products and not the whole operations in general. Staff personality and behavior is another important factor in attracting the customers confidence to the bank's services. In order to attract customers to select Islamic banking, the staff behavior has to conform to *Shariah* requirement.

It is important to note that, the board of *syariah* is only set at Islamic Bank of Thailand (bank level), and there is no such *syariah* board at the national level under the supervision by the central bank of Thailand. As such to what extent does the *syariah* board of committee, who are being employed by the bank itself, can control the whole operations in the light of *syariah* teaching. This question is answered in low confidence

level response from the respondents. Unlike Thailand, Malaysia has its own *syariah* Advisory at bank level and national level. The Supervisory Committee and Board will ensure better corporate governance and compliance.

This study indicates that the customers choose Islamic bank services based on its confidence towards the Islamic principles and *shariah* governance. The bank has to prove in their implementation of the Islamic principle and must adhere to the *syariah* teachings. However, the *syariah* control must be implemented in a systematic and gradual way to ensure sanctity of Islam in the context of Islamic banking.

Based on this analysis, customers' confidence is very important to customers in their selection of Islamic banking products and services. Therefore, model the determinants of customers' confidence and how the confidence is linked to selection of Islamic bank was extended with the section 5.3.

5.4 Correlation Analysis

As the covariance analysis is highly sensitive to correlations among exogenous constructs, the effect of multicollinearity on the estimation of the regression coefficients was assessed. Hair *et al.* (1998) asserted that "as multicollinearity increases, it complicates the interpretation of the variate as it is more difficult to ascertain the effect of any single variable, owing to their interrelationships" (p. 2). In order to assess the degree of multicollinearity and its effect on the results, discriminant validity was measured by using the values of variance extracted (see table 5.13). To satisfy the

requirements of discriminant validity, the average variance extracted of any two constructs must be more than the square of the correlation between the given two constructs. Table 5.12 shows that the above-mentioned average of variance extracted is more than square correlation between the given two constructs. This means that there is discriminate validity in the model. Thus, conclusion could be made about the absence of multicollinearity and consequently, allow the covariance analysis to produce the best linear unbiased estimates.

Table 5.12
Correlation of Exogenous Constructs

Construct (exogenous)	Reputation	Knowledge	Attitude	Convenience	Service
Reputation	1				
Knowledge	-0.150 (0.023) 0.780	1			
Attitude	0.193 (0.037) 0.751	-0.433 (0.187) 0.894	1		
Convenience	0.585 (0.342) 0.697	0.079 (0.006) 0.840	0.050 (0.003) 0.811	1	
Service	0.710 (0.504) 0.715	-0.195 (0.038) 0.859	0.130 (0.017) 0.830	0.667 (0.445) 0.776	1

Note: Values in bracket indicates square of the correlation value.

Based on the correlation matrix the variables are correlated with r values in range of 0.697 to 0.894 since the r values were less than 0.90 there was no multicollinearity between the all the exogenous variables (Tabachnick & Fidell, 2001). The variable that are closely correlated (but not highly) is service and reputation ($r = 0.710$).

5.5 SEM Results

Structural Equation Modelling (SEM) was used to investigate the determinants of customers' confidence, and its linkage to the selection of Islamic banking. This technique is based on multiple correlation and covariance matrix analyses, of the interrelated dependence relationships collectively and simultaneously in a single model (or one structural equation). In the context of this study, the relationship are between the six factors (religion motive of customer, bank reputation, customer knowledge, customer attitude, bank convenience, and bank service) as independent variables, and confidence and selection of Islamic banking as the dependent variables.

Using the results from Factor Analysis and an inclusion of one variable; Religion, the hypothesized model using SEM result is presented in figure 5.1

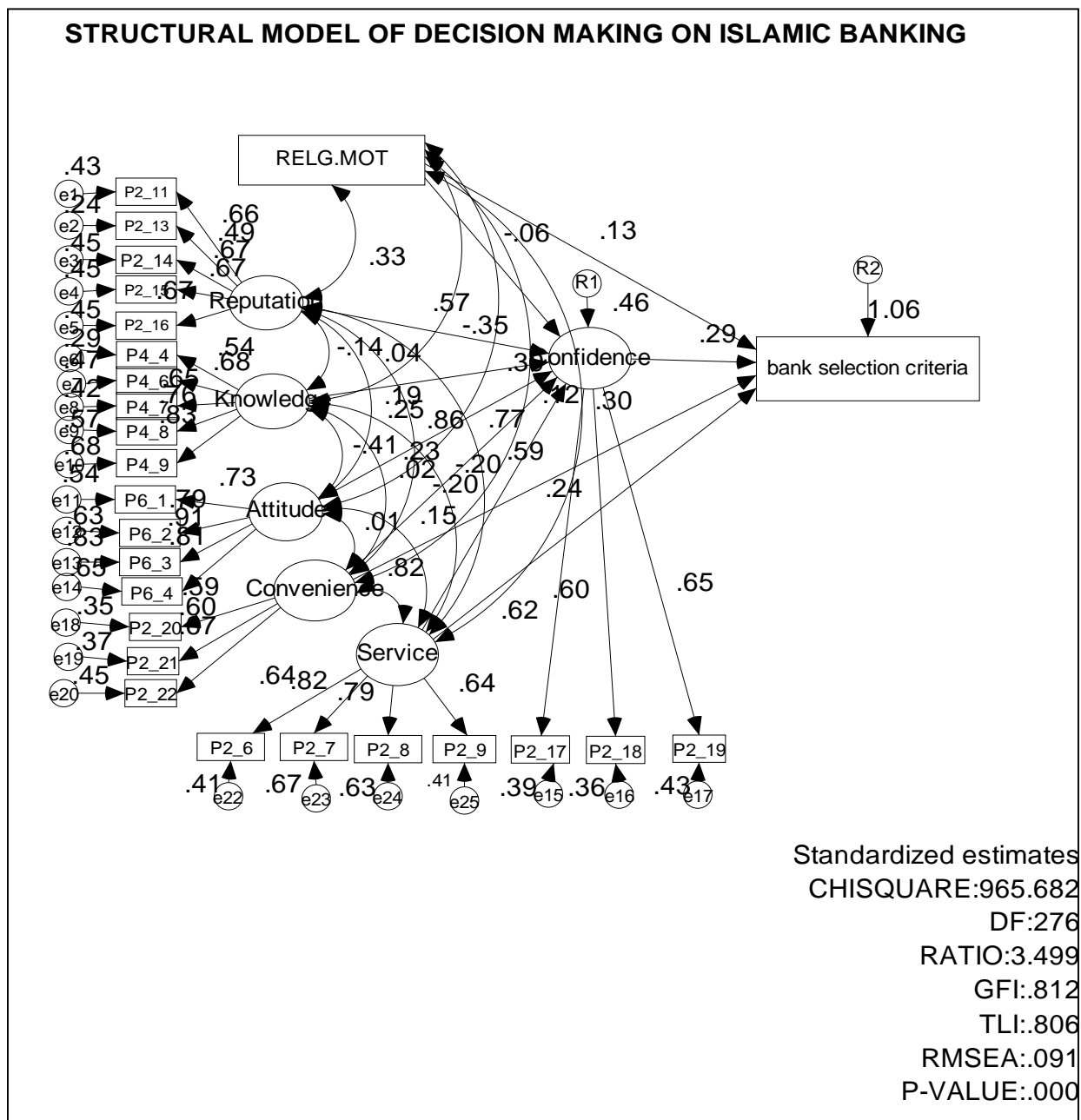


Figure 5.1
Hypothesized Model

5.5.1 Hypothesized Model

In the first round, the model generated from SEM shows GFI equals to 0.812 and TLI equal to 0.806. This is based on standardized estimates. The statistics indicates that the model is not very fit; base on the model the value of RASEA is 0.091, which is greater than the recommended value 0.08 (Hair *et. al*, 2010). In addition the p-value indicator, which indicates the ability or inability for the generalization of the model of this study, was found in the hypothesized model to be 0.000 which means that the result cannot be generated (Hair *et al.* 2010). Thus, the hypothesized model could not be used to test the hypotheses until a generated model was obtained.

Table 5.13
Goodness-of-Fit of Hypothesized Model

Measures	Fit indices	Threshold values
Absolute fit level		
RMSEA	0.091	<0.08
p-value	0.000	≥0.05
Incremental fit level		
GFI	0.812	>0.90
TLI	0.806	≥0.90
Parsimonious fit level		
CMIN/DF	0.276	<2.0

The closer the GFI value is to 1, the better the fit of the model. According to Steven (1996), a value of 0.900 is recommended and this value is used by many researchers as an indication of a good fit. The results in Figure 5.1 shows GEI equals to 0.812, the model appears not to have a strong fit, hence the current model needs to be regenerated to produce a parsimonious model.

5.5.2 Generated Parsimonious Model

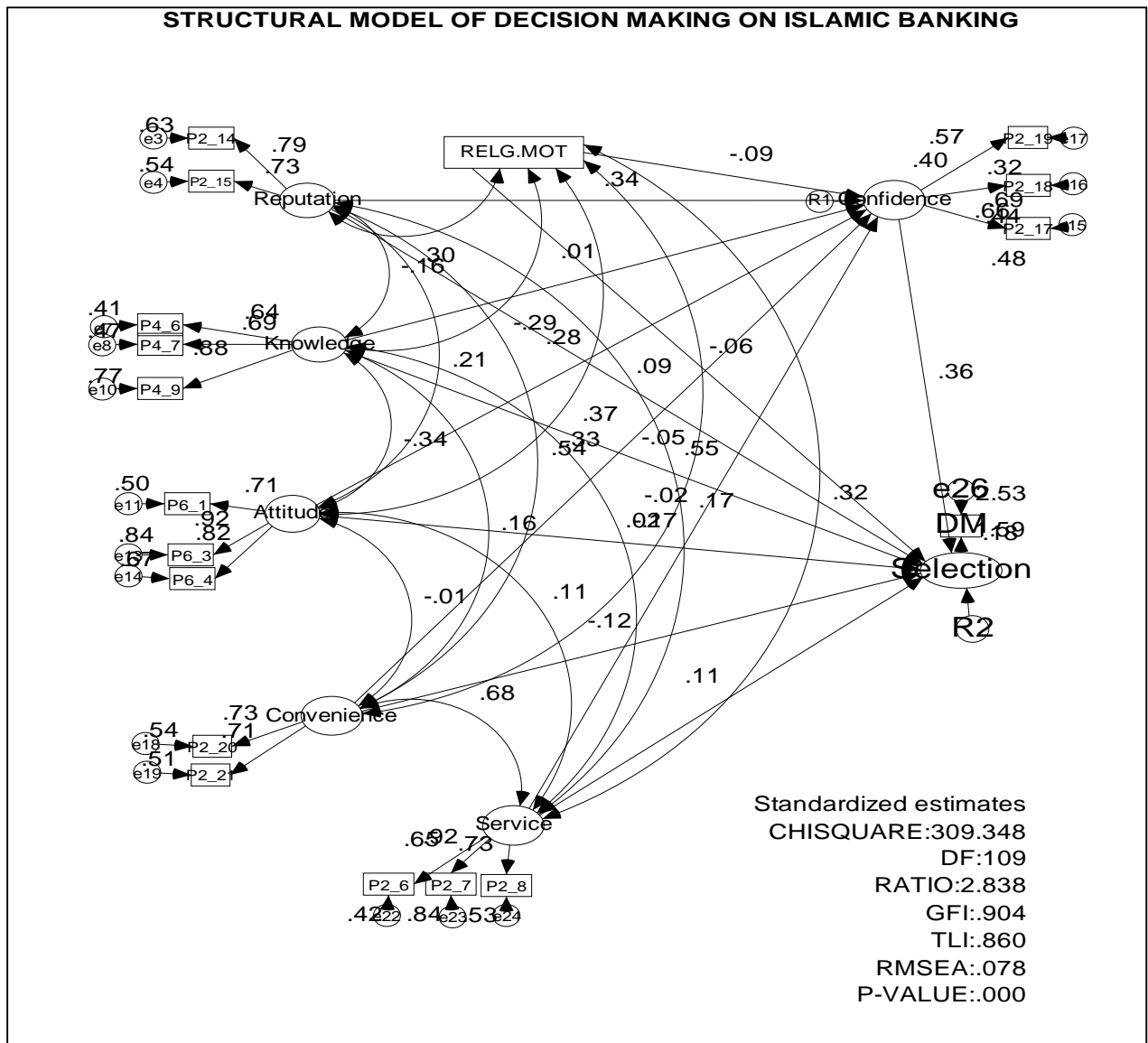


Figure 5.2

Generated Model of Selection of Islamic Bank (with Confidence as Mediator)

