

**EXAMINING THE PERCEPTION OF ISLAMIC BANKS
CUSTOMERS IN KEDAH STATE ON THE MUDARABAH
CONTRACT AND ITS APPLICATION BY ISLAMIC BANKS**

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ABSTRACT

It is undeniable that the impressive growth and development of Islamic financial institutions in Malaysia is due to the fact that Malaysian government put in place an effective and comprehensive legal framework. 2013, was a landmark in Malaysia Islamic financial service industry, where Malaysia parliament enacted Islamic Financial Service Act (IFSA) that ensures shariah compliant, financial stability and protect the rights and interest of financial consumers. Under IFSA, Islamic banks should use only mudarabah in their investment accounts. Therefore, the overall aim of this study is to examine the perceptions of Islamic banks customers on the concept, applications and implications of mudarabah (profit sharing) contract. The study has used a survey, where questionnaires were distributed to 200 respondents. Descriptive statistics, factor analysis, independent t-test and ANOVA were used in data analysis. The results of factor analysis reveal that highly level of awareness among customers on the concept of mudarabah, its applications in Islamic banking products and services; and its implications to customers, for e.g. in the form of offering high returns positively influence customers perception towards mudarabah related products and services. In other words, the more the customers are informed about the concept of mudarabah, its application in banking products and its implication to them, the more positive perception they have towards mudarabah related products and services. In addition, the independent t-test and ANOVA results reveal that there are no significant difference between gender, race, marital status, and job sectors in relation to the level of their awareness towards mudarabah contract. However there are significant different between customer's level of education and level of income and customer's perception towards mudarabah related products. Meaning the highly educated and highincome respondents are more aware about the concept of mudarabah, its applications and implications. These in turns positively influence their perception towards mudarabah related products and services. Therefore, policy makers and financial institutions should find ways to increase on the level of awareness of customers on the concept of mudarabah, its applications and implications. BNM should issue effective guidelines for Islamic banks to explain to customers the concept, applications and implications of any contract before offering the products to the customers. Bankers should educate their customers on various Islamic contracts they used so that the customers become fully aware on their concept, applications and implications before subscribing to any Islamic banking products and services.

Keywords: Mudarabah (profit sharing), perception, concept, application, implication

ABSTRAK

Tidak dapat dinafikan bahawa pertumbuhan yang memberangsangkan dan perkembangan dalam institusi kewangan Islam di Malaysia adalah disebabkan oleh kerajaan Malaysia menyediakan rangka kerja undang-undang yang berkesan dan komprehensif. Tahun 2013, merupakan satu mercu tanda dalam industri perkhidmatan kewangan Islam Malaysia, di mana Parlimen Malaysia telah menggubal Akta Perkhidmatan Kewangan Islam (IFSA) yang memastikan ianya berlandaskan syariah, kestabilan kewangan dan melindungi hak-hak dan kepentingan pengguna kewangan. Di bawah IFSA, bank Bumiputra hanya perlu menggunakan sistem mudarabah dalam akaun pelaburan mereka. Oleh itu, keseluruhan matlamat kajian ini adalah untuk mengkaji persepsi pelanggan bank-bank Bumiputra terhadap konsep, aplikasi dan implikasi Mudarabah (perkongsian keuntungan) kontrak. Kajian ini telah menggunakan kaedah kaji selidik, di mana borang soal selidik telah diedarkan kepada 200 orang responden. Statistik deskriptif, analisis faktor, ujian-t bebas dan ANOVA telah digunakan dalam analisis data. Keputusan analisis faktor menunjukkan bahawa tahap kesedaran yang tinggi di kalangan pelanggan terhadap konsep mudarabah, aplikasi dalam produk dan perkhidmatan perbankan Islam; dan implikasinya kepada pelanggan. Misalnya, menawarkan pulangan yang tinggi secara positif mempengaruhi persepsi pelanggan terhadap produk dan perkhidmatan yang berkaitan dengan mudarabah. Dalam erti kata lain, apabila lebih banyak pelanggan dimaklumkan mengenai konsep mudarabah, penggunaannya dalam produk perbankan dan implikasinya kepada mereka, persepsi yang lebih positif akan terbentuk terhadap produk dan perkhidmatan yang berkaitan dengan mudarabah. Di samping itu, keputusan ujian-t bebas dan ANOVA telah menunjukkan bahawa tiada perbezaan yang signifikan antara sektor pekerjaan, jantina, bangsa, taraf perkahwinan, yang berhubung dengan tahap kesedaran mereka terhadap kontrak mudarabah. Walau bagaimanapun terdapat perbezaan yang signifikan antara tahap pendidikan dan pendapatan pelanggan serta persepsi pelanggan terhadap produk berkaitan dengan Mudarabah (perkongsian keuntungan). Ini jelas menunjukkan bahawa responden yang berpendapatan tinggi dan berpendidikan tinggi akan lebih sedar tentang konsep mudarabah, aplikasi dan implikasinya. Perkara ini akan mengubah pengaruh positif berkenaan persepsi mereka terhadap produk dan perkhidmatan yang berkaitan mudarabah. Oleh itu, penggubal dasar dan institusi kewangan perlu mencari kaedah untuk meningkatkan tahap kesedaran pelanggan kepada konsep mudarabah, aplikasi dan implikasinya. BNM perlu mengeluarkan garis panduan yang berkesan bagi bank-bank Bumiputra untuk menjelaskan kepada pelanggan mengenai konsep, aplikasi dan apa-apa implikasi kontrak sebelum menawarkan produk kepada pelanggan. Pihak bank perlu mendidik pelanggan mereka mengenai pelbagai kontrak Islam yang mereka gunakan supaya pelanggan menyedari dan memahami sepenuhnya tentang konsep, aplikasi dan implikasi sebelum melanggan terhadap mana-mana produk dan perkhidmatan perbankan Islam.

Kata kunci: Mudarabah (perkongsian keuntungan), persepsi, konsep, aplikasi, implikasi

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LIST OF ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ATM	Automated Teller Machine
BIMB	Bank Islam Malaysia Berhad
BMMB	BankMuamalat Malaysia Berhad
BNM	Bank Negara Malaysia
DIB	Dubai Islamic Bank
IDB	Islamic Development Bank
IFSA	Islamic Financial Service Act
IFSB	Islamic Financial Service Board
INCEIF	International Centre for Education in Islamic Finance
IPO	Initial Public Offer
ISRA	International <i>Shari'ah</i> Research Academy
IBI	Inter-Bank Investment
MISB	Mit-Ghamr Islamic Savings Bank
PIDM	PerpadananInsurans Deposit Malaysia
PLS	Profit and Loss Sharing
PSIA	Profit-Sharing Investment Accounts
SAC	<i>Shari'ah</i> Advisory Council
SPSS	Statistical Package Social Science
UAE	United Arab Emirate

CHAPTER ONE

INTRODUCTION

1.0 Background of the study

The concept of Islamic banking is fundamentally based on the foundation that Allah (S.W.T) forbids interest (*Riba*) and allows the trade and business. Al-Quran says: "Those who take *riba* (usury or interest) will not stand but as stands the one whom the demon has driven crazy by his touch. That is because they have said: "Trading is but like *riba*." And Allah has permitted trading, and prohibited *riba*. So, whoever receives an advice from his Lord and stops, he is allowed what has passed, and his matter is up to Allah. And the ones who revert back, those are the people of Fire. There they remain forever" (*Al-Baqarah*, 2:275).

Thus, in order to promote trade, shariah establishes underlying principles governing Islamic finance which include: (i) the prohibition of *Riba*(usually interpreted as usury or interest) and the removal of debt-based financing; (ii) the prohibition of *Gharar*, encompassing the full disclosure of information, removal of asymmetric information in contracts and the avoidance of risk-taking; (iii) the exclusion of financing and dealing in activities and commodities regarded as sinful or socially irresponsible (such as gambling, alcohol and pork); (iv) an emphasis on risk-sharing, the provider of financial funds and the entrepreneur share business risk in return for a pre-determined share of profits and

losses; (v) the desirability of materiality, a financial transaction needs to have ‘material finality’, that is a direct or indirect link to a real economic transaction; and (vi) consideration of justice, a financial transaction should not lead to the exploitation of any party to the transaction Iqbal and Molyneux (2005) and Gait and Worthington 2009; Abdul-Gafaar 2010).

