EXAMINING THE FACTORS THAT INFLUENCE CUSTOMERS’ DECISION TO CHOOSE ISLAMIC HIRE PURCHASE FACILITY: A STUDY OF MUSLIM CUSTOMERS IN KEDAH

By

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Research Paper Submitted to the Othman Yeop Abdullah Graduate School of Business Universiti Utara Malaysia In Partial of the Requirement for the Master in Islamic Finance and Banking
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ABSTRACT

EXAMINING THE FACTORS THAT INFLUENCE CUSTOMERS’ DECISION TO CHOOSE ISLAMIC HIRE PURCHASE FACILITY: A STUDY OF MUSLIM CUSTOMERS IN KEDAH

Islamic hire purchase (IHP) facility is widely used by Islamic banks for car financing in Malaysia. Thus, this research was carried out to determine the factors that influence the customers’ decision to choose Islamic hire purchase facility in Kedah. A total of 105 customers on Islamic hire purchase in Kedah was selected as respondents of the survey questionnaire which was randomly distributed. The obtained data were analyzed using T-test, ANOVA, Pearson Correlation and Multiple Regressions. The finding shows that religious obligation, awareness, tenure and age significantly influence the customers’ choice for Islamic hire purchase. Since choosing Islamic hire purchase rests largely on these factors, Islamic banks must emphasis on religious values such as ethics and manners which are friendlier towards the customers. Islamic banks should expand their target market and increase the quality of performance through Islamic values in Islamic banking. Last but not least, Islamic banks need to transparent and disclose all information to their customers to avoid misconception about Islamic hire purchase.

Keywords: Islamic hire purchase, religious obligation, awareness, tenure, Islamic bank, Factor of Choosing Product.
ABSTRAK

MENILAI FAKTOR YANG MEMPENGARUHI PELANGGAN MEMILIH PRODUK SEWA BELI KENDERAAAN SECARA ISLAM: KAJIAN TERHADAP PELANGGAN MUSLIM DI KEDAH


Kata Kunci: Sewa beli kenderaan secara Islam, kewajipan memenuhi tuntutan agama, kesedaran, tempoh pembiayaan, institusi perbankan Islam, faktor pemilihan produk.
ACKNOWLEDGEMENT

_In the name of Allah, the Most Gracious and Most Merciful. Praise to Allah S.W.T. The Creator and Guardian of the universe. Praise and peace be upon Prophet Muhammad S.A.W, the last messenger of Allah, his family and his companions, from whom we gain the enlightenment._

“Alhamdulillah!!”

Finally, I have managed to complete my research paper on time. First and foremost, praises and thanks to Allah S.W.T. for His bounties of blessings throughout my research paper in order to complete the research successfully. And also peace been upon to the Prophet Muhammad SAW as the Messenger.

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Syukran wa Jazakummullah Khairan Kathira.

Muhammad Saiful Islam Ismail,
Master in Islamic Finance and Banking,
Universiti Utara Malaysia.
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<tbody>
<tr>
<td>AITAB</td>
<td><em>al-Ijarah Thumma al-Bay</em></td>
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<td>ANOVA</td>
<td>Analysis of Variance</td>
</tr>
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<td>APA</td>
<td>Asset Purchase Agreement</td>
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<td>Ag</td>
<td>Age</td>
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<td>AW</td>
<td>Awareness</td>
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<tr>
<td>AWYD</td>
<td><em>al Wadi’ah Yad Dhamanah</em></td>
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<tr>
<td>BBA</td>
<td><em>Bay Bithamani Ajil</em></td>
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<td>BNM</td>
<td>Bank Negara Malaysia</td>
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<td>CHIP</td>
<td>Choosing Islamic hire purchase</td>
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<td>DV</td>
<td>Dependent Variable</td>
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<td>DF</td>
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<td>IBBM</td>
<td>Institusi Bank-Bank Malaysia</td>
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<td>Ind</td>
<td>Individual Income</td>
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<td>IHP</td>
<td>Islamic Hire Purchase</td>
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<td>IMB</td>
<td><em>Ijarah Muntahia Bitamleek</em></td>
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<td>IRB</td>
<td>Islamic Retail Banking</td>
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<td>IV</td>
<td>Independent Variable</td>
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<td>ISRA</td>
<td>International Sharia Research Academy</td>
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<tr>
<td>KMO</td>
<td>Kaiser-Meyer-Olkin</td>
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<tr>
<td>MHP</td>
<td><em>Muamalat</em> Hire Purchase</td>
</tr>
<tr>
<td>MHPB</td>
<td><em>Muamalat</em> Hire Purchase Bill</td>
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<td>PFK</td>
<td>PETRONAS Fertilizer Kedah</td>
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<td>PP</td>
<td>Pricing of Product</td>
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<td>RO</td>
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<td>Sijil Pelajaran Malaysia</td>
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<td>Statistical Package for Social Science</td>
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<td>TRA</td>
<td>Theory Reasoned Action</td>
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<td>Universiti Utara Malaysia</td>
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CHAPTER 1
INTRODUCTION

1.1 Background of the Study

Islamic Banking is a financial concept which complies fully with Islamic “Sharia” Law and has creative and progressive financial that offers efficient product and services (Owen, 2001). The main principle that lies behind Islamic banking is the principle of profit and loss sharing. Islamic banks are financial institutions that avoid the element of gharar, maisir and riba. As stated in surah al-Baqarah verse 275:

و احل الله البيع و حرم الربا

“And Allah has permitted trading, and prohibited riba”

In contrast with Islamic banks, conventional banks are based on debt-creditor relationship and interest reflecting the opportunity cost of money. In Malaysia, Islamic banks are competing in the same market segment with conventional and foreign banks in terms of offering complementary products and services (Nasser and Montinho, 1997). The most common product which has been designed to meet consumer demand is al-Ijarah (leasing), al- Musharakah (partnership), al-Bay Bithamanil Ajil (BBA), Al- Ijarah Thumma al-Bay’ (AITAB). Al- Ijarah Thumma al-Bay’ or Islamic Hire-Purchase (IHP) is the earliest product that has been initiated by Islamic banks in Malaysia.
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REFERENCES