In order to generate a Parsimonious model several correlated error terms between the independent variables, namely, religion motive, reputation, knowledge, attitude, convenience, and service were deleted from the model in Figure 5.1 to improve the model fit. As a result, the new parsimonious generated model was achieved with a much

better fit as show in the Figure 5.2. The new GFI is 0.904 and Chi-square equals to 309.348, while TLI is equals to 0.860. The generated model fit the data well as indicated by GFI statistic which is close to 1. Table 5.14 show the relevant statistics for test for goodness of model fit (refer to Appendix for detailed results) based on generated model.

Table 5.14
Goodness-of-Fit of Generated Model

Measures	Fit indices	Threshold values
Absolute fit level		
RMSEA	0.078	<0.08
p-value	0.000	≥0.05
Incremental fit level		
GFI	0.904	>0.90
AGFI	0.851	≥0.90
CFI	0.900	≥0.90
TLI	0.860	≥0.90
Parsimonious fit level		
CMIN/DF	0.109	<2.0

5.5.3 Direct Hypothesis Results

The parsimonious model in figure 5.2 shows the direct and indirect paths to bank selection. Religion motive is significantly and directly related to bank selection but in negative way. However, confidence is directly and positively link to selection of Islamic banking.

On the other hand three factors namely reputation, convenience and attitude are shown to have indirect path to selection. A total of five paths can be seen to significantly affect Islamic banking selection according to the model.

Table 5.15 shows the details of each construct parameter, which comprises of the value of standardize regression weight, standardize error, critical ratio, and significant P-value.

Table 5.15
Direct Hypothesis Testing Results of Generated Model

H	Exogenous		Endogenous	Estimate (Std.)	S.E.	C.R.>1.96	P<0.05	Status	Hypothesis
H1	ATT	→	CON	.278	.036	3.422	***	Sig.	Accept
H2	KNO	→	CON	.014	.090	.149	.881	N.S	Reject
H3	REP	→	CON	.337	.090	2.939	.003	Sig.	Accept
H4	CNV	→	CON	.328	.120	2.053	.040	Sig.	Accept
H5	SER	→	CON	-.024	.096	-.185	.854	N.S	Reject
H6	REL	→	CON	-.095	.046	-1.292	.196	N.S	Reject
H7	REL	→	BSD	-.064	.049	-1.742	.082	N.S	Reject
H8	SER	→	BSD	.109	.102	1.684	.092	N.S	Reject
H9	CON	→	BSD	.365	.145	5.353	***	Sig.	Accept
H10	CNV	→	BSD	-.118	.132	-1.426	.154	N.S	Reject
H11	ATT	→	BSD	.017	.040	.400	.689	N.S	Reject
H12	REP	→	BSD	.093	.097	1.598	.110	N.S	Reject
H13	KNO	→	BSD	-.052	.095	-1.157	.247	N.S	Reject

***Statistically significant at .01 level

Based on the parsimonious model, Confidence acts as an alternative route for the factors to affect Islamic banking selection. Hence, it does have a direct path. That is confidence to Selection; factors that have a significant, direct path are Religion Motive and Service. Reputation, Knowledge, Attitude, and Convenience were found to affect Selection through Confidence.

There are four significance direct paths: attitude and confidence ($\beta = 0.278$, $t\text{-value} = 3.422$), reputation and confidence ($\beta = 0.337$, $t\text{-value} = 2.939$), convenience and confidence ($\beta = 0.328$, $t\text{-value} = 2.053$), and confidence and bank selection ($\beta = 0.365$, $t\text{-value} = 5.353$), out of the 13 hypothesis. Five factors namely religion motif to confidence, religion motif to selection, convenience to selection, knowledge to selection and service to confidence are not significant and negatively related.

The strength of each path in term of the degree of it affecting Selection is indicated by the standardize regression weight, represented by “Estimate (Std.)” in Table 5.15. For factors that have a direct path to Selection, the strength is as shown in the table. However, for factors with indirect paths, the strength is equivalent to their standardize regression weight multiply with confidence’s standardize regression weight ($\beta_{\text{factors}} \times \beta_{\text{confidence}}$). Table 5.15 shows the strength of each path sorted by the strongest (top) to the weakest (bottom).

5.6 Mediating Effect of Confidence Analysis of Generated Model

This study examined the mediating effect of decision making in the relationship between factors confidence and bank selection decision. The findings of mediating effect are discussed as follow:

5.6.1 Mediating effect of confidence in the relationship between attitude and bank selection decision

The Figure 5.3 shows the mediation effect of confidence between attitude and bank selection. This is a full mediation because the beta estimate of attitude continue to be significant with increasing strength ($\beta=0.278$ to $\beta=0.365$) after confidence is introduced.

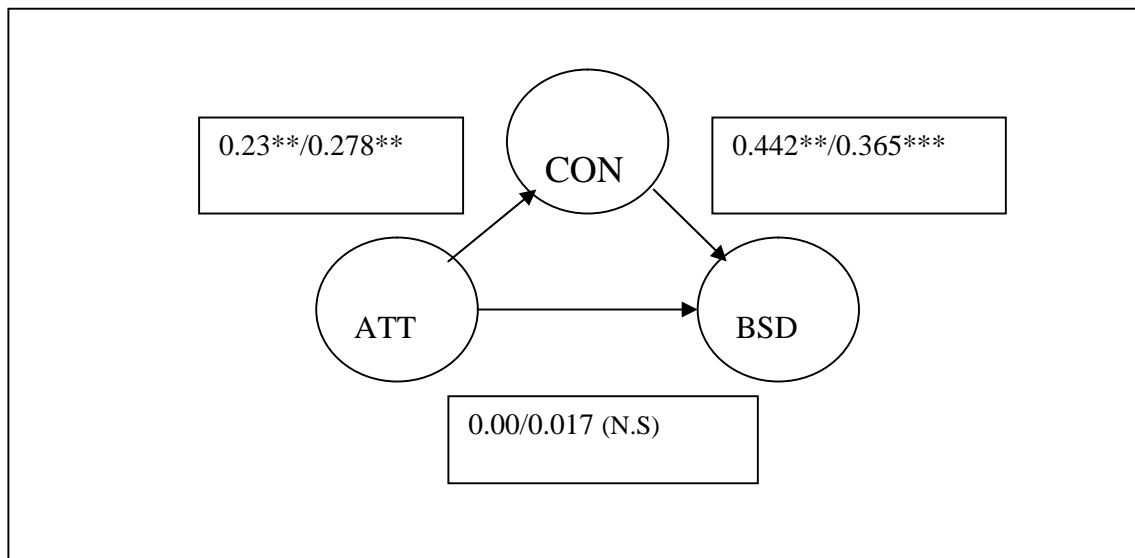


Figure 5.3

Mediating Effect of Confidence in the Relationship between Attitude and Bank Selection Decision

Note: CON = Confidence, ATT = Attitude, and BSD = Bank Selection Decision

The result suggests that when a customer is confident about Islamic banking products in terms of quality of *Shariah* compliance, they form a positive attitude toward selecting Islamic banking.

5.6.2 Mediating effect of confidence in the relationship between convenience and bank selection decision

The Figure 5.4 shows the mediation effect of confidence between convenience and bank selection. There is a full mediation because the beta estimate of convenience continue to be significant with increasing strength (=0.328 to be =0.365) after confidence is introduced.

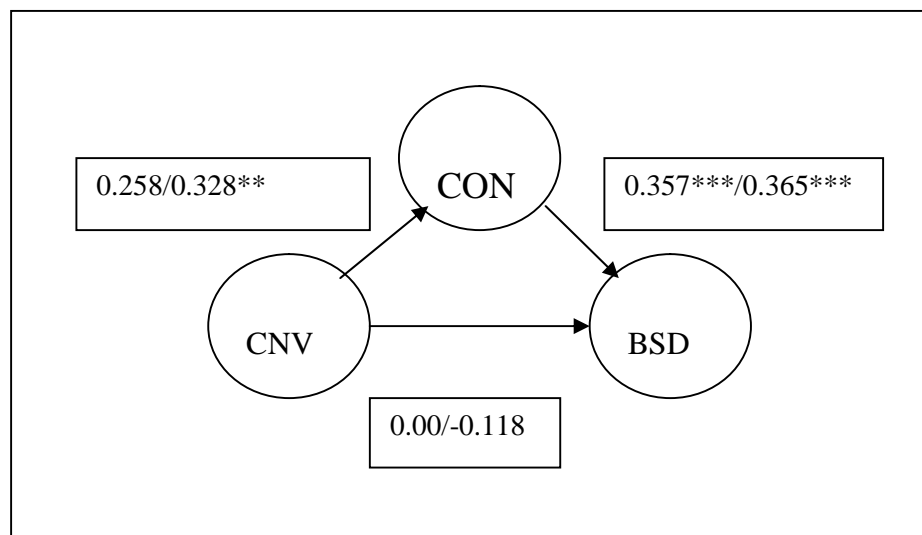


Figure 5.4

Mediating Effect of Confidence in the Relationship between Convenience and Bank Selection Decision

Note: CON = Confidence, CNV = Convenience, and BSD = Bank Selection Decision

The result suggests that if Islamic bank provides convenience to bank customers in term of obtaining and understanding banking information, availability of parking space and information about the banking products, this convenience would enhance the confidence level of the customers towards the Islamic bank. As results they will select Islamic banks to do their banking transaction due to the convenience offered.

5.6.3 Mediating effect of confidence in the relationship between reputation and bank selection decision

Figure 5.5 show a full mediation effect when confidence is introduced in the relationship between reputation and bank selection decision. The beta estimate of reputation continue to be significant with increasing strength ($\beta=0.337$ to be $\beta=0.365$).