In practical term, these principles manifest themselves into various products and services offered by Islamic banks using several Islamic based contracts. For example, Islamic banks used contract of *mudarabah* to perform intermediary role of transferring fund from surplus fund units to the deficit fund units (ISRA, 2012). *mudarabah* is profit sharing contract between two parties, where by one party called the capital provider (*sahib al-mal*) and the other party is called entrepreneur (*mudarib*) provides the labour. In this contract, profit is shared between two parties based on the agreed ratio, however in the event of loss the provider of the capital will be borne by the loss whilst the entrepreneur (*mudarib*) lose his time and efforts(Shaharuddin, 2010).

Muslim economists including Chapra (2000); Ahmad (2000); Siddiqui (2001); Rosly and Bakar (2003); Haron and Hisham (2003); Naqvi (2003) and others favour equity-based instruments and place greater social welfare responsibilities and religious commitments upon Islamic banks in order to realize the Maqasid al-Shari`ah with respect to economic and financial transactions, including social justice, equitable distribution of income and wealth and promoting economic development and growth.

These writers even go further to argue that equity-based financing is the only principle representing a true spirit of Islamic banking system which departs significantly from the interest-based system. Although they do not fully negate the use of other Shari`ah permissible debt-based contracts alongside the equity-based contracts, they do assert that the socio-economic objectives including social justice, economic growth, efficiency and stability which the Islamic economics seeks to achieve is better served by resorting to primarily equity-based contracts.

These writers almost consistently affirm that Islamic banking model should predominantly be based on equity to be congruent with the spirit of Shari`ah and overall Islamic worldview. In their opinion for Islamic banks to be different from conventional banks, they must aim at promoting Islamic norms and values as well as protecting the needs of Islamic society as a whole without undermining its commercial viability.

According to Iqbal and Mirakhor (2007) financing based on *Mudarabah* contract provides economic stability, particularly in financial system and it is more efficient compare to the conventional products. Yusof and Bahlous (2013) asserted that Islamic finance is a very particular mode of financialintermediation that companies could benefit from as the fund provider participates in the profits and loss of the project.Khoutem and Nedra (2012) found that Islamic intermediation, includes ‘muḍārabah’ and ‘mushārah’, can promote economic growth. Therefore, financial intermediation by using PLS is effective way and competitive to increase growth. The financial system based on

Mudarabah contract is designed to focus more on fairness and justice as it deals with participations of economic actors in real sector of the economy.

Despite the strong tendency in the literature to emphasize theoretical superiority of Islamic banking based on PLS over conventional banking, the practices of Islamic banks are found to diverge in important ways from the intellectual doctrines underpinning their role in the economy. Almost all Islamic banks across the globe today resort to the second line fixed return techniques or debt-based instruments. Observers point out that the use of PLS instruments, namely *mudarabah* and *musharakah* financing have declined to almost negligible proportion (Iqbal & Molyneux, 2005; Kuran, 2004; Lewis & Algaud, 2001; Yousef, 2004).

Even a specialized Islamic company such as, *mudarabah* companies in Pakistan, which are supposed to use purely this product have a very small proportion of their funds invested in *mudarabah* related products (Farooq, 2006). Empirically by using PLS, Ahmad et al. (1998) showed that the average of PLS of total financing in the Islamic banking industry was 17.34% during 1994-1996. Khan and Bhatti (2008) explained that the average for PLS instruments (*muḍārbah* and *mushārah*) was 6.34% during 2004-2006.

On the liabilities side of Islamic banks, although Islamic banks over-relied on mudarabah to attract deposit and the regulation such as Financial Service Act 2013 which stipulates that Islamic banks should use only mudarabah contract in their investment accounts, there is lack of awareness among Islamic banks customers on mudarabah related products. Most of Islamic banks practitioners of have argued that the perception and attitude of Islamic banking customers is not much different from the perception and attitude of conventional banking customers especially in terms of demanding the Islamic financial products (Mohd, 2010).

But in reality, Islamic banking customer's perception towards the unique characteristics of Islamic banking contracts is still lacking. For instance, Hassan (2007) study in Pakistan reveals that Islamic banks customers do not have confidence that the operation of the Islamic banks is Shariah-compliant, besides, customers are not fully aware of Islamic banking products and services. According to Ismail (2011), although Islamic banks customers in Indonesia are highly aware the existence of Islamic banking system but majority of them still not known with Islamic banking operations and its principles.

Furthermore, customers prefer to use conventional banks in comparison to the Islamic banks. According to him a high percentage of Indonesian Islamic banking customers do not really trust Islamic financial institutions. However Islamic banking customers in Indonesia are more exposed to the Islamic deposit products rather than the financing products. In Malaysia, Mohd (2010), conducted study on the perception and attitude of

Malaysian depositors towards mudarabah related deposits account. He found that the customer's awareness towards Islamic banking deposits products is considered a high due to the religious reason. However, the higher level of awareness of Islamic banking depositors in fact is not being translated to a better a higher level of understanding about the purpose and objectives of deposits products which designed in accordance Shariah-compliance contracts, such as mudarabah.

Furthermore, the unique features of mudarabah contracts, which possibly are the most promoted and desirable Shariah-compliant contracts, in fact are not acceptable to the Malaysian depositors. This indirectly implies that Malaysian Islamic banks depositors are still strongly influenced by the structure of conventional banking products.

Thus, the researcher is motivated to conduct this study because understanding the principle, applications and implications of mudarabah contracts will positively influence customers perception towards Islamic banks mudarabah related products and services. These in turns, will allow Islamic banks to gain competitive advantage and attract large number of loyal customers. Peter and Olson (2007) noted the importance of understanding and adopting the customer perception in order to stay competitive in the market.

Therefore, it is important to examine the perception of Islamic banks customers towards the unique features of mudarabah contract and its applications by Islamic banks. This research study, thus, expects to provide more current insight about the Islamic banks customer's perception towards mudarabah contract. The understanding of customer's perception will help Islamic banks to prepare suitable marketing strategies to attract the customers and to obtain a large market share in terms of financing and deposits schemes. Obviously clients are the ultimate judges who in fact determine the market share of every industry (Kotler & Armstrong, 2001).

2.0 Problem Statement

Malaysia as an international Islamic financial service hub, has witnessed the rapid growth in Islamic financial institutions. The industry has recorded a growth rate of 12% in year 2014 which accounted for 25.6% of the overall total assets of the overall banking industry in Malaysia (BNM, 2014). The total assets of foreign currency sector also increased to RM27.7 billion, reflecting the substantial development and growing significance to the cross border transactions in Islamic banking and finance system (BNM, 2014).

It is undeniable that this impressive growth and development of Islamic financial system is due to the fact that Malaysian government put in place an effective and comprehensive legal framework. 2013, was a landmark in Malaysia Islamic financial service industry, where Malaysia parliament enacted Islamic Financial Service Act (IFSA). The Act is

comprehensive, robust and introduces a more risk focused and integrated approach to the regulation and supervision of Islamic financial institutions to safeguard the financial stability. The Act also provide comprehensive Shariah-compliant legal framework in all aspects of regulation and supervision, as well as strengthening consumer protection in financial product and services (IFSA, 2013).

Prior the introduction IFSA, 2013, Malaysian Islamic banking customers has known that the mudarabah is an Islamic contract used for deposit products such as saving account, current account and general investment account. However, under IFSA 2013, mudarabah contract is used only in investment account. The new rule classified deposit products into two, i.e. Islamic deposit account and the investment account and Islamic banks are given grace period of two years to reclassify their deposit accounts into Islamic deposits and the investment accounts (BNM, 2013).

Malaysian Islamic financial institutions have begun transferring existing customer accounts to either investment accounts or deposit as obligated under IFSA 2013. To facilitate these process customers will be offered with information about alternatives IFSA-permitted deposit products that the depositors can continue to be maintained their funds in, or an alternative to participate in investment accounts. According to the last report of financial stability and payment system report 2014 at Bank Negara Malaysia, the classification of Islamic deposit and distinct of investment account under the IFSA

Act will strengthen the potential growth of Islamic banking deposit products through the different types of products to meet the different needs of the depositors(BNM, 2014).