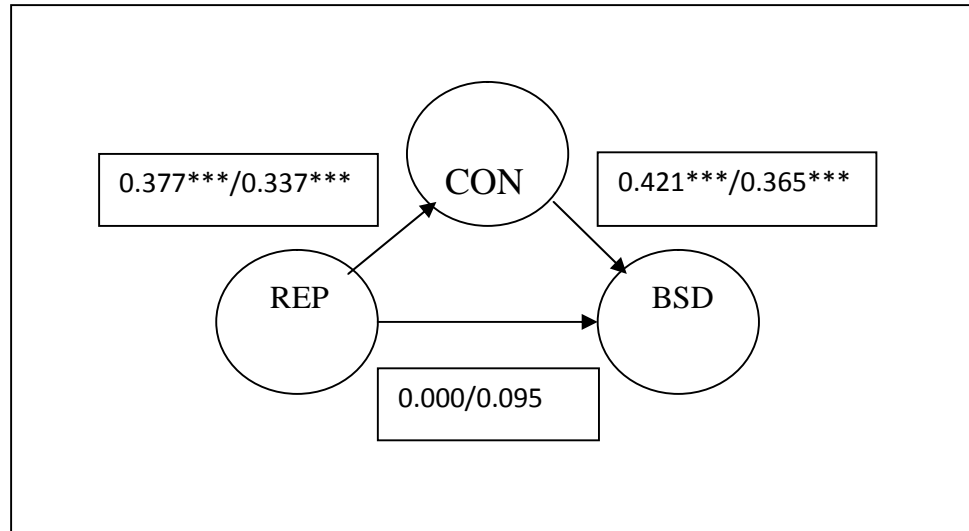


Figure 5.5

Mediating Effect of Confidence in the Relationship between Reputation and Bank Selection Decision

Note: CON = Confidence, REP = Reputation, and BSD = Bank Selection Decision

Reputation of Islamic bank is important to customers because it is attached to integrity and ethical behaviour. The result is consistent with this concept as great reputation enhances customer's confidence to select Islamic bank.

5.6.4 Mediating effect of confidence in the relationship between knowledge and bank selection decision

In term of the relationship between knowledge and bank selection decision, there is no mediation effect because the beta estimate is not significant ($\beta = 0.014$) (see Figure 5.6). Thus confidence did not mediate the relationship between knowledge and bank selection decision.

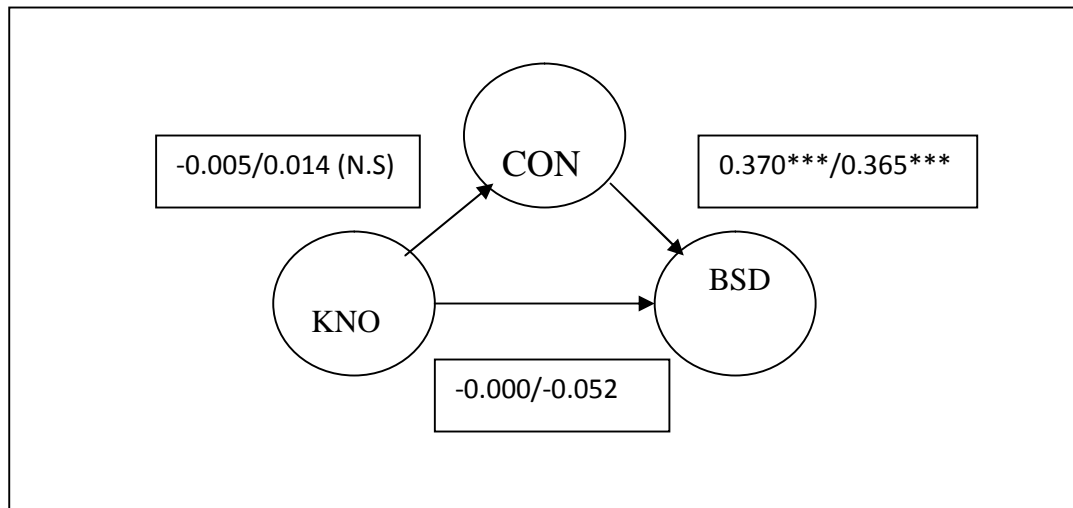


Figure 5.6

Mediating Effect of Confidence in the Relationship between Knowledge and Bank Selection Decision

Note: CON = Confidence, KNO = Knowledge, and BSD = Bank Selection Decision

Confidence appears not having any significant effect in influencing the relationship between knowledge and bank selection. Although not significant, the negative relationship between knowledge and bank selection suggests that the more knowledge the customers have about a particular bank product not complying to *shariah* rules, the less likely. They would select Islamic bank to do their banking transaction.

5.6.5 Mediating effect of confidence in the relationship between service and bank selection decision

Confidence does not mediate the relationship between service and bank selection decision as show in Figure 5.7, where $\beta = 0.024$ with no significant value.

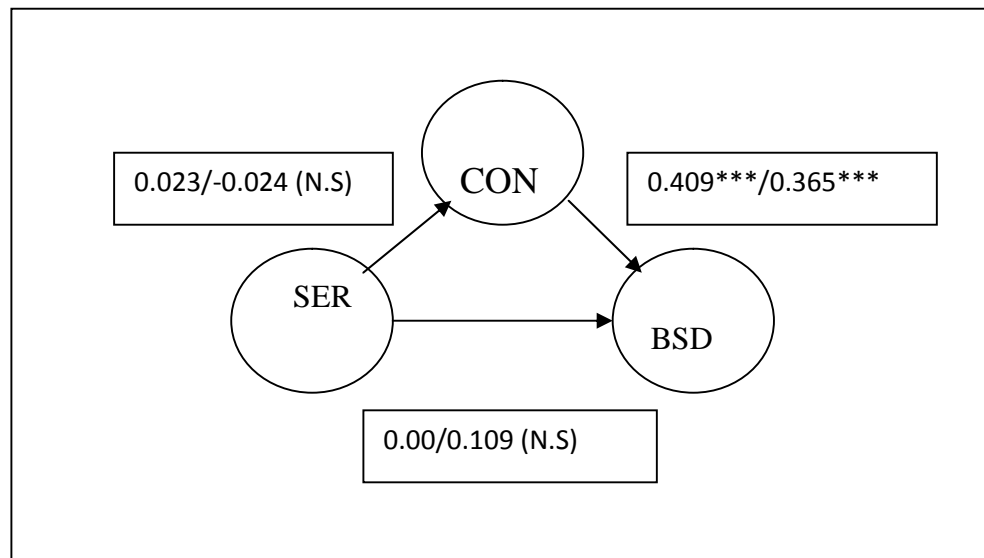


Figure 5.7

Mediating Effect of Confidence in the Relationship between Service and Bank Selection Decision

Note: CON = Confidence, SER = Service, and BSD = Bank Selection Decision

The possible reason for no mediation effect of confidence between service and bank selection is that customers might not select to use Islamic bank if they are still doubtful or not confident about the products or services being *syariah* compliant although the service are good.

5.6.6 Mediating effect of confidence in the relationship between religion and bank selection decision

Figure 5.8 show there is no mediation effect taken place when confidence is introduced in the model as evidence from insignificant in relationship between religion and confidence also bank selection decision ($\beta = 0.337$ to be $\beta = 0.365$). Thus confidence did not mediate the relationship between religion and bank selection decision.

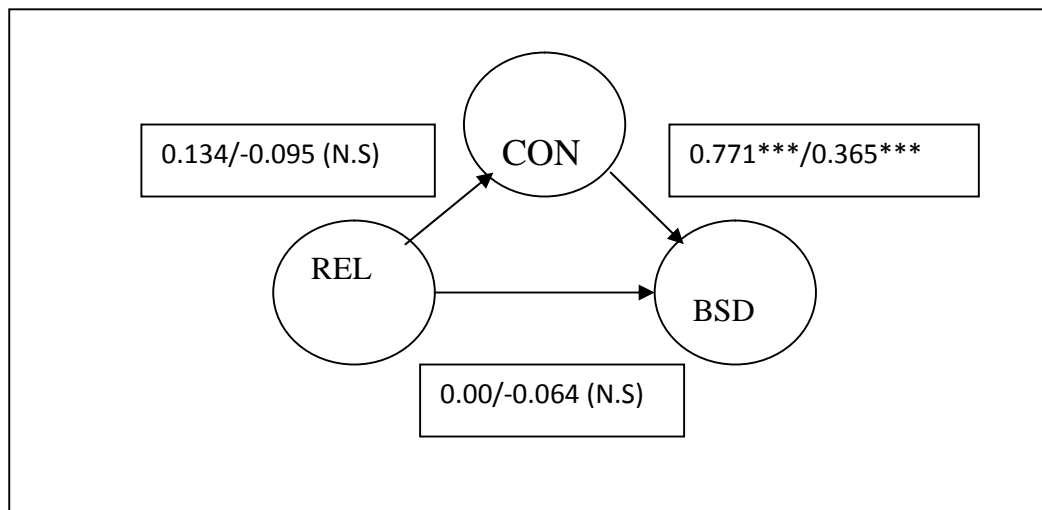


Figure 5.8

Mediating Effect of Confidence in the Relationship between Religion and Bank Selection decision

Note: CON = Confidence, REL = Religion, and BSD = Bank Selection Decision

The possible explanation for this interesting finding is that even though customers might chose Islamic bank due to high religions motives, they might experience lesser and lesser confidence on the Islamic bank of Thailand if they observe that the operations of Islamic bank are not done in compliance to the *Shariah* law and *al-maqasid shariah*.

5.7 Path Analysis

5.7.1 Direct Path

i) Confidence to Selection

The result shows that the respondents' acceptance of Islamic banking in Thailand is still low indicating lack of public confidence on Islamic bank. There are some possible explanations over this matter in relation to customers' confidence. Islamic Bank of Thailand (ISBOT) is relatively a new bank in Thailand financial industry, and it is smaller in size compared to giants such as Bangkok Bank, Kasikorn Bank, and Krung-Thai Bank. As a new bank, ISBOT have small number of branches across Thailand, to be specific, in the three region of Yala, Pattani, and Narathiwat. The positive estimates between confidence and selection show that customer will select Islamic bank as their confidence on the Islamic bank increase.

ii) Religious Motive

Religion is a strong basis to get people to select Islamic bank. However, the finding shows that religious factors do play higher important in Islamic banking selection besides service and confidence.

5.7.2. Indirect Path

i) Attitude

The SEM path analysis shows that attitude is the factor that has the biggest influence over customers' confidence to select an Islamic bank for their banking transactions. The elimination of interest rate charge on loan by the basic

of profit-loss-sharing was also found to have the highest score among items in Bank Selection Criteria instrument, measured by factor analysis. This is depicted of the SEM results where attitude is influential in increasing customers' confidence to select Islamic banking.

ii) Convenience

Factor convenience is found as a major factor in bank selection criteria through indirect relationship with confidence. All the facilities provided by an Islamic bank that promote convenience to customers would increase the customers' confidence to select the Islamic bank as their bank of choice.

iii) Reputation

Factor reputation is a major reason for customer's confidence to consider Islamic bank in their decision. As mentioned earlier, Islamic bank's integrity strategically lie on its reputation. It is therefore imperative for Islamic bank to protect its reputation as a *Shariah* compliant bank to gain the customers' confidence to select Islamic bank.

iv) Knowledge

Factor knowledge was also found to effect customer confidence. The application of *syariah* principles available for the use by Islamic banking in delivering their products and services was also found to have the highest score measured by factor analysis. This finding suggests that it is equally important for

banker and customers to have adequate knowledge about *syariah* principles and their application in Islamic banking.

5.8 Summary

This chapter reported the findings of the study of respondent profile, and the relationship between factors of customer confidence and decision making to selected Islamic banking in Thailand, using descriptive analyses, factor analyses, and structural equation modelling. Confidence and religions motive have direct path to selection Islamic bank, and attitude, convenience and reputation have influence on confidence to select Islamic banking. Hence, confidence as a mediating variable is found in this study to have significant mediating effect in the relationship between attitude, convenience, and reputation and bank selection decision.