Thus, depositors who are a higher risk tolerance will have an option of putting their funds in an investment account. Unlike the Islamic deposits which might withdraw on guaranteed and demand by Perpadanan Insurans Deposit Malaysia (PIDM), the customers of investment account are able to keep their funds for longer period time and enjoy the advantage and opportunity to gain more returns however with more restricted withdrawal conditions (BNM, 2014).

However, despite these positive developments, this study has identified two core issues related to mudarabah products in the previous section. On the assets side of Islamic banking accounts, statistics revealed that Islamic banks are shying away from the use of mudarabah financing facilities due to risk exposure and agency problems. However, on the liabilities side, although customers may be exposed to the same risk, there are hardly any empirical studies on customers' perception towards mudarabah related products.

Moreover, studies that were conducted about customer's perception towards Islamic banking products and services are general, and at the same time it is clear that most of these studies focused on mixture of different factors and the findings from these studies are also different based on the population of the respective countries where these studies

were conducted. In addition, customer's perception on previous research studies mainly focused in different factors, such as, influence from friend or family, economic factors, social responsibility, reputation, convenient, service delivery and religious perspective. Thus, this study in its best effort and strengths attempts to identify this research gap. The researcher identified new variables that are principle, applications and implications of mudarabah contract as the independent variables that explain the variance of perceptions of Islamic banks customers on mudarabah related Islamic banks products such as investment accounts. Hence, it is justifiable to conduct a study in this area and the researcher need to fill that significant gap.

1.3 Research Questions

The following research questions were prepared to use the guidance of the overall running of the study, especially data collection and data analysis.

- 1) What is the most important factor that influences customer's perception towards mudarabah contract?
- 2) Are there significant differences between demographic factors of genders, race and marital status and customer's perception towards mudarabah contract?
- 3) Are there significant differences between demographic factors of level of education, level of income and job sectors and customer's perception towards mudarabah contract?

1.4 Research Objectives

The general objectives of this study to examine the perception of Islamic banking customers in Kedah state, towards mudarabah concept its applications and its implications by Islamic banks. The aim of the study is to use a customer-centered framework of analysis to examine the major factors that engender customer's perception towards mudarabah contract and that influences customer's decision to continue utilizing mudarabah related products. The outcome of the research will provide insight the key factors that need to be taken into account in the improvement of customer's perception for mudarabah related products.

The specific objectives of this study are:

- 1) To examine the most important factor that influences customer's perception towards mudarabah contract
- 2) To examine the significant differences between demographic factors of genders, race and marital status and customer's perception towards mudarabah contract
- 3) To examine the significant differences between demographic factors of level of education, level of income and job sectors and customer's perception towards mudarabah contract

1.5 Significant of the study

mudarabah contract is deemed to be more stable, and leads to greater economic growth. It is also more consistent with the objectives of Shariah as it is the key alternative to interest based system of conventional (Iqbal, 2007). It is assumed that this contract will bring justice and equitable distribution of the profits and also sharing of the risks of investment if entrepreneur is responsible for that loss (Iqbal, 2007). However several contemporary writers criticize that Islamic banking system is indistinguishable from the conventional, because of lack of profit-sharing contracts and Islamic banks lower implementation level of mudarabah related products. The significance of this study encourages Islamic banking stakeholders to go back the original roots and objectives of Islamic banking and finance system which is the use profit and loss sharing arrangement.

The specific products concern by this study is the mudarabah. The previous literature indicated that the research on Islamic banking customer's perception on mudarabah is still scares. During the searching to the exciting literature regarding to the mudarabah contract it was found that merely a handful of sources examined in fact the real issues about the mudarabah contract. Nevertheless, most of the academic studies of this field merely examined the perception of Islamic banks customers toward Islamic banking products and services. Furthermore, studies that are related directly to the mudarabah contract which still deemed very scare. The available researches are merely discusses the customer perception in a general term, many of these researchers conclude their outcome

that Islamic banking customers are more attracted to financial aspect, which is comparable and same to behavior customers of conventional banking.

Furthermore, most Islamic bankers are agreed that the perception of Islamic banking customers is same with the customers of conventional banking. This evidenced the presentations at some of the related professional conferences and seminars as prepared by related industry institutions. Many contemporary writers criticized that the Islamic banking customers are still looking the rate of return as well as the deposit protections regardless the deposits product that they have. Thus, the Islamic banks depositors must treated same to the nature of their counterpart of conventional deposits. The study conducted by Chong and Liu (2009) found that the deposits of Islamic banking practices are in fact closely pegged and attached to their conventional counterparty deposit rate setting practices.

Based on the above exciting literature, the study concludes the field of Islamic banking customers is considered as settled problem by the most of the researchers who have desire to write some to the Islamic banking industry as well as Islamic bankers themselves. Moreover, the previous researches on Islamic banking customer's perception simply highlighted the problems without providing even any possible solutions. Thus, this research is considered as a different from the previous researches with the aim and objective of to fill up the gaps of above mentioned exciting body of knowledge.

This study contributes to increase of knowledge on how mudarabah mechanism can be practiced precisely based on Islamic principle of Shariah. Moreover, the research provides huge sample size among broader populations of Islamic financial industry, and comprises the two full-fledged Islamic banking of Malaysia as part of the sample of the study. The analysis of wider sample population and wider sample size is possibly be the first type of any researches conducted in Kedah state, Malaysian in situation of examining Islamic banking customer's perception and opinion toward profit-sharing contract as specific product offered in Islamic banks of Malaysia.

This study also sheds some lights on the advantages on implementing profit-sharing contract, and recommends immediate possible and long-term measures that can be involved the correct the exciting practice of this contract. The results hence, provide recommendations to the stakeholders that involved to the process like, bankers, customers, and policy makers.

1.6 Scope of the Study

This research offers ideas for answering the above summarized questions based on a comprehensive analysis and mixture of literature on mudarabah contract and its practice of Islamic banking in Kedah state, Malaysia. As mentioned earlier, the main objective for this research is to examine customer's perception towards mudarabah contracts by focusing on its concept applications and implications side. In order to observe the

perception of Islamic banking customers about mudarabah contract, the research includes an empirical analysis through the response of various Islamic banking customers.

Accordingly, the study surveys various customer groups of two fully-fledged Islamic banks in Malaysia, that is Bank Islam Malaysia Berhad (BIMB) and Bank Muamalat Malaysia Berhad (BMMB), and three Malaysia's Islamic banking subsidiaries, namely the CIMB bank, Maybank and RHB bank. The principle reason why the researcher selected the above Islamic banks is because these Islamic banks have the highest market share in Malaysian Islamic banking industry. The researcher chooses Kedah state due to the cost and time limitation but the phenomena is same for the other states in the country. So possibly the behavior of Islamic banks customers in Kedah state tends to be more or less similar to other states in Malaysia.

1.7 Organization of the study

This study consists five chapters, chapter one is an introduction, it is designed to provide a background of the discussion, the research problem, research questions, research objectives and the significant of the study. Chapter two is literature review, it discusses the concept, applications and implications of mudarabah related products it also discusses the work of well-known researchers done regarding the perception of customers on Islamic banking products and services in Islamic banking field. In this chapter it has been also discussed the conceptual definition of the variables of the study.

Chapter three discusses methodology used for the data collection process it also discusses in detail the recommended research procedure by making reference to the different textbooks of research methodology on the suitable research technique to be employed. In this chapter it also discussed the research method used by this study by providing the justifications for each of the techniques used in the study. Furthermore, the chapter also presents research framework and research hypothesis.

Chapter four presents the overall findings obtained from the research. The results is analyzed base on hypotheses formulated, this chapter also links the finding of this study with previous studies it also provides the formulation of the overall conclusion of the research. Finally, chapter five focuses on the summary of the major findings, conclusion, implication, contribution and recommendations for future researches.

1.8 Summary of the chapter

This chapter lays the importance of mudarabah contract. It also lays the various regulations issued by Shariah Advisory Council (SAC) and other regulatory bodies in order to strength and promote Shariah-compliant Islamic banking products, it also described the issue of classification Islamic baking deposit products, more important this chapter lays the perception of Islamic banks customers and what motivated the researcher to conduct this particular study. This chapter is basically explains the perception and behavior of Islamic banks customers, research problem, research questions, research objectives, significant of the study, scope of the study and the structure of the study. The next chapter will discuss the literature review of the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter examines the concept, applications and implications of mudarabah related products. The purpose of the literature review is to develop theoretical framework for this study. This chapter is divided into seven main sections. Section one, analyses the perception of Islamic banks customer towards Islamic banking products and services. Section two discusses the concept of mudarabah. Section three discusses the applications of mudarabah related products in Islamic banks. Section four discusses the implications of mudarabah related products to Islamic banking customers. Section five discusses the demographic factors of the study. Section six discusses the conceptual definition of the variables and last section is the summary of this chapter.

2.1 Perception of Islamic banking customers towards Islamic banking products and services

Mostly customer acceptance toward certain products and services is a situation where customers are willing the usage of that product or services, the perception studies of Islamic banking products and services is one of the factors that influence the preference of the customers in using Islamic financial products. According to the Rogers (2003), usually customers go throughout a process of knowledge, understanding, decision, persuasion, and confirmation before they are ready to utilize that products or services.

Knowledge toward Islamic products and services normally happens when an individual or society in general are exposed to an innovation's existence as well as increases an understanding how that innovations work (Rogers, 2003).

This study investigates Islamic banks customer's perception towards Islamic banking operation, the customer's perception towards Islamic banking products and services. The customer's positive perception towards Islamic banking products and services in particular products that are promoted by majority of Islamic scholars such as mudarabah contract is very important, because Islamic banking in Malaysia is competing with its long established conventional counterparty, as Malaysia regulatory permits that parallel operation of both systems.

Indeed customer's perception is one of the key variable of the previous researches across the globe, especially perceptions of Islamic retail banking for instance study conducted by Haronet al., (1994), Metawa and Almosawi (1998), Thambiah, (2012) and another study toward customer's perception of profit sharing deposits accounts which is conducted by Mohd (2010), however a limited researches have been conducted on customer's perception toward Islamic banking products and services especially the studies investigated the customer's perception toward mudarabah contract is very rare.

Some past literature toward the customer's perception about Islamic financial products can be divided into two groups. The first group of early researches was most of it conducted by other countries such as, Bahrain, Pakistan, United Arab Emirates, Jordan, Singapore, United Kingdom, Bangladesh, Kuwait, and Indonesia, Most of these studies conducted other countries found, that the perception of Islamic banks customers toward Islamic banks products and services mostly derived by religious factor such as, religious bank or banks for Muslims and profit and loss sharing (PLS) based products. Besides, the key finding of these studies were also related to the, pricing, influence of friends and family, service quality, convenience and reputation (Thambiah, 2012).

In Bahrain for instance, Metawa and Almosawi (1998) conducted study regarding to the perception of Islamic banking customers towards Islamic banking system. The finding of that study reveals that Islamic banks customers in Bahrain perceived that the most important factor when they selecting Islamic banks is Islamic principles. Even though, the above mentioned important factors, the researchers highlighted at the end, the greatest and most crucial single factor that could touch and affect the growth and expansion market share of Islamic financial institutions is the religion factor in terms of demanding Islamic banks products and services. This finding however, is contradicts with the finding of Gerrard and Cunningham (1997) in Singapore and Haronet al., (1994), in Malaysia that shows religion only is not influence the perception of customers regarding Islamic banking products and services.

The second group which this study is focusing is in Malaysia context. The Malaysia Islamic banking system has been exemplary compared to the rest of the globe. Nevertheless, a very few studies have in fact investigated regarding Islamic banking customer's perception, when Islamic banking in Malaysia captured large market share and also remained very competitive in the Islamic banking industry. (Haron & Azmi, 2005; Aziz, 2007). Kader (1993, 1995) and Haron et al. (1994) were conducted the earlier studies regarding Islamic banking customer's perception in Malaysia. These studies analyzed the perception and behavior of Malaysian Islamic banks customers.

Haron et al. (1994) conducted study towards adoption factors between Muslim and non-Muslim Malaysian Islamic banks customers. The finding of the study indicates the existence of many similarities among Muslim and non-Muslims in terms of the selection criteria of the banks. The key finding of the study was that there is no difference among Malaysian Muslim and non-Muslim customers in terms of selection criteria of the banks. In other words, the study shows that both Muslims as well as non-Muslim customers have a common perception towards Islamic banks. Apart from that Malaysian Islamic financial products and services were exposed new rules and regulations in terms of its operations such as, new rule of IFSA 2013, regarding the status of mudarabah related deposit accounts. Thus, this justifies the need for this current study, which proposed to obtain the customer's current perception concerning Islamic financial contract of mudarabah.

2.2 Concept of *Mudarabah* Contract and Its Development

2.2.1 Definition of *Mudarabah* Contract

Literally, the term *mudarabah* is derived from the phrase of “*al-darb fi al-ard*” as found in the holy Qur’an which means to make a journey. This literal meaning is related to this type of *mudarabah* partnership because generally it requires, particularly in the past travelling to do business and trade. Thus, meaning of the word in this sense is used in the holy Quran. For example Allah (S.W.T) says “....*others travelling through the land seeking of Allah’s bounty.*”(Muzammil: 73:20).

Technically *mudarabah* is profit sharing contract between two parties, where by one party called the capital provider (*rabbul mal*) and the other party is called entrepreneur (*mudarib*) provides the labour. Some Islamic scholars like Hanbali and Hanafi used the word *mudarabah*, while Shafi’i and Malilki Islamic scholars used the word *qirad*. In this contract the profit from the business will be shared between the two parties based on pre agreed profit ratio, in the event of the loss the provider of the capital will be borne by the loss whilst the *mudarib* lose his time and efforts.

The classical scholars used other terms which carry the same meaning of the *mudarabah* that is *qirad* and *muqaradah*. The word *qarada* has been derived by the both words of *qirad* and *muqaradah*, the word *qarad* means to cut off, just because the provider of the capital (*rabbul mal*) cut off some amount of his money to be used by the entrepreneur

(mudarib) in the business activities. From another different angle, the word qarada is from the phrase of “*alqard fi al-ard*” (cut off on the earth) which also means to make journey (Al-Kasani, *Badai’ Al-Sana’i*, 6/64)

2.2.2 Legality of Mudarabah Contract

Even though there is no explicit verse of holly Quran that permits this contract but jurists of all Islamic fiqh schools unanimously agreed that this contract is legal and valid, scholars have been recognized that the legality of this contract is based on the following verses from the holly Qur’an, “....*There is no blame upon you for seeking bounty from your Lord.*” (*Al-Baqarah: 2:198*)Allah also says in another verse “....*others travelling through the land seeking of Allah’s bounty.*”(*Muzammil: 73:20*). Even though the stated verses of the Qur’an do not directly address the validity and legality of mudarabah contract, but they have been interrelated to include those who travel for the objective of business and trading as well seeking the permissible income (Al-Kasani, *Badai’ Al-Sana’i*, 6/79).

From the *Sunnah*, the legality of this contract can be divided into two first of all is the acts of the prophet Muhammed (P.B.U.H) himself who used to work as an entrepreneur before and after of his prophetship, for his wife Khadijah R.a. Another clear proof is the tactic approval of the prophet (P.B.U.H) for instance, it was reported by Ibn Majah that prophet (P.B.U.H) has said “*there is blessing in three transactions that is, mixing wheat with barley for home consumption but for trading, credit sale and mudarabah*”

(IbnMajah, *SunnanIbMajah*, 2/768). From Ijma regarding the legality of this contract is based on the practice of the companions on the business activities of this contract. As for qiyas (Analogy), some Muslim jurists made an analogy about the legality of *Al-Musaqah*. *Al- MUSAQAH* is an agricultural partnership of which the owner of an orchard turns over a specified number of fruit-bearing trees to another who will tend them in exchange for specified portion of the total yield (not the yield of certain trees). Thus, according to some Muslim scholars, both of these contracts *Musaqah* and *Mudarabah* are legal and actually needed by human beings (Al-Kasani, *Badai' Al-Sana'i*, 6/89).