CHAPTER SIX

CONCLUSION AND RECOMMENDATION

6.0 Introduction

The purpose of this study is to identify factors influencing customers decision to select Islamic banking in Thailand with confidence as the mediating variable. This study has four objectives namely:

- (i) To document profile of Islamic banking customers in three Muslim dominated regions in Thailand.
- (ii) To identify factors influencing customers' confidence in Islamic banking.
- (iii) To assess the mediating impact of customers' confidence on bank selection.
- (iv) To establish the direct and indirect linkage between determinants of customers' confidence and their selection of Islamic bank.

Three hundreds respondents answered the questionnaires, with total response rate of 64 percent (64%). This study differs from past studies on bank selection, whereby in this study, it is postulated that customers confidence is very important especially in Islamic banking. Repeat purchase and repeat sales often take place when customers' are confident on the application of the *Shariah* principles in Islamic banking operations. In addition to the investigation of the mediating effect of confidence, this study also

provide fresh finding as the factors influencing Islamic banking selection in an environment of convention banking dominated region.

The conceptual framework of this study is based on Intermediation Theory and Consumer Behavior Theory. Several *Quranic* verses and *Hadis* were reference to explain the consumer behavior from the perspectives of Islam and the Islamic values which could possibly influence customers' behavior towards Islamic banking selection. The subsequent sections repopulate the findings of this thesis according to their objectives.

6.1 Objective one: To document profile of Islamic banking customer

The results found that the respondents are corporate customers more than retail customers. Traditionally, the corporate customers differ widely from the retail customers in term of structure and characteristics, corporate customers are generally smaller in number but larger in size and more complex than retail customers (McKechnie & Harrison; 1990).

This study finds that, many of the corporate customers are small enterprises, which perform this business in the city. Many the firms' owners are female. An important demographic trend which has an impact on the targeting of financial services is gender. It appears from this study that working women is becoming more extensive users of Islamic financial products and services.

The results reported, majority of respondents are well educated, with more than 41 percent holding degree. Category of employers, most of them from business sector, constituting 22 percent and 28 percent are government and private sector. Majority of the respondent' income (49%) earned up to 5,000-10,000 Baht per month, with a quarter of them earning 10,000-20,000 Baht per month. This finding, indicate that most of Islamic bank customers earning is between 5,000-20,000 Baht. This indicates that Islamic banking customers as a middle-class households.

Another important characteristic of the Thai Islamic banking customers is that their firms are on average about 5 years old and are mostly single-owned. From the marketing point of view, the relatively young age firms provide an indication that these firm are in the growing stage of the company life cycle and therefore, would need greater financing for expansion. Hence, Islamic financing has great potential in Thailand.

6.2 Objective two: To identify factors determining confidence of Islamic banking.

Based on the factor analysis, many of the Islamic bank customers perceived that Islamic banking was introduced because Muslims are prohibited from associating themselves with the element of interest practiced by conventional banking system. The customers also perceived that the profit-sharing principle is the only principle that can replace the element of interest in the operations of Islamic banking system, and both Islamic and conventional banks must adopt profit maximization principle in order to

survive in this competitive business environment. However, the study expected that all of the customers totally disagree that Islamic banking system in Thailand is only for Muslim customers. The results of these studies are similar to Erol (1989), Erol *et. al* (1990), Haron *et al.* (1996), and Gerard & Gunningham (1998).

However, the findings show that the Islamic banking customers would withdraw their deposit if the Islamic bank is not profitable. This shows that profitability and return are also the factors that might increase their confidence in Islamic banking. This also supported by the fact that when Islamic Bank of Thailand made a loss in 2002-2008 many of the customers withdraw their deposits. The lack of marketing of the Islamic financial products is also cited as are low potentials in Islamic banking products in Thailand during the 2009-2011 periods.

It found that the most important criteria chosen by the customers is fast and efficient services, followed by reception at the bank, confidentiality of bank, religious motives, and financial counseling on the services provide. Among these factors, this study finds that service delivery from the bank, and religion as important factors. This study indicate that size of bank and recommendation from friends and relatives are less important criteria to choose Islamic bank. It is also interesting to note that location of the bank is not perceived as key determinant of bank selection because the customers look forward to the bank that offer best services. Other results indicate that bank reputation, confidence, and religious motives still maintain strong influence on customers' choice in selecting of Islamic bank of Thailand.

The findings of this study have many similarities the finding of earlier study. The selection of “fast and efficient service” as one of the most important factors by Erol& El-Bdour (1989), Haron (1996), Kaynak (1996), and Turnball & Gibbs (1989). The results also indicate that corresponds to the study of Abbas *et al.* (2003), and Dusuki& Abdullah (2007), who found that the staff factor is one of the most important factors that customers use to select an Islamic bank.

Additionally, the religious issue is also perceived as one of the most important criteria to be considered for the selection of Islamic banking services (Erol *et al.*, 1990; Haron *et al.*, 1994; Metawa & Almosawai, 1998; Naser *et al.* 1999), Haque *et al.* (2009), Wan Marhaini *et al.*, (2008), Gait and Worthington (2008), Awan and Bukhari (2011) and Ahmad *et al.* (2011), Haron *et al.* (1994). Interestingly, they also observe that religious motivation is not a primary criterion for the selection of Islamic banking services in Jordan and Malaysia.

Their findings are disputed by later researchers like Metawa and Almosawai (1998), Naser *et al.* (1999) and Dasuki & Abdullah (2007), who assert that adherence to Islamic tenets is the main motivating factor for customers to patronise Islamic banks in Bahrain and Jordan respectively. Nevertheless, these writers also affirm that other factors like bank's name and image, confidentiality, friends and family influences and provision of quality services are equally important for customers when making decision on their choice of bank.

In this study, religions motives are also identified as an important factor in Islamic bank selection. However, in order to gain confidence from customers, Islamic banks personel are expected to illustrate behaviour in community to Islamic values. Similarly, the application of *Syariah* principle in products and services have to be explained adequately to the customers to make them confident that there products and *Shasiah* compline, trust is very important as well.

Based on the factor analysis, factors emerge as important in determinant customer confidence in Thailand are religion, reputation, knowledge, attitude, convenience and service.

6.3 Objective three: To investigate the mediating impact of customer confidence in relation to Islamic bank selection.

To answer objective three, we rely on the result from the Structural Equation Modeling. The result shows that customers' confidence has a positive and significant impact on bank selection. The standardized Beta estimate for confidence is 0.270 (t-value = 3.464) and P value = 0.001. The result suggests that the higher the confidence level of customers, the higher in their decision to select Islamic banking.

If customers have good perception about bank it will increase the customers' confidence. Success philosophy of Islamic banks is depending on long term commitment with the banks and the level of inspiration of customers to deal with Islamic bank. Trust and commitment is also having relation with customer confidence because when

customers are having trust they will deal with Islamic bank. Credibility of Islamic banks in perception of customers is in great deal with customers' confidence. If customers are satisfied with the bank, that bank is dealing in Islamic principles and working without interest factor it leads towards their confidence. All the banks dealing with Islamic banking have to focus on increasing their customer's confidence by studying these dimensions of customer's confidence

6.4 Objective four: To establish the direct and indirect linkage between determinants of confidence and bank selection decision.

The SEM represents the direct and indirect paths between the factors' influencing confidence, confidence and bank selection decision. The output of factors' confidence comprises the variables into six exogenous variables namely religion, reputation, customer knowledge, customer attitude, convenience, and service; and two endogenous variables namely confidence and bank selection decision.

The direct factors affecting the decision to select Islamic bank in Thailand are bank service and religion. The most important factor is bank service. Bank service; include the friendliness of bank personal, fast and efficient service, reception at the bank, and hour of operation has Beta estimate of 0.539% ($t\text{-value} = 3.905$). The second important direct path to bank selection is religion. This study indicates that religious factors affect the decision of customers to select Islamic banking.

This result goes in line with the concept of Islamic economics and finance that stresses Islam is an entire way of life, and Allah's Guidance extends into all areas of Muslim lives. Islam has given detailed regulations for Muslim's economic life, which is balanced and fair. Muslims are to recognize that wealth, earnings, and material goods are the property of God, and that they are merely His trustees.

The principles of Islam aim at establishing a just society wherein everyone will behave responsibly and honestly on the fundamental principle of the Islamic economic system that Muslims are not to deal in interest.

(الَّذِينَ يَأْكُلُونَ الرِّبَا لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ الَّذِي يَتَخَبَّطُهُ الشَّيْطَانُ مِنَ الْمَسِّ ذَلِكَ بِأَنَّهُمْ قَالُوا إِنَّمَا الْبَيْعُ مِثْلُ الرِّبَا
حَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا فَمَنْ جَاءَهُ مَوْءِدُهُ مِنْ رَبِّهِ فَأْتِنْتَهُ فُلَّهُ مَا سَلَفَ وَأَمْرُهُ إِلَى اللَّهِ وَمَنْ عَادَ فَأُولَئِكَ أَصْحَابُ
النَّارِ هُمْ فِيهَا خَالِدُونَ)

"Those who devour usury will not stand....Allah has permitted trade and forbidden usury.... Allah will deprive usury of all blessing, but will give increase for deeds of charity..."

(Qur'an 2:275-6).

{ يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا الرِّبَا أَضْعَافًا مُضَاعَفَةً وَاتَّقُوا اللَّهَ لَعَلَّكُمْ تُفْلِحُونَ }

"O you who believe! Devour not usury, doubled and multiplied. But fear Allah, that you may really prosper"

(Qur'an 3:130)

This prohibition is for all interest-based transactions, whether giving or receiving, whether dealing with Muslims or non-Muslims. It is reported that the Prophet Muhammad (peace be upon him) cursed those who pay interest, those who receive it, those who write a contract based on it, and those who witness such a contract.

Bank selection decision by bank customers predominately religious-based decision is similar to Metawa & Almosawai (1998); Naser *et al.* (1999); Dusuki & Abdullah (2007); Haque *et al.* (2009); Wan Marhaini *et al.* (2008); Awan & Bukhari, (2011); Ahmad *et al.* (2011); Lee & Ullah, (2011). On the other hand, Hegazy (1995), Erol & El-Bdour (1989) and Sudin *et al.* (1995) found otherwise.

Overall, the determinants of Islamic banking selection that shows direct paths are service, confidence, religion motive and convenience. Factors that exhibit indirect paths are attitude, convenience, reputation, knowledge and service. Except for convenience (direct path) and service to confidence (indirect path), all relationship are positive and significant.

6.5 Implication of the Study

Banks are no longer in the business of buying and selling money. They are in the business of offering complete financial services to the banking public. That means banking institutions are faced with numerous problems depending on the different needs and perceptions of customers and business environment. Banks are commercial organization out in the market to make money for their owners (shareholders) by

providing competitive banking service. At the same time, banks are one of the main contributors to the country growth by introducing products and services that promote savings habit.

Factors influencing customers' selection of banks were examined in this study. Apart from traditional bank attributes such as convenience, location, interest rates, staff friendliness etc., the influence of religion was also considered. The novelty of this study is the introduction of the mediating effect of confidence in the mediating between factors effecting Islamic selection.

Based on the finding or results of this study, it provides the following implications.