2.2.3 Types of *Mudarabah* Contract

This contract can be divided into two that is *mudarabah Al-Mutlaqah* (Unrestricted *Mudarabah* Contract) and *mudarabah Al-Muqayada* (Restricted *Mudarabah* Contract). unrestricted *Mudaabah* is type of this contract in which provider of the capital (rabbul mal) permits the entrepreneur (mudarib) to manage the business without restrictions on the manner of the business, the time, location and the method of payment from the customer, etc. the above definition shows that this type is free from any restriction. Thus, the entrepreneur (mudarib) has a wide range of business freedom based on business experiences as well as trust he has acquired. However, Muslim scholars have different views in some acts of the entrepreneur such as lending or taking loan. The Hanbali and Shafe'i scholars believed that the entrepreneur can merely enter in this type of act with the permission of capital provider (INCEIF, 2006).

On the other hand, another type of this contract is restricted mudarabah. AAI OFI Shariah standard defines this type of as a contract where the provider of the capital (rabbul mal) restricted the actions of the entrepreneur to a particular types of business activity, location or any kind of restrictions from the provider of the capital considers suitable but not a way that would unduly restrain the entrepreneur to do his business operation (INCEIF, 2006).

2.2.4 Origin of *Mudarabah* contract in Islamic Finance

Concept of Mudarabah contract was developed by Arabian caravan trade prior to the coming of Islam (Shaharuddin 2010). Shaharuddin asserts that it was generally practiced mostly by those who were not able to involve directly to their business activities such as orphans, women and elderly people. Since these groups of traders were unable to directly engage in trade, they would entrust their money to reliable and skillful traders to transfer products within Arabian region (Shaharuddin, 2010).

In the context of modern Islamic finance, the mudarabah contract became the cornerstone of Islamic banking and finance. For instance, the first attempt to establish an Islamic Bank based on concept of mudarabah was made, as Traute (1983) and Wilson (1983) pointed out, in the late 1950s in a rural area in Pakistan, though this had no lasting impact. A small experimental Interest-Free Bank was founded by a small number of pious landowners who were prepared to deposit funds without interest rewards. The credit was advanced to other poorer landowners for agricultural improvements. No

interest was charged for the credit, but a small fixed administrative fee was levied to cover the operating costs of the bank.

However, as Wilson (1983) put it: “although there was no shortage of borrowers, the depositors tended to view their payments in the institution as a once and for all effort and the institution soon ran short of funds. In addition, the depositors took a considerable interest in how their deposits were loaned out and the bank officials enjoyed little autonomy with no new deposits forthcoming, and problems over recruitment of bank staff, who were unwilling to give up lucrative and secure careers in city commercial banking for an uncertain venture in the countryside, led to the collapse of the bank (Abdelkader, 2005).

On 25th July 1963, a pioneering experiment, the Mit-Ghamr Islamic Savings Bank(MGISB), started in the county of Mit-Ghamr in Egypt by el-Naggar who later became Secretary General of the International Association of Islamic Banks. The model was the German savings banks adapted to the rural environment of an Islamic developing country. The purpose was to mobilize the idle savings of the majority of the Muslim Egyptian population without transgressing the laws of the Shariah and to provide them with *halal* returns on their savings as well. Although el-Naggar, was primarily an academic himself, he managed the bank and carefully selected the bank’s staff from enthusiast Muslims, who had some banking experiences with commercial institutions.

“The staff soon gained the confidence of the conservative county community who saw they were devout Muslims like themselves, as they worshipped locally with their potential customers. The region’s peasants were suspicious of outsiders and few had ever used commercial banks, which were seen as alien institutions belonging to the cities, and mainly to serve westernized Egyptians. These new bankers were viewed as different, as they shared the same views and moral values as the peasants themselves, despite their education” (Wilson, 1983).

The bank accept deposit and financed small- scale businesses, projects and local industries based on the mudarabah contract so that it can increase level of economic activities and income of the poor farmers and small businesses in under developed areas and thereby raise their standard of livings (Abdelkader, 2005). Wilson (1983) reported that: "The bank’s loans were used for a variety of purposes including house building and repairs, the purchase of simple machinery for handicraft industries, such as hand-loom for weaving textiles or... sewing machines. Some loans helped finance the purchase of farm animals and basic improvement to the irrigation systems as efficient water provision was essential in a community based on agriculture". MGISB soon prospered, and within three and a half years, the first depositors were joined by more than 251,000 and the deposits grew at unprecedented higher rates than expected (Wilson, 1983). Unfortunately, the bank was closed in February 1967 after only three and a half year due to political reasons.

Nevertheless, the venture laid the seeds of modern Islamic banking and pointed the way for subsequent undertakings. Soon afterwards many Islamic social, developmental and commercial banks started doing business following the example of Mit-Gham Islamic savings bank with some improvements. The first of such banks is the Nasser Social Bank established in 1971 in Egypt, not as profit-oriented institution but as a social bank to serve the previously 'unbendable' low income group; followed by the Islamic Development Bank (IDB), an Inter-governmental institution established in 1975 in Jeddah (Saudi Arabia), with the purpose to foster the economic and social development of its member countries, and by the Dubai Islamic Bank (DIB) in Dubai (UAE) in 1975, the first major Islamic commercial bank, the success of which led to the establishment of a series of such banks elsewhere (Abdelkader, 2005).

Another successful experiment regard to use of *mudarabah* in investment happened with the birth of the Pilgrims Fund Corporation or Tabung Haji, which started operation in Malaysia in 1963. Tabung Haji started its business with only 1281 members and a total deposit of MR46, 600 and by 2004, it has a membership (account holders) of around 4 million and deposits of more than US\$2 billion (Rahman, 2004). Tabung Haji operates as an alternative financial institution to interest-based banks, providing *halal* investment opportunities to Malaysian Muslim savers. Any Malaysian Muslim can open his or her account with Tabung Haji with a minimum monthly installment of RM10 for adults and RM2 for children. It has a network of more than 111 branches that serve its members, in addition to the use of the services of the post offices, and deductions from salaries.

The collected amounts are invested in selected investment projects spread across a diverse range of investment portfolios in conformity with Shariah guidelines and strong growth potential. This includes short and long-term investments, equity investments, unit trust investments, schemes offered by government, real estate investments as well as investments in its 12 subsidiary companies, which are engaged from the traditional sectors of agricultural, plantation or real estate business to the most modern Information technology.

The business and investment of Tabung hajji depend on the accumulated fund from customers, in order to generate and also maximize the returns, this accumulated fund is invested in a different businesses. Tabung Hajji ensures the determination that the financial investments are Shariah-compliance principles. From 2013 annual report of Tabung Hajji, these financial investments were in business involving the construction, plantation, Islamic banking, information technology, real estate, and tourism as well as services sectors. Furthermore, Tabung Haji prudently invest in to the equity, security deposit, Initial Public Offer (IPO), IDB Islamic infrastructure Fund, and also private equity (Tabung Hajji, Annual Report 2013).

Tabung Hajji financial performance recorded significant growth in term of revenue, operational profit, and profit of the year after zakah and total asset. The financial performance of Tabbung Hajji from the annual reports of 2011, 2012 and 2013, shows the revenue of RM 5,554 Million, RM 6,367 Million and RM 7, 30 Million respectively

and 58% of the revenue were from the equity investment. the operating profit also recorded substantial growth with RM 2,412 Million, RM 2,881 Million and RM 3,209 Million respectively, the profit of the year after Zakah also recorded slight growth from RM 2,058 Million, RM 2,249 Million and RM 2,510 Million, the total asset of Tabung Hajji recorded continuous growth of RM 35,027 Million, RM 43,027 million and RM 49,547 million respectively.

In statistical terms the financial performance of Tabung Hajji for past three years is marked more improvement in terms of revenue, operating profit, yearly profit and total asset. As stated earlier the main business activities of Tabung Hajji is accumulated fund from the depositors, the fund normally invested in investment transactions that are Shariah-compliance products, in equity investment particularly (Tabung Hajji, Annual Report 2013).

Moreover, at initial stage of Islamisation of banking system in Pakistan, a new law, namely, the Mudaraba Companies and Mudarabas Ordinance, 1980 along with the Mudaraba Companies and Mudaraba Rules, 1981 were enacted. Pakistan State Bank issued circular to the banks so that they can use mudarabah, as a two-tier fund structure (accepting deposit and financing) *Shari'ah* compliant businesses. From July 1, 1985 all commercial banking in Pakistan eliminated interest-based transaction and adopted profit and loss sharing (PLS) in accepting deposits, & providing financing to the customers based on mark-up (murabahah) and *Mudarabah* (Shamshad,2007). Today, many other

Islamic non-bank financial institutions such as Takaful companies use *Mudarabah* contract in its operation.

Siddiqi (1983) emphasized that it is vital for Islamic banks to use *Mudarabah* contract. According to him In order to achieve a real developed Islamic banking system, all actors and players of Islamic banking industry including the customers should utilize aggressively *Mudarabah* contract based products to replace the institution of interest that is not in line with *shari'ah* principles. In addition Islamic banking and finance will never be successful if consideration and real practice of Islamic banks is based on leasing and sale based products. Furthermore, he believes that the lending as well as interest based banking has significantly resulted into injustice and inequality. Thus in order to ensure the justice and efficiency of Islamic banking system it is necessary for Islamic banking and finance institutions to replace and change their operations based on *mudarabah* contract.

2.2.5 Relationship between perception and concept

Concept is an idea about something and especially concept is a structured or systematic idea. The concept about Islamic banking products and services deals the understanding about the nature these products and services. There is a relationship between perception and concept. For instance the relationship between Islamic banks customer's perception towards Islamic banks products and services is relationship based on the understanding of the Islamic banks products and services. Many researchers such as, Gerrard (1997), and

Ismail (2011) have emphasizes the need to better consumer education. Given to that, the better customer education will facilitates to improve the positive perception of the customers towards Islamic banks products and services.

According to the Mark (2010) There are a poor knowledge of the customers in certain types of banking concepts, even though some customers undestand part of islamic banks concepts however less uderstanding of the customers are still existed. As such customers would not have positive perception of islamic banking concepts as long the edcuation and knowledge of the customers are less and tangible. This results the customer's lack of differentiation between islamic banking and concentional banking, this also might leads islamic banks to have comprable perception for both islamic banking and conventional, and this is where the direct relationship between islamic banks customers perception and islamic banks concepts are existed.

Many studies about the relationship between the perception of Islamic banking customers and Islamic banking principles were conducted around the globe. early researches was most of it conducted by countries such as, Kuwait, United Arab Emirates, Jordan, Singapore, United Kingdom, Kuwait, most of these studies conducted other countries found, that the perception of Islamic banks customers toward Islamic banks products and services mostly derived by religious factor such as, pure Islamic banking principles, religious bank or banks for Muslims and profit and loss sharing (PLS) based products. Nevertheless, Malaysia Islamic banking system has been exemplary compared to the rest

of the globe as Islamic banking in Malaysia captured large market share and also remain very competitive in the Islamic banking industry, but a very few studies have been conducted regarding customer's perception towards Islamic banking principles such as *Mudarabah* concept (Thambiah, 2012).

Othman and Owen (2001, 2002) study conducted in Kuwait they highlighted the nature of Islamic banking principles as the most crucial factor that affect Islamic banks customers in Kuwait. The researchers commented in order to be successful it is very important for Islamic financial institutions to ensure the Shariah-compliant of the law with all their banking transactions and practices and they also commented the importance of Islamic financial institutions to be compliant with Islamic principles. Besides, several studies on customer's perception about Islamic banking concepts were also conducted countries like United Kingdom. For instance study conducted by Ahmad (2008), the study finding showed that the structures of Islamic banking principles are the main attraction towards Islamic banking in the UK.

2.3 Applications of *Mudarabah* Contract in Islamic Banking Transaction

Applications of *mudarabah* related products are part of Shariah-compliance principles. In Malaysia, Bank Negara Malaysia (BNM) and its Shariah Advisory Council (SAC) play crucial role in ensuring that Islamic bank products and services are in compliant with Shariah principles. BNM regulates the activities of all Islamic banks in the country. SAC also is an authoritative body on a contracts pertaining to Shariah in Islamic banking and

finance. It issues guidelines on governance of Shariah Committee, promotes harmonization of Shariah interpretations and approves Islamic banking products and services (BNM, 2014).

Generally, SAC prepares resolutions to make amendment in the applications of Islamic financial institutions products and services in Malaysia (BNM, 2014). SAC has approved several *mudarabah* related applications such as, project financing, unit trust, and *Takaful* *mudarabah* related products. Like other scholars in the globe, SAC scholars also believed that this contract should be a cornerstone of Islamic banking system (Shamshad, 2007).

Mudarabah related applications is offered by Islamic commercial banks as they play intermediaries functions where they indirectly channel the funds from surplus units through offering a variety of deposit products to the deficit units through selling a variety of financing products (INCEIF, 2006). Islamic banks accept deposit using contracts of *Wadiah*, *Wakalah* and *Mudarabah*. Moreover, Islamic banks of deficit units using contracts such as Equity-based contracts (*Musharakah* and *Mudarabah*); trade-based contracts (*Murabahah*, *bay al-salam*, *bay al-Istisna*, *bay al-Innah*, *Bay al-Dayn*, *Ijarah*; security contracts such as *Kafalah*, *Wakalah*, *Wadiah* etc. (Abdul Ghafar, 2013).

2.3.1 Islamic Bank Deposit Using Contract of *Mudarabah*

In Malaysia there are four types of Shariah-compliant saving deposits contracts including, *Mudarabah*, *wadiahyad-dhamanahqardhasan* and *Mudarabah* (Mohd, 2010) According to the (INCEIF, 2006), Islamic banking deposits share characteristics with conventional banking in term of, liabilities obligation, deposits as source of fund and providing returns to the deposits mobilization. Even though both conventional and Islamic banking deposit system share same characteristics, but there are differences between the two. The main differences between the two are that the Islamic banking deposit system should be based, and solicited by the Islamic financial institutions according to the Shariah authorization (Tamer, 2005).

Mudarabah contract is one of the common contracts that Malaysian Islamic banks used as Shariah-compliant transaction for accepting deposits (Mohd, 2010). It is an Islamic financial innovation were Islamic banks accept deposit under mudarabah related deposits accounts including, current account, saving account and investment account as it is approved by the Shariah Advisory Council. The word mudarabah suggests, the depositors may take advantage by enjoying the benefits of sharing the profits derived from the operation of the funds.

Mudarabah current account customers are entitled to share the profits generated under current account based on a pre-agreed profit ratio at the time of opening the current account. If the minimum amount of balance of the deposits can meet the requirement then the customer can enjoy the profit-sharing current account. However, if depositors

withdraw the deposits and that caused the minimum amount of balance falls below the base amount, then the *wadiah* application contract will automatically become effective (BNM, 2006). In mudarabah saving account, customers deposit their fund as an investor and Islamic banks will share the return from the investment with the customer based on pre-agreed ratio. Most of Islamic banks in Malaysia offer mudarabah saving accounts (Mohd, 2010).

Mudarabah investment account is also used as form of Islamic deposit accounts. In order the profit-sharing investment account to be officially binding both of the parties should clearly identify the subsequent terms of the contract, time, amount of the investment and profit-sharing element (Mohd, 2010). Profit sharing is the most essential element in this arrangement, since it decides the efficient of the returns from the business investment. Besides, the profit amount stated, both of the parties are also permitted to add on other conditions, like the short term deposits minimum amount, time which make the contract more convenient (INCEIF, 2006). Moreover, some Islamic banks also introduced a minimum notice time in case the depositors' needs to do withdrawal.

Since profit-sharing investment deposits are high risk in nature, Bank Negara Malaysia issued guidelines on risk minimization in investment account (PSIA) and specify strict criteria that Islamic banks should fulfill in order to enable the depositors to enjoy the lower capital provision as a consequence of the capability to recognize profit-sharing investment account as a risk absorbent (ICEIF, 2006).