6.5.1 Policy implication

i) Bank Policy

Islamic bank needs to restructure their corporate governance to increase customers' confidence. Especially, *syariah* board to control the whole organization activities not partially. Furthermore, the supervision from *syariah* Advisory council not only for the designed products but include all operations of bank in according to the objectives of Islamic banking such as service delivery, corporate social responsibility and produce development must be compliance to *syariah*. Because customers perceived and believed that product and service are running with *syariah* principles, this confidence to *shariah* compliance aspects must be maintained since confidence and

services relates to Islamic banking integrity and have significant impact on consumer decision making to select Islamic banking.

ii) Government Policy

At the same time to have *Syariah* board at nation level in Thailand case, there is no *Syariah* advisory council in national level to control each Islamic financial institution and governed by the Central Bank of Thailand. This is important to make people confident to Islamic banks in the context of *Shariah* principles compliance, operational rules and procedure.

6.5.2 Practical implication

Generally Islamic bank of Thailand is needed to take initiatives in creating greater awareness about Islamic banking as an alternative banking system which could provide effective services at competitive pricing.

i) Human resource

Islamic banking system in Thailand must develop side by side with the development of knowledge of Islamic banking system, and understanding the objectives of Islamic economics, Islamic business and in with Islamic banking system.

ii) Research

Should focus on the development of financial products that conform it Islamic *Sharia*, training should be given to bankers, potential researchers and bank customers. There is a lack of knowledge among the bank customers.

iii) Ethical banking and public relation

The emerging of Islamic banking and finance along with the propagated doctrine of ethical investment and socially responsible financial transactions in the West is really a phenomenon that requires an instructive examination from the customers' perspectives. This growing phenomenon somehow implies that Islamic banks need to balance out their operation between profit-making activities and social responsibility. Islamic banks need to play a leading role in social services such as the development of human resources, protection of environment, promotion of human rights and constructive participation in community development programs.

6.5.3 Marketing implication

- i) Islamic banking should provide financial planning information and counseling,

To attract Muslim customers to use more Islamic banking products and services, and borrowers more than depositors where more than 80 percent of Muslim people in three southern border Thailand. To achieve the most effective utilization of the Islamic banking system in serving the region's economic development goals, information has to be well spread.

- ii) Bank product and service,

It is important role for customers to have confidence and to select Islamic bank not only in case of three provinces in southern part of Thailand but for the whole of Thailand. Factors such as friendliness of

staff, the fast and efficient and reception at the bank are factors which can make people to have relationship and trust with banks which can attract new customers. Bank service and *Shariah* compliance in designing the positioning strategy of Islamic banking service should be adhered. Islamic banking service should be augmented with value-added services like online banking facilities, convenient and accessible customer support service and interactive communication system to facilitate their customers' needs. Internal as well as external communication system should be made compatible to the local conditions of a specific context. Banking terms and conditions, interpretation of *Sharia* principles related with the investment and documentation should be made understandable to the customers of Islamic banks as well.

A customer is likely to have a good relationship with a bank if the customer perceives the bank cares about his or her well being. Banks and their staff can demonstrate this caring in many ways. Friendly services, recognizing customers by names and providing services not contractually required may all be effective tool. Bank tellers, officers and managers must view themselves as marketers of banks products. Thus, a reorientation of their attitude and perception are important to ensure quality in their service delivery.

Positive relationships with customers benefit banks in a number of ways. If a customer has a good relationship with a bank, the customer

finds satisfaction in the banks success and is often willing to conduct business with the bank even when more favorable terms are available elsewhere. In another words, satisfied customers will continue doing business with the bank and will recommend the bank to others. It should be noted that customers place a high value of personalized quality service. Maintaining this relationship with customers is essential to a bank's attempt to attract and keep high income customers. Some banks introduced a priority counter to those high worth customers. This was due to the banks' own study which shows that this group of customers contributed the most to the banks profit.

In short, it would appear that service related factors such as speed, efficiency and friendliness of bank personal might prove to be more effective modes for attracting new businesses. Excellence service quality is one of the factors that project the bank good image than mass media advertising.

Location being near home or work was ranked third in importance. It is a powerful signal from customers that banks should not only service urban customers but also rural folks. The settings up of service centres at densely populated small towns are unavoidable. It is not necessarily to be a full branch. Service centre where customers can do simple transactions such as deposits, withdrawals and remittances. This is

another way of improving service quality, reduce customers waiting time and increase deposits.

In other way service quality also has a more important thing in the banking industry and Islamic banks give more concentration to the service quality therefore they go towards success. Due to the service quality Islamic banks are gaining the customer confidence. In the Islamic marketing point of view value- maximization and rules of justice for the safety of the society are considered as a same thing. These rules recommend the ordinary way of living. Islamic principles say that beneath no situation should marketers exploit their customers. To increase the customer's confidence and to enhance the customer satisfaction, service quality and professional behavior are most important variables. In Thailand, there is more competition between the conventional and Islamic bank. Both banks are trying to capture more and more number of the customers for this purpose they give benefits, quality of work, availability of services and try to increase the customer confidence. Therefore, Islamic banks should provide alternatives for interest based products or interest based benefits.

iii) Another area of importance is the R&D,

Compared to the conventional banking, which is far more matured, and systematic, the Islamic banking sector in Thailand is still in the infant stage and to be innovative and put more effort and concentration in

developing sophisticated and attractive products which able to satisfy the needs of its clients. This target will enable the players in the Islamic banking sector to consider their strength, enhance productivity and efficiency, as well as prepare for greater competition in the face of increasing financial globalization.

In present competitive environment, strategic planning is a must for survival and for decision making in different key areas including information technology, human capital development, new product development and branch expansion. Islamic banking should move more fully towards venture capital and entrepreneurial financing. Islamic banker need to educate their Muslim clients about the Islamic terminology of banking.

Products and services that customer need have to be analyzed. The development of wide range of products make alternatives and more innovative in order to Islamic banking gain competitive advantage. Pattern of action to improve its long-term competitive position, tactical level to the strategic level, requires innovation and creativity through product and services. They will be promoting new types of bank service in the banking system.

Consequently, Islamic bankers can no longer depend on marketing strategy of attracting religious customers who might only

concern about the Islamic of financial product. The most important aspect for Islamic banks is to improve the bank's services. In addition, Islamic banks have the potential of being marketed to various segments of customers extending beyond those who concerned with the legitimacy of the facility from Islamic point of view. In the case of Thailand, the big market is in the middle income group. Hence, more promotion of Islamic products should be to this group by emphasizing on service, confidence (*Shariah*) religion, convenience and propagation of Islamic banks.

6.6 Limitation and future research

This is one of the very first studies on customers confidence in Islamic banking conducted in southern most provinces of Thailand and could be very useful for countries adopting Islamic banking. Therefore, further research should be considered to gather more information regarding the factors of customer confidence and bank selection decision in context of the Thailand Islamic banking industry. The limitation of this study was the difficulty in approaching the respondents for the understanding the questionnaire and have completed answers.

Future research should investigate the model in a different setting such as the government policy or support, pricing or cost/benefit, and technology. There is also a need for research for Islamic bank marketing. In addition, more research needs to be done on wider regions and Muslim and non-Muslim customers and products to products comparison. This study covers only three provinces; Yala, Pattani and Narathiwat.

Hence, the findings of this study might not be used to generalize for the whole of Thailand.

In conclusion, this study examines the factors influencing customers confidence to select Islamic banks with a case study of domestic banks in Thailand. Although Islamic banking has recorded remarkable growth in the last decade, the sustainability of the growth is very much dependent on the customers' decision to select doing business with Islamic banks. Religious motive is a natural strong motivator for Muslims to select Islamic banking. However, the findings of this study suggest that customers' confidence on the Islamic banking system, on the application of *Shariah* principles in its products and services and the integration of Islamic values in its governance by all levels of Islamic bank management have a direct impact on the customers' decision to select the banks.

Hence, the results imply that Islamic banks should not only consistently maintain high quality service but equally important, to instill, regain and sustain customers' confidence on their operations. Both customers and the banking personnel should be provided with adequate knowledge on Islamic products and service to make better decisions. Islamic banks personnel must maintaining high ethical standards and good reputation in accordance with Islamic teachings to avoid losing customers' confidence and move towards achieving long-term sustainability.

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APPENDIX (A)

Summary of Studies Concerning Attitudes towards Islamic Methods of Finance

Author(s)	Methodology	Sample	Variables	Technique(s)	Main findings
Erol & El-Bdour (1989)	Self-administered questionnaire	434 Jordanian Islamic and conventional bank customers	Demographic factors, bank services and selected patronage factors	Univariate and multivariate statistical techniques and factor analysis	Religion is not the primary motivation for customers dealing with Islamic banks. More important factors are a fast and efficient service, the bank's reputation and image, and confidentiality. Relatives and neighbours play a significant role in the awareness of respondents with knowledge of Islamic banking
Erol et al. (1990)	Self-administered questionnaire	434 Jordanian Islamic and conventional bank customers	Demographic factors, bank services and selected patronage factors	Multivariate techniques and factor analysis	Important factors for those selecting Islamic banks are a fast and efficient service, the bank's reputation and image, and confidentiality. Significant differences between patrons of conventional bank's and those of Islamic banks in their pricing policies. No impact of religion on bank selection criteria
Omer (1992)	Self-administered questionnaire	300 Muslims residing in the UK	Selected patronage factors	Descriptive analysis	High level of ignorance among UK Muslims about Islamic finance principles. Religious motivation for Muslims in the UK dealing with Islamic financial institutions.
Haron et al. (1994)	Self-administered questionnaire	301 Muslims and non-Muslims in Malaysia	Demographic factors, bank service, selected patronage factors and knowledge of Islamic finance	Univariate and multivariate statistical techniques and factor analysis	Muslims and non-Muslims have similar perceptions in selecting bank services. Religious motivation is not the primary motivation for Muslims in dealing with Islamic bank. Both groups value the provision of fast service and the quality of services highly in their patronage factors. Most respondents have some awareness of Islamic banking but are unaware of

					specific methods and the differences between conventional and Islamic banks Both groups value the provision of fast service and the quality of services highly in their patronage factors. Most respondents have some awareness of Islamic banking but are unaware of specific methods and the differences between conventional and Islamic banks
Hegazy (1995)	Self-administered questionnaire	400 Egyptian customers of the Faisal Islamic Bank and the Bank of Commerce and development	Demographic elements (including sex, age, occupation. Education, income level, religion and marital status). Selection criteria (including efficiency of personal, speed of service, ease of access, friendliness of personal, availability of parking, etc.)	Parametric tests and factor analysis	Most of Islamic bank customers were Muslims choosing to comply with Islamic law. Islamic bank customers also ranked speed of delivering banking services and efficiency at the top of their selection criteria. Conventional bank customers included mix of Christian and Muslims who ranked the rates of offered return highly in their bank selection criteria.
Metawa & Almosawi (1996)	Self-administered questionnaire	300 Islamic banks customers in Bahrain	Demographic factors, bank services, selected patronage factors of customers and knowledge questions	Profile analysis and non-parametric statistical tests	Most Islamic banks' customers in Bahrain satisfied with Islamic banks' services, The most important factors for the use of Islamic bank services is religion then profitability. Most Islamic banking customers were aware of fundamental Islamic terms, excepting more complex financing schemes
Jalaluddin & Metwally (1999)	Self-administered questionnaire	385 small businesses in Sydney, Australia	Independent variables including risk sharing, cost of borrowing and profitability	Logit and Probit analysis	Religion is not the only factor that motivates small businesses in Australia to use profit/loss sharing methods of finance. The probability of borrowing