Nevertheless, Islamic Financial Service Act (IFSA) 2013 introduces new rule that all Islamic deposit products that initially used contracts of *mudarabah*, *Wakalah* and *musharakah*, will be classified as investment product. Most of Malaysian Islamic banks are not ready yet to move their deposit products as investment products. According to the Bank Islam Malaysia Berhad (2014), which is the first full fledged Islamic bank of Malaysia only few banks are able to migrate to new Islamic investment account, as customers of Islamic banks in Malaysia are not willing to convert their *mudarabah* deposit products to the investment products. IFSA 2013 affect customers as their *mudarabah* current and saving accounts reclassified as an investment account, thus with difficulties in benefit Islamic banking customers do not wish convert their deposit to investment account (BIMB, 2014). However, under IFSA 2013, Islamic banks will accept deposit only into two account Islamic deposit using contract of *wadiahyad-dhamanah* and investment deposit account using contract of *Mudarabah*

2.3.2 Islamic Banks Financing Using *Mudarabah* Contract

Islamic banks are supposed to provide financing using the contracts of *mudarabah*. majority classical jurists restricted this contract to operate only for direct trading activities, however, currently the scope of this contract in financing winded to cover all activities including, investment financing, project financing, and trade financing, large enterprise financing, private equity financing and business venture financing. Although the *mudarabah* financing has been extended to cover different business activities from industrial to the agriculture, but full potential techniques for financing *mudarabah* contract unfortunately has not realized yet. Various hindrances and obstacles are impeded

the successful implementation of profit and loss sharing (PLS) contract in general and in mudarabah contract particular.

The implementation of mudarabah contract is more difficult compared to the musharakah contract, and the principle reason why this contract is more difficult is because in musharakah the Islamic banks have a right to participate the management of the business activity, whilst the in mudarabah contract the management of the business activities will lefty only for entrepreneur (INCEIF, 2006). In mudarabah financing the Islamic bank do not involve the determination of the mudarabah business. Thus, a high confidence from the entrepreneur based on his experience and ability to run the business is extremely needed. Given the current structure of most of Islamic banks which is mainly play as an intermediate role, it is very difficult for Islamic banks to provide mudarabah financing products (INCEIF, 2006).

This contract is applied in the issuance of Islamic securities and interbank investment, recently, Takaful industry can also be formulated by using the mudarabah contract were the policy holders are the providers of the capital and Takaful companies manage the fund. In Islamic financing the Mudarabah Investment Certificate is also devising using the mudarabah contract. The Mudarabah Inter-Bank Investment (MII) is also used as Islamic banking transaction base on this contract, Mudarabah Inter-Bank Investment is a mechanism where deficit Islamic bank can get investment fund from surplus Islamic bank

in the accordance of the Mudarabah contract. In this transaction of Islamic banking the period of investment is from overnight to one year (BNM, 2010).

The project financing is also used by Islamic banks as product based on mudarabah financing, such as financing the bridges and related projects where Islamic banks offer fund to finance the project and the entrepreneur take his role of the management of the project. The profit from the investment of the project will be shared between the two, the Islamic bank and the entrepreneur according to the pre agreed profit ratio, however, in the event of loss the Islamic bank will completely bear the risk from the project (INCIEF, 2006).

In Islamic financial system the Letter of Credit is also issued by using this contract, in this transaction the customer tells the Islamic bank for his Letter of Credit requirements and negotiate the conditions of mudarabah financing for this Letter of Credit. Then, the customer put a deposit with the Islamic bank under the Islamic principle of wadiah and the full amount of the cost for the products to be purchase as per mudarabah agreement.

Based on that, the Islamic bank acts like entrepreneur by establishing the Letter of Credit and also paying the proceeds to the negotiating Islamic banks using the customer's deposit. After disposing the products, the Islamic bank will share customer the profits from the business base of pre agreed terms and conditions of the business (INCEIF,

2006). In the modern time Unit Trust applications is also formulated as Islamic banking transaction based on mudarabah contract, in this transaction the Unit Trust company provides the management whilst the inventors provide the fund, the profit and loss from the business activity will be shared by both parties, according to the pre agreed profit sharing ratio (INCIEF, 2006).

Eventually, even though the current growth and development of Islamic financial system, but currently the mudarabah financing contract together with the musharakah contract contains less than 10% of all transactions of Islamic banking and finance in world-wide. Despite, various efforts have been made to improve the mudarabah related products, but the practice of mudarabah financing products is still seemed to be risky (Mohd, 2010). Islamic banking system is a business entity which actually is reluctant to take a risk or (risk-averse) in nature, thus Islamic banks view that the hindrances to be in fact the big impediments to the implementation of mudarabah financing products. Hence, the successful implementation of profit and loss sharing products in general and in mudarabah contract in particular requires consolidated efforts from Islamic banking stakeholders such as, the policy makers, the bankers, and the community at large (INCEIF, 2006).

2.3.3 Relationship between perception and application

Islamic banking system is fundamentally based on the basis of Islamic principles, especially the forbidden of taking and giving interest (Riba). The above mentioned underlying philosophy of Islamic banking is essential to add compliance dimension under Islamic banking applications (Muslim Amin and Zaidi Isa, 2008). Different Islamic banking products and services are the applications of Islamic banks. There is relationship between customer's perception and the applications of Islamic banks and this relationship exists due to the customer's products and their service availability.

Studies concerning about the Islamic banks applications and its quality services has grown substantively and extensively over last twenty years. For instance study conducted Owen and Othman (2001, 2002) revealed that customers are more emphasis in the Islamic banks applications in terms of compliance dimension. In Malaysian forty percent of Malaysian Muslims were encouraged to utilize Islamic financial institutions due to the *Shari'ah* compliance of Islamic banks applications (Haron et al., 1994). In other words the *Shariah*-compliance of Islamic banks applications plays a crucial role in terms of the decision to choose Islamic banks (Muslim Amin and Zaidi Isa, 2008).

Hussain & Ralf (2006) conducted a research in Australia they focus the knowledge and understanding of Australia's Muslim Islamic banks customers towards Islamic banking applications especially the need for profit and loss sharing based agreements. They conclude that there are deficiency of knowledge of the customers when it comes to the

foundations of Islamic banking applications, this will possibility tends customers to have negative perception of Islamic banks applications. Furthermore, some respondents of the study indicated that if the facilities of the credit are not exist they would not interest the options of *Halal* financing.

Azmi, Haron, and Shafie (2004) conducted case study on Bank Islam Malaysia Berhad, the case study was concerning the level of quality services perceived by customers of the bank. The CARTEL model was employed in this study to gauge customer's perception and the quality services. Base on CARTER model service quality of Islamic banks applications was measured based on six dimensions that is responsiveness, reliability, assurance, empathy, tangible, and compliance. Finding of the study revealed that compliance, reliability and assurance as the most significant factors in measuring the level of the quality services. Among all the compliance of Shariah principles became the most crucial factor. This means customers are more concerned whether applications of Islamic banks are really in compliance with the Islamic Shariah law.

2.4 Implications of *Mudarabah* Contract

Mudarabah contact is the ideal mechanism of financing and it is the most preferable mode of financing. Islamic banks utilize debt and sale-based instruments to minimize risks and maximize profit (Shaharuddin, 2010). Iqbal and Mirakhor, (2007) argued that, Islamic financial institutions avoided the usage of equity based products such as mudarabah and used much of their project financing are based on debt based

mechanisms. Among the problems for avoiding equity based contracts include: the agency problem, information asymmetry, moral hazard, customer's lack of knowledge, additional monitoring cost, underreporting, restrictions from policy makers, and risk level of this contract (Iqbal and Mirakhor, 2007).

The agency problem and information asymmetry implications have been noted to be the major problem faced by this contracts and these made bankers to be reluctant using these modes of financing (Abdul Ghafar, 2013). In addition, it is argued that underreporting and moral hazard as other factors that discourage Islamic financial institutions to use profit and loss sharing contracts of *mudarabah* and *musharakah* (Iqbal and Mirakhor, 2007).

Financial risks are exposed Islamic financial institutions themselves when used *mudarabah* related products (Febianto, 2012). Due to this higher degree of risks Islamic banks are very reluctant to use this contract in its financing side. Thus, when providing financing, they use debt-based instruments which are less risky compared to equity-based financing. Yet the entrepreneurs have always prefer to undertake projects based on a higher risk in order to get higher profit since entrepreneurs do not actually share the losses from the projects (Febianto, 2012).

Islamic banking customer's lack of knowledge regarding the mudarabah contract is also considered being among the main obstacles that affect customer's participation in mudarabah investment (Farooq, 2006). According to him knowledge played very important role in customers' decision to select in Islamic banking products and services. In his study toward the customer's knowledge of Islamic banking products, he found that the customers do not actually have a sufficient knowledge about Islamic banking products such as mudarabah contract however their usage of Islamic banking products is based on religious purpose.

The regulatory problem is also considered to be one of the obstacles of this contract for Islamic financial institutions in the globe and in particular Malaysia. The main concerns raised by the Islamic banking industry in Malaysia with regard the new rule of IFSA 2013 was the status of mudarabah deposits accounts, IIFSA 2013, has made a very clear that it is no longer regarded mudarabah related deposits as a type of Islamic deposit products. The mudarabah based deposits are clearly mentioned as a separate type of an investment accounts. This particular rule issued by IFSA 2013, results many implications regarding the implementation of mdarabah related products (Ahmed, 2014).

2.4.1 Relationship between perception and implication

In today's strongly competitive world, Islamic financial institutions compete with its long serving conventional counterparty. Both Islamic banks and conventional banks provide different products with different prices. However, some researchers like Mohd (2010) believe that customers of both Islamic and conventional banks almost have same perception in terms of demanding products and services as differences between these products and services offered by both became increasingly negligible, just competitive advantage comes from the size and strength relationship between the bank and its customer. Normally clients are looking beyond products and services to evaluate whether the overall solution of financial institutions provides addresses their individual priorities and needs. Thus, the customer's needs have direct relationship to the implications of the facilities used by the customer.

According to Norafifah & Sudin (2002), there is lack of understanding of the islamic banks customers in Malaysia towards the structure of islamic banking products and services, even though some customers undstanding the implications most of islamic banks, majority of islamic banks customers in Malaysia are lacking the knowledge how islamic banking products work and their implications as well. Furthermore, that finding reveals that the policy makers as well bankers did put much effort to educate and improve the knowledge of their customers about the products offered by the islamic banks and their implications.

Based on their finding majority of the islamic banks customers in Malaysia have insaficient knowledge and understanding about islamic banks products as well as the implications of these products and services. Customers lack of knowledge about the implications of islamic banking facilities might tends to them to have negative perception about the islamic banking facilities.

Although, a big campaign were conducts by Malaysian Islamic banks, yet Islamic banks did not win to implement and practice more understandable approach in terms of the implications of these products. If the Islamic banks customers know the implications of every Islamic banking products and services this will ease to limit the obstacles faces by Islamic banks in Malaysia when they dealing Islamic banks, as such they improves customers perception towards Islamic banking products and services. Hence, practicing a appropriate plan that improves the understanding and knowledge of the customers regarding the implications of Islamic banking facilities will benefit for the industry. In general there is relationship between perceptions of the customers towards Islamic banking facilities and the implications of these facilities.

Several studies towards Islamic banking product implications were conducted such as, study conducted by Kader (1993, 1995) he examined the performance as well as the market implication of Islamic banking. Kader study was only based on the case analysis of only single Islamic bank that is Bank Islam Malaysia Berhad (BIMB). The study finding revealed that there is significant relationship between the implications of Islamic

banks products and customer's perception. Likewise, Rashid et al. (2009) was also conducted similar study, the key finding of their study was, religion, convenient financial transaction procedure, higher cost-benefit implications as well as the consistency of banking services to be the major factors that Islamic banks customers in Bangladesh perceived much contribute the adoption of Islamic banking system in their country.

2.5 Demographic Factors and Customer's Perception towards Islamic Banking Products

Demographic factors is define as a characteristics given to an gender, age, race, religion, marital status, income, level, level of education, and job sector. Previous researcher studies indicate that demographic factor has influence the adoption of customers towards e-banking. In terms of gender, Mohamed Ishak (2007), conducted study on customer's adoption on Islamic pawn broking services in he found that female respondents are most likely preferred the usage of Islamic pawn broking services other than mal respondents. This is also applicable to the mudarabah related products since it is one of the cornerstones of the Islamic banking products.

In terms of race, Ahasanul, Jamil and Ahmad (2007) conducted study and the finding of that study reveals that there is a significant relationship between race and perception towards Islamic banking products and services. In terms of level of education, De Run & See Lip (2008) conducted study in Malaysian's eastern part of Sarawak the finding of the study reveals the higher level of education has importantly different level in

understanding Islamic banks' products and services. This study supported by Khattak & Rehman (2010) they conducted study in Pakistan and the study finding shows that the academic qualifications, are having a positive correlation perception towards Islamic banks products and services.

In terms of monthly level of income, According to Amin (2007), conducted study and he found that income will affect customer's perception in Islamic banking in Borneo. Customer's perception dealing with Islamic banking are different because of different income of the customers since there is variance in almost all reasons accepted confidentiality and services charges (Khattak and Rehman 2010). In Malaysia, for instance it seems that those with a middle income of RM3000-Rm3999 monthly income have a significantly different perception and understanding level of Islamic financing (Run and Yeo, n.d.).

In terms of job sectors, According to Khattak and Rehman (2010), occupation has significant relationship with Islamic banking. Most of the customers of Islamic banks in Bangladesh are either professionals or executives and both in the public as well as private sector (Khan et al., 2008). Study conducted by Haque et al., (2009) in Malaysia, the finding of the study shows that there is no significant relationship between Islamic banks products and the overall perception of the customers towards Islamic banks products and services. As such, this means occupation will be influencing the usage as well as the

awareness of Islamic banking products however it will not affect the overall perception of the customers with different job sectors and the Islamic banks products and services.

2.6 Theory of Islamic Banking

Islamic banking theory essentially is based on the premise that interest is totally forbidden in Islam but the business and trade is allowed. Islamic banking system is standing the fundamental teachings from the holly *Qura'an* and *Sunnah* of the Prophet P.B.U.H. Thus Islamic banking concepts and principles are useful financial transactions that are accepted by both Muslim and non-Muslim society. However, according to the fundamental teachings of the Shariah what is not acceptable is the use of interest “riba” mechanism as a part of the process of banks financial intermediation (Ziauddin, 1994).

The conventional theory believes that interest “riba” is very important method in order to achieve economic growth and sustainable development of the financial industry. However, classical and contemporary Islamic scholars has started to provide answer to this dilemma, Islamic scholars suggested that it is possible to run and achieve economic growth without interest “riba” the invention of interest-free banking system was the outcome to replace the interest based banking system.

The concepts on the theory of Islamic banking which derived from the fundamental teachings of Islam or principle of Shariah has proceeded to become the backbone of Islamic finance and banking system. The profit and loss sharing concept (PLS) was used to be the key alternative of interest based products, the two forms of profit and loss sharing which were mostly in use at the pre-Islamic period as well as the contemporary time are mudarabah and musharakah. Muslim jurists are unanimously agreed that these two type financial mechanisms are fully compatible with the ethos and philosophy of the value system of Islam. Islamic scholars believe that in order to achieve equitable income, to attain the Islamic socioeconomic adjectives as well as to maximize the employment opportunities these two forms of Islamic financial arrangements must be use (Ziauddin, 1994).

2.7 Conceptual Definition of the Variables

Perception: is a concept which regards the consumer's impressions awareness and consciousness about the business institutions and their products and services. Clients' perceptions are usually influenced by the company's products and services. This is to say that one aspect which the business entities may compete successfully for today's business is through providing strong consumer service and products which is imbued with quality. Therefore, successfulness of today's business is depend on how strongly and positively high the perception of clients and how the products and services offered by business companies meet the consumer's expectations (Aspfors, 2010).

In this study, the perception of Islamic banking customers towards