			linkage, cost variability of finance, motivation for business expansion and management intervention		funds on a profit/loss sharing basis increases when business risk of return and degree of intervention in management are considered more than financing in a profit/loss sharing system
Jalaluddin (1999)	In-person interview	80 financial institutions in Sydney, Australia	Favoured lending factors and independent variables	Factor and multiple discriminant analysis	41.2 percent of financial institutions indicated their readiness to lend on a profit/loss sharing basis. Business support is the main motivation in motivating financial institutions to apply profit/loss sharing methods of finance. Respondents suggested interest payments sometimes create difficulties for business. Management complication, unfamiliarity and risk sharing with borrowers are the main reasons for financial institutions being not prepared to lend on a profit/loss sharing basis. The growth in the demand for funds is the most significant factor in discriminating between financial firms who were prepared to lend the basis of profit/loss sharing.
Jalaluddin (1999)	Self-administered questionnaire	385 small businesses in Sydney, Australia	Favouring factors, rejecting factors and independent variables	Factors and multiple discriminant analysis	59.5 percent of small business firms interested in using profit/loss sharing methods of finance Terms and some conditions of profit/loss financing are major reasons for the rejection of profit/loss sharing methods of finance, Risk sharing between borrowers and agree with profit/loss financing
Naser et al. (1999)	Self-administered	206 Jordanian	Demographic factors, Islamic	Descriptive analysis	The most important factors determining attitudes

	questionnaire	Islamic banks customers	banking services, reasons for dealing with an Islamic bank, reasons for banking with conventional and Islamic banks and degree of satisfaction with the services of the Islamic bank		towards Islamic banks were bank reputation then religion. Majority of customers satisfied with Islamic banks' products and services and most had a high level of awareness of at least some Islamic methods of finance, Limited number of respondents used Islamic financing methods elsewhere
Al-Sultan (1999)	Self-administered questionnaire	385 respondents in Kuwait	Socioeconomic demographic factors, Islamic bank services and reasons for preference	Factor analysis	Adherence to Islamic religion is primary motivation for dealing with Islamic banks, though 52 percent of respondents prefer to deal with conventional banks because of better services, No difference between Islamic and conventional banks I cost and return to individual customers
Hamid & Nordin (2001)	Self-administered questionnaire	967 bank customers in Kuala Lumpur	Demographic factors and knowledge questions	Descriptive analysis	Majority of respondents know about the existence of Islamic banks in Malaysia. Approximately 50 percent of respondents deal with Islamic bank but more than 60 percent of respondents cannot differentiate between Islamic and conventional banks' products
Ahmad & Haron (2002)	Self-administered questionnaire	45 financial directors, financial managers and general managers of finance in Malaysia	Demographic factors, Islamic and conventional banking services, knowledge questions and selected patronage factors by respondent and role	Descriptive analysis	Most respondents indicated that economic factors and religion were important factors for selecting bank services, But even though most respondents were aware about Islamic banks as an alternative to conventional banks. Most respondents had a low level of knowledge about Islamic banking products and services better
Metwally (2002)	Telephone interviews	385 bank customers in	Socioeconomic and	Multiple discriminant	Females, older people and public servants prefer to

		Qatar	demographic factors	analysis	deal with Islamic banks. Banked customers with relatively low income and moderate education also prefer Islamic banks, Conventional banks favoured by mature, well-educated male professional with relatively high incomes. Conventional banks also favoured by young well-educated males working as professionals or public servants.
Bley & Kuehn (2004)	Self-administered questionnaire	667 university business graduates and undergraduates	Perceptions of conventional and Islamic banking products and services, knowledge questions and demographic factors	Principal components analysis, descriptive analysis and regression techniques	Muslim students prefer Islamic banks' services. High-achieving students have a better level of knowledge of Islamic finance terms and concepts. High-achieving non-Arabic students had the highest level of conventional finance knowledge. Generally, student knowledge of both Islamic and conventional finance methods was relatively low
Karbhari et al. (2004)	Focused interviews	Six executives across four Islamic financial institutions in London, UK	Questions concerning the main problems and challenges confronting Islamic banking	Qualitative analysis	All respondents convinced about involving Islamic banks' products and services in conventional banks to promote establishing of Islamic banking and to improve customers' understanding about these new services, Most respondents replied that UK Muslims were generally unaware of Islamic banking products and services. Most respondents suggested that the UK government did not support the establishment of Islamic banks
Zainuddin et al. (2004)	Structured questionnaire	123 bank customers in Penang, Malaysia	Socio-economic and demographic factors, of Islamic banks customers	Descriptive analysis	Most Islamic bank users were married, more than 30 years old with stable incomes, Most non-users were single, age less than 30 years, and earned low

					incomes. Spouse, friends and relatives, as well as religion, impact on attitudes towards Islamic bank products
Okumus (2005)	Self-administered questionnaire	161 Islamic bank customers in Turkey	Demographic factors, bank services and selected patronage factors of Islamic bank customers	Descriptive analysis	Most respondents agreed that religion was the primary reason for the use of Islamic bank products. A secondary motivation was interest-free principle. Most customers aware of basic Islamic products and services, but not more advanced Islamic financing techniques. More than 90 percent of respondents satisfied with the services and products offered by Islamic banks

APPENDIX (B)

Appendix B.1 *Frequency Table*

ppp

	Frequency	Percent	Valid Percent	Cumulative Percent
V 1.00 a li d	145	48.3	48.3	48.3
2.00	155	51.7	51.7	100.0
Total	300	100.0	100.0	

p1_1

	Frequency	Percent	Valid Percent	Cumulative Percent
V Male al id	111	37.0	37.0	37.0
Female	189	63.0	63.0	100.0
Total	300	100.0	100.0	

p1_2

	Frequency	Percent	Valid Percent	Cumulative Percent
Va 21-30 lid year	186	62.0	62.0	62.0
31-40 year	76	25.3	25.3	87.3
41-50 year	30	10.0	10.0	97.3
51-60 year	8	2.7	2.7	100.0
Total	300	100.0	100.0	

p1_4

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yala	100	33.3	33.3	33.3
Pattani	100	33.3	33.3	66.7
Narahi	100	33.3	33.3	100.0
wat				
Total	300	100.0	100.0	

p1_5

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Urban	155	51.7	51.7	51.7
Rural	145	48.3	48.3	100.0
Total	300	100.0	100.0	

p1_6

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid High school	175	58.3	58.3	58.3
Undergraduate	125	41.7	41.7	100.0
Total	300	100.0	100.0	

p1_7

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Businessman	23	7.7	7.7	7.7
	Entrepreneur	33	11.0	11.0	18.7
	Government/ public agency	86	28.7	28.7	47.3
	Employee	59	19.7	19.7	67.0
	Commerce	10	3.3	3.3	70.3
	Agriculturer	2	.7	.7	71.0
	Student	31	10.3	10.3	81.3
	Teacher private school	54	18.0	18.0	99.3
	Professional	2	.7	.7	100.0
	Total	300	100.0	100.0	

p1_8

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	5,000 bath	52	17.3	17.3	17.3
	5,000 - 10,000 bath	148	49.3	49.3	66.7
	10,000 - 30,000 bath	77	25.7	25.7	92.3
	30,000 - 50,000 bath	13	4.3	4.3	96.7
	50,000 - 100,000 bath	3	1.0	1.0	97.7
	100,000 bath	7	2.3	2.3	100.0
	Total	300	100.0	100.0	

p1_9

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	.00	205	68.3	68.3	68.3
	Single owner	69	23.0	23.0	91.3
	Partner	15	5.0	5.0	96.3
	Ltd. Co.	11	3.7	3.7	100.0
	Total	300	100.0	100.0	

p1_10

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	.00	210	70.0	70.0	70.0
	Retail Trade	25	8.3	8.3	78.3
	Wholesale Trade	21	7.0	7.0	85.3
	Manufacturing	8	2.7	2.7	88.0
	Service sector	31	10.3	10.3	98.3
	Other	5	1.7	1.7	100.0
	Total	300	100.0	100.0	

p1_11

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	.00	210	70.0	70.0	70.0
	less than 1 year	6	2.0	2.0	72.0
	2 - 3 years	23	7.7	7.7	79.7
	3 - 4 year	15	5.0	5.0	84.7
	more than 5 years	46	15.3	15.3	100.0
	Total	300	100.0	100.0	

p1_12

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid .00	210	70.0	70.0	70.0
single	71	23.7	23.7	93.7
2 - 3	11	3.7	3.7	97.3
4 - 5	5	1.7	1.7	99.0
more than 5	3	1.0	1.0	100.0
Total	300	100.0	100.0	

p1_13

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid .00	210	70.0	70.0	70.0
10,000 bath	14	4.7	4.7	74.7
more than 10,000				
- 30,000 bath	29	9.7	9.7	84.3
more than 30,000				
- 50,000 bath	9	3.0	3.0	87.3
more than 50,000				
- 100,000 bath	4	1.3	1.3	88.7
more than				
100,000 bath	34	11.3	11.3	100.0
Total	300	100.0	100.0	

Appendix B.2
SEM output

Estimates (Group number 1 - Default model)

Scalar Estimates (Group number 1 - Default model)

Maximum Likelihood Estimates

Regression Weights: (Group number 1 - Default model)

			Estimate	S.E.	C.R.	P	Label
Confidence	<---	custome attitude	.124	.036	3.422	***	par_5
Confidence	<---	Knowledg	.013	.090	.149	.881	par_11
Confidence	<---	Reputation	.265	.090	2.939	.003	par_15
Confidence	<---	Convenience	.246	.120	2.053	.040	par_25
Confidence	<---	Service	-.018	.096	-.185	.854	par_27
Confidence	<---	RELG.MOT	-.059	.046	-1.292	.196	par_38
Selection	<---	RELG.MOT	-.085	.049	-1.742	.082	par_31
Selection	<---	Service	.172	.102	1.684	.092	par_32
Selection	<---	Confidence	.777	.145	5.353	***	par_33
Selection	<---	Convenience	-.188	.132	-1.426	.154	par_34
Selection	<---	custome attitude	.016	.040	.400	.689	par_35
Selection	<---	Reputation	.156	.097	1.598	.110	par_36
Selection	<---	Knowledg	-.110	.095	-1.157	.247	par_37
P2_19	<---	Confidence	1.000				
P2_14	<---	Reputation	1.000				
P4_7	<---	Knowledg	1.111	.117	9.530	***	par_1
P4_6	<---	Knowledg	1.000				
P6_4	<---	custome attitude	1.000				
P6_3	<---	custome attitude	1.072	.067	15.948	***	par_2
P6_1	<---	custome attitude	.750	.057	13.080	***	par_3
P2_18	<---	Confidence	1.243	.162	7.667	***	par_4
P2_15	<---	Reputation	.813	.086	9.481	***	par_6
P4_9	<---	Knowledg	1.283	.131	9.816	***	par_7
P2_20	<---	Convenience	1.000				
P2_21	<---	Convenience	.782	.083	9.433	***	par_23
P2_17	<---	Confidence	1.310	.168	7.815	***	par_26
P2_7	<---	Service	1.000				
P2_8	<---	Service	.855	.064	13.373	***	par_28
P2_6	<---	Service	.665	.057	11.742	***	par_29
DM	<---	Selection	1.000				

Standardized Regression Weights: (Group number 1 - Default model)

	Estimate
Confidence <--- custome attitude	.278
Confidence <--- Knowledg	.014
Confidence <--- Reputation	.337
Confidence <--- Convenience	.328
Confidence <--- Service	-.024
Confidence <--- RELG.MOT	-.095

Selection	<--- RELG.MOT	-.064
Selection	<--- Service	.109
Selection	<--- Confidence	.365
Selection	<--- Convenience	-.118
Selection	<--- custome attitude	.017
Selection	<--- Reputation	.093
Selection	<--- Knowledg	-.052
P2_19	<--- Confidence	.566
P2_14	<--- Reputation	.793
P4_7	<--- Knowledg	.686
P4_6	<--- Knowledg	.640
P6_4	<--- custome attitude	.819
P6_3	<--- custome attitude	.916
P6_1	<--- custome attitude	.708
P2_18	<--- Confidence	.662
P2_15	<--- Reputation	.735
P4_9	<--- Knowledg	.875
P2_20	<--- Convenience	.733
P2_21	<--- Convenience	.711
P2_17	<--- Confidence	.690
P2_7	<--- Service	.917
P2_8	<--- Service	.728
P2_6	<--- Service	.650
DM	<--- Selection	1.591

Covariances: (Group number 1 - Default model)

		Estimate	S.E.	C.R.	P	Label
Reputation	<--> Knowledg	-.055	.026	-2.100	.036	par_8
Reputation	<--> custome attitude	.162	.056	2.895	.004	par_9
Knowledg	<--> custome attitude	-.206	.047	-4.418	***	par_10
Knowledg	<--> RELG.MOT	-.126	.030	-4.140	***	par_12
custome attitude	<--> RELG.MOT	.355	.064	5.509	***	par_13
Reputation	<--> RELG.MOT	.164	.039	4.257	***	par_14
RELG.MOT	<--> Convenience	.098	.041	2.400	.016	par_16
custome attitude	<--> Convenience	-.007	.059	-.123	.902	par_17
Convenience	<--> Service	.330	.044	7.453	***	par_18
Reputation	<--> Convenience	.248	.043	5.786	***	par_19
Reputation	<--> Service	.252	.038	6.638	***	par_20
Knowledg	<--> Convenience	.058	.029	2.027	.043	par_21
Knowledg	<--> Service	-.062	.026	-2.403	.016	par_22
custome attitude	<--> Service	.092	.053	1.714	.087	par_24
RELG.MOT	<--> Service	.183	.038	4.881	***	par_30

Correlations: (Group number 1 - Default model)

	Estimate
Reputation <--> Knowledg	-.159

Reputation	<-->	custome attitude	.212
Knowledg	<-->	custome attitude	-.339
Knowledg	<-->	RELG.MOT	-.289
custome attitude	<-->	RELG.MOT	.368
Reputation	<-->	RELG.MOT	.300
RELG.MOT	<-->	Convenience	.171
custome attitude	<-->	Convenience	-.009
Convenience	<-->	Service	.683
Reputation	<-->	Convenience	.544
Reputation	<-->	Service	.546
Knowledg	<-->	Convenience	.160
Knowledg	<-->	Service	-.168
custome attitude	<-->	Service	.113
RELG.MOT	<-->	Service	.315

Variances: (Group number 1 - Default model)

	Estimate	S.E.	C.R.	P	Label
Reputation	.435	.065	6.660	***	par_39
Knowledg	.275	.049	5.559	***	par_40
custome attitude	1.344	.166	8.103	***	par_41
RELG.MOT	.690	.056	12.227	***	par_42
Convenience	.477	.077	6.184	***	par_43
Service	.489	.053	9.312	***	par_44
R1	.162	.039	4.152	***	par_45
R2	1.000				
e17	.571	.055	10.397	***	par_46
e16	.534	.058	9.130	***	par_47
e3	.256	.044	5.802	***	par_48
e8	.381	.041	9.359	***	par_49
e7	.397	.039	10.135	***	par_50
e14	.657	.081	8.152	***	par_51
e13	.295	.072	4.093	***	par_52
e11	.753	.071	10.551	***	par_53
e4	.245	.033	7.529	***	par_54
e10	.138	.035	3.926	***	par_55
e19	.286	.035	8.181	***	par_56
e18	.412	.054	7.606	***	par_57
e24	.317	.032	9.924	***	par_58
e23	.092	.025	3.738	***	par_59
e22	.295	.027	10.874	***	par_60
e15	.506	.059	8.576	***	par_61
e26	-.737	.029	-25.209	***	par_62

Squared Multiple Correlations: (Group number 1 - Default model)

	Estimate
Confidence	.396

Selection	.179
DM	2.530
P2_17	.477
P2_6	.423
P2_7	.841
P2_8	.530
P2_20	.537
P2_21	.505
P4_9	.766
P2_15	.540
P6_1	.501
P6_3	.840
P6_4	.672
P4_6	.409
P4_7	.471
P2_14	.629
P2_18	.438
P2_19	.320

Matrices (Group number 1 - Default model)

Total Effects (Group number 1 - Default model)

	Service	Convenience	RELG.MOT	custome attitude	Knowledg	Reputation	Confidence
Confidence	-.018	.246	-.059	.124	.013	.265	.000
Selection	.158	.003	-.131	.112	-.100	.362	.777
DM	.158	.003	-.131	.112	-.100	.362	.777
P2_17	-.023	.322	-.077	.163	.018	.347	1.310
P2_6	.665	.000	.000	.000	.000	.000	.000
P2_7	1.000	.000	.000	.000	.000	.000	.000
P2_8	.855	.000	.000	.000	.000	.000	.000
P2_20	.000	1.000	.000	.000	.000	.000	.000
P2_21	.000	.782	.000	.000	.000	.000	.000
P4_9	.000	.000	.000	.000	1.283	.000	.000
P2_15	.000	.000	.000	.000	.000	.813	.000
P6_1	.000	.000	.000	.750	.000	.000	.000
P6_3	.000	.000	.000	1.072	.000	.000	.000
P6_4	.000	.000	.000	1.000	.000	.000	.000
P4_6	.000	.000	.000	.000	1.000	.000	.000
P4_7	.000	.000	.000	.000	1.111	.000	.000
P2_14	.000	.000	.000	.000	.000	1.000	.000
P2_18	-.022	.305	-.073	.154	.017	.330	1.243
P2_19	-.018	.246	-.059	.124	.013	.265	1.000

Standardized Total Effects (Group number 1 - Default model)

	Service	Convenience	RELG.MOT	custome attitude	Knowledg	Reputation	Confidence
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Confidence	-.024	.328	-.095	.278	.014	.337	.000
Selection	.100	.002	-.098	.118	-.047	.216	.365
DM	.160	.003	-.157	.188	-.075	.344	.580
P2_17	-.017	.226	-.065	.192	.009	.233	.690
P2_6	.650	.000	.000	.000	.000	.000	.000
P2_7	.917	.000	.000	.000	.000	.000	.000
P2_8	.728	.000	.000	.000	.000	.000	.000
P2_20	.000	.733	.000	.000	.000	.000	.000
P2_21	.000	.711	.000	.000	.000	.000	.000
P4_9	.000	.000	.000	.000	.875	.000	.000
P2_15	.000	.000	.000	.000	.000	.735	.000
P6_1	.000	.000	.000	.708	.000	.000	.000
P6_3	.000	.000	.000	.916	.000	.000	.000
P6_4	.000	.000	.000	.819	.000	.000	.000
P4_6	.000	.000	.000	.000	.640	.000	.000
P4_7	.000	.000	.000	.000	.686	.000	.000
P2_14	.000	.000	.000	.000	.000	.793	.000
P2_18	-.016	.217	-.063	.184	.009	.223	.662
P2_19	-.014	.185	-.053	.157	.008	.191	.566

Direct Effects (Group number 1 - Default model)

	Service	Convenience	RELG.MOT	custome attitude	Knowledg	Reputation	Confidence
Confidence	-.018	.246	-.059	.124	.013	.265	.000
Selection	.172	-.188	-.085	.016	-.110	.156	.777
DM	.000	.000	.000	.000	.000	.000	.000
P2_17	.000	.000	.000	.000	.000	.000	1.310
P2_6	.665	.000	.000	.000	.000	.000	.000
P2_7	1.000	.000	.000	.000	.000	.000	.000
P2_8	.855	.000	.000	.000	.000	.000	.000
P2_20	.000	1.000	.000	.000	.000	.000	.000
P2_21	.000	.782	.000	.000	.000	.000	.000
P4_9	.000	.000	.000	.000	1.283	.000	.000
P2_15	.000	.000	.000	.000	.000	.813	.000
P6_1	.000	.000	.000	.750	.000	.000	.000
P6_3	.000	.000	.000	1.072	.000	.000	.000
P6_4	.000	.000	.000	1.000	.000	.000	.000
P4_6	.000	.000	.000	.000	1.000	.000	.000
P4_7	.000	.000	.000	.000	1.111	.000	.000
P2_14	.000	.000	.000	.000	.000	1.000	.000
P2_18	.000	.000	.000	.000	.000	.000	1.243
P2_19	.000	.000	.000	.000	.000	.000	1.000

Standardized Direct Effects (Group number 1 - Default model)

	Service	Convenience	RELG.MOT	custome attitude	Knowledg	Reputation	Confidence

Confidence	-.024	.328	-.095	.278	.014	.337	.000
Selection	.109	-.118	-.064	.017	-.052	.093	.365
DM	.000	.000	.000	.000	.000	.000	.000
P2_17	.000	.000	.000	.000	.000	.000	.690
P2_6	.650	.000	.000	.000	.000	.000	.000
P2_7	.917	.000	.000	.000	.000	.000	.000
P2_8	.728	.000	.000	.000	.000	.000	.000
P2_20	.000	.733	.000	.000	.000	.000	.000
P2_21	.000	.711	.000	.000	.000	.000	.000
P4_9	.000	.000	.000	.000	.875	.000	.000
P2_15	.000	.000	.000	.000	.000	.735	.000
P6_1	.000	.000	.000	.708	.000	.000	.000
P6_3	.000	.000	.000	.916	.000	.000	.000
P6_4	.000	.000	.000	.819	.000	.000	.000
P4_6	.000	.000	.000	.000	.640	.000	.000
P4_7	.000	.000	.000	.000	.686	.000	.000
P2_14	.000	.000	.000	.000	.000	.793	.000
P2_18	.000	.000	.000	.000	.000	.000	.662
P2_19	.000	.000	.000	.000	.000	.000	.566

Indirect Effects (Group number 1 - Default model)

	Service	Convenience	REL.G.MOT	custome attitude	Knowledg	Reputation	Confidence
Confidence	.000	.000	.000	.000	.000	.000	.000
Selection	-.014	.191	-.046	.096	.010	.206	.000
DM	.158	.003	-.131	.112	-.100	.362	.777
P2_17	-.023	.322	-.077	.163	.018	.347	.000
P2_6	.000	.000	.000	.000	.000	.000	.000
P2_7	.000	.000	.000	.000	.000	.000	.000
P2_8	.000	.000	.000	.000	.000	.000	.000
P2_20	.000	.000	.000	.000	.000	.000	.000
P2_21	.000	.000	.000	.000	.000	.000	.000
P4_9	.000	.000	.000	.000	.000	.000	.000
P2_15	.000	.000	.000	.000	.000	.000	.000
P6_1	.000	.000	.000	.000	.000	.000	.000
P6_3	.000	.000	.000	.000	.000	.000	.000
P6_4	.000	.000	.000	.000	.000	.000	.000
P4_6	.000	.000	.000	.000	.000	.000	.000
P4_7	.000	.000	.000	.000	.000	.000	.000
P2_14	.000	.000	.000	.000	.000	.000	.000
P2_18	-.022	.305	-.073	.154	.017	.330	.000
P2_19	-.018	.246	-.059	.124	.013	.265	.000

Standardized Indirect Effects (Group number 1 - Default model)

	Service	Convenience	REL.G.MOT	custome attitude	Knowledg	Reputation	Confidence

Confidence	.000	.000	.000	.000	.000	.000	.000
Selection	-.009	.119	-.034	.101	.005	.123	.000
DM	.160	.003	-.157	.188	-.075	.344	.580
P2_17	-.017	.226	-.065	.192	.009	.233	.000
P2_6	.000	.000	.000	.000	.000	.000	.000
P2_7	.000	.000	.000	.000	.000	.000	.000
P2_8	.000	.000	.000	.000	.000	.000	.000
P2_20	.000	.000	.000	.000	.000	.000	.000
P2_21	.000	.000	.000	.000	.000	.000	.000
P4_9	.000	.000	.000	.000	.000	.000	.000
P2_15	.000	.000	.000	.000	.000	.000	.000
P6_1	.000	.000	.000	.000	.000	.000	.000
P6_3	.000	.000	.000	.000	.000	.000	.000
P6_4	.000	.000	.000	.000	.000	.000	.000
P4_6	.000	.000	.000	.000	.000	.000	.000
P4_7	.000	.000	.000	.000	.000	.000	.000
P2_14	.000	.000	.000	.000	.000	.000	.000
P2_18	-.016	.217	-.063	.184	.009	.223	.000
P2_19	-.014	.185	-.053	.157	.008	.191	.000

Model Fit Summary

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	62	309.348	109	.000	2.838
Saturated model	171	.000	0		
Independence model	18	2165.871	153	.000	14.156

RMR, GFI

Model	RMR	GFI	AGFI	PGFI
Default model	.044	.904	.849	.576
Saturated model	.000	1.000		
Independence model	.236	.461	.397	.412

Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.857	.800	.903	.860	.900
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

Parsimony-Adjusted Measures

Model	PRATIO	PNFI	PCFI
Default model	.712	.611	.642
Saturated model	.000	.000	.000
Independence model	1.000	.000	.000

NCP

Model	NCP	LO 90	HI 90
Default model	200.348	151.608	256.735
Saturated model	.000	.000	.000
Independence model	2012.871	1866.143	2166.981

FMIN

Model	FMIN	F0	LO 90	HI 90
Default model	1.035	.670	.507	.859
Saturated model	.000	.000	.000	.000
Independence model	7.244	6.732	6.241	7.247

RMSEA

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Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.078	.068	.089	.000
Independence model	.210	.202	.218	.000

AIC

Model	AIC	BCC	BIC	CAIC
Default model	433.348	441.762	662.982	724.982
Saturated model	342.000	365.207	975.347	1146.347
Independence model	2201.871	2204.314	2268.539	2286.539

ECVI

Model	ECVI	LO 90	HI 90	MECVI
Default model	1.449	1.286	1.638	1.477
Saturated model	1.144	1.144	1.144	1.221
Independence model	7.364	6.873	7.880	7.372

HOELTER

Model	HOELTER .05	HOELTER .01
Default model	130	142
Independence model	26	28

APPENDIX (C)

QUESTIONNAIRE

Please fill the following information below:

Part A: Profile of Respondents

Please tick (/) the appropriate items.

1. **Gender** ☐ Male ☐ Female

2. **Age** ☐ <20 years ☐ 20-29 years
 ☐ 30-39 years ☐ 40-49 years
 ☐ >50 years

3. **Religion** ☐ Buddhist ☐ Islam
 ☐ Christian ☐ Other.....

4. **Region** ☐ Yala ☐ Pattani
 ☐ Narathiwat ☐ Satun
 ☐ Songkla ☐ Other.....

5. **Resident** ☐ Urban ☐ Rural

6. **Level of education**

 ☐ High school ☐ Undergraduate
 ☐ Master Degree ☐ Ph.D.

7. **Category of employers**

 ☐ Businessman ☐ Entrepreneur
 ☐ Government/public agency ☐ Employee
 ☐ Commerce ☐ Agriculturer
 ☐ Student ☐ Teacher Private School
 ☐ Professional
 ☐ Retire
 ☐ Other.....

8. **Monthly income (baht)**

 ☐ <5,000 baht ☐ 5,000-9,999 baht
 ☐ 10,000-19999 baht ☐ 20,000-29,999 baht
 ☐ 30,000-39,999 baht ☐ >40,000 baht

Note: If you are a businessman, please answer 9-13.

9. Types of your business

- ☐ Single owner ☐ Partner
☐ Ltd. Co.

10. Category of your business

- ☐ Retail Trade. ☐ Wholesale Trade.
☐ Manufacturing ☐ Service sector
☐ Other please specifies.....

11. Year on job/business

- ☐ Less than 1 year. ☐ 2 to 3 years.
☐ 3 to 4 years. ☐ 5 years or more

12. How many a business or company that you own?

- ☐ Single ☐ 2 to 3
☐ 4 to 5 ☐ More than 5

13. How many your monthly sales (own business)?

- ☐ <10,000 baht ☐ >10,000-30,000 baht
☐ >30,001-50,000 baht ☐ >50,001-100,000 baht
☐ >100,000 baht

Part B: Selection Criteria of Bank

Rate the following factors according to their level of important in influencing your decision to use the banks. Please tick (/) the appropriate number ranging from 1 to 5, which indicates:

1. Not very important
2. Not important
3. Not sure
4. Important
5. Very important

Bank Selection Criteria	1	2	3	4	5
1. Available credit with favorable terms					
2. Lower service charges					
3. Lower interest charges on loan					
4. Higher interest payment					
5. Hours of operations					
6. Fast and efficient service					
7. Reception at the bank					
8. Friendliness of bank personnel					
9. A wide range of services offered					
10. Financial counseling services provide					
11. Bank reputation and its image					
12. Religious motives					
13. Confidentiality of bank					
14. External appearance of bank					
15. Internal appearance of bank					
16. Confidence in bank manager					
17. Size of bank					
18. Location being near home or work					
19. Recommendation from friend or relatives					
20. Available parking space nearby					
21. Knowledgeable about your business					
22. Inter-branch facilities					
23. Mass media advertising					

Part C: The customer's knowledge of Islamic banking

1) Knowing the existence of Islamic banking system:

- ☐ 1. Yes ☐ 2. No

2) Source of knowledge of Islamic banking system (respondents can give more than one source).

- ☐ 1. Newspapers and magazines
☐ 2. Television and radio
☐ 3. Friends and family members
☐ 4. Meetings (e.g. club, business)
☐ 5. Staff of Islamic banks
☐ 6. Went to bank and asked

3) The reasons, which motivate people to deposit their money at an Islamic bank, are:

- ☐ 1. Religious reasons only.
☐ 2. Profitability reasons solely.
☐ 3. Religious and profitability reasons combined.
☐ 4. Deposits at the Islamic banks are being made by their relatives and neighbours.

Rate your level of knowledge of following on statement below. Which is your opinion on the truthfulness of the statements below? Please tick (/) the appropriate number ranging from 1 to 5, which indicates:

- 1 Absolutely untrue
- 2 Untrue
- 3 Not sure
- 4 True
- 5 Absolutely true

	1	2	3	4	5
4. Islamic banking system was introduced because Muslims are prohibited from associating themselves with the element of interest practice by conventional banking system.					
5. Both Islamic and conventional banks must adopt profit maximization principle in order to survive in this competitive business environment.					
6. The profit-sharing principle is the only principle that can replace the element of interest in the operations of Islamic banking system.					
7. Islamic banking is a financial intermediary, it involves direct participation in business on the principles of sharing profit and loss in order to ensure social equity, fair and justices					
8. The concept of Mudharabah and Musyarakah can be created a entrepreneur in community					
9. The application of Shariah principles available for use by Islamic banking in delivering their products and services into four categories, namely, profit and loss sharing, fee or charge, free service, and ancillary.					
10. There are three sources of funds for Islamic banking, namely, contributions made by the owner (s), short-term liabilities and depositors' money.					
11. The first type of Islamic banking system in Thailand is Islamic Window and was introduced by Thai Saving Bank.					
12. Is it true the Islamic banking products available in Thailand are similar to the products of conventional banks except that the banks use different names in highlighting those products?					
13. Islamic banking system in Thailand is for Muslim customers					

14. Understanding the differences between Islamic banking system and conventional bank.

- ☐ 1. No knowledgeable at all
- ☐ 2. Limited Knowledgeable
- ☐ 3. Understand partially
- ☐ 4. Knowledge
- ☐ 5. Vary knowledge

15. How do you rate your of overall knowledge in the Islamic banking system?

- ☐ 1. No knowledgeable at all
- ☐ 2. Limited Knowledgeable
- ☐ 3. Understand partially
- ☐ 4. Knowledge
- ☐ 5. Very knowledge

Part D: Attitude of Bank's Customers

Rate the following factors according to personal opinions. Please tick (/) the appropriate number ranging from 1 to 5, which indicates:

- 1 Do not know
- 2 Strongly disagree
- 3 Disagree
- 4 Agree
- 5 Strong agree

	1	2	3	4	5
1. Do you agree that if more branches of Islamic banking open up throughout a country, more people will utilize the services provided by these banks?					
2. Do you agree that the granting of interest-free loans by Islamic banks is considered a contribution on the part of the bank to help the community in a just and efficient manner?					
3. The elimination of interest rate charged on loan provided for investment projects, housing construction, purchasing a car or truck and financing on the basic of profit-loss-sharing between the bank and borrower will be advantageous to the borrower.					

4. The fact that Islamic banks are on the increase in numbers and in operation as compared with a decline in interest-based banking will result in an improvement of the community's economic condition by way of wealth redistribution between the rich and poor in a just manner.					
5. Policy of the Thai government to merge the Krung Thai Syariah bank and Islamic bank of Thailand is right decision for maintenance future efficiency and stability.					
6. The establishment of foreign Islamic banks (as branches) in Thailand will bring more choice to customers thus expands the Islamic financial system as a whole.					

7. In case the Islamic bank announce that it will not distribute any profit on investment and saving deposits this year, what would you do if you were an investor and depositor?

- ☐ 1. Keep the deposits at the Islamic bank since doing any business with other bank involves religious illegality.
- ☐ 2. Withdraw all deposits at once and switch them to banks which guaranteed return.
- ☐ 3. Remain a deposit at the Islamic bank because it could distribute high rate of profit next year.
- ☐ 4. Consult relatives and neighbor to arrive with them on a decision on what to do.

8. The potentially of Islamic banking products in the Thailand.

- ☐ 1. No idea
- ☐ 2. No potential at all
- ☐ 3. No potential
- ☐ 4. Some potencial
- ☐ 5. A good potencial
- ☐ 6. A very good potential

9. Do you think that Islamic banks have done enough in marketing their products to customers?

- ☐ 1. Not enough at all
- ☐ 2. Not enough
- ☐ 3. Just enough
- ☐ 4. Enough
- ☐ 5. More than enough

Part E: Bank selection decision

- ☐ 1. Not very important
- ☐ 2. Not Important
- ☐ 3. Not sure
- ☐ 4. Important
- ☐ 5. Very important

LIST OF PAPER PRESENTED IN CONFERENCE FROM THIS RESEARCH

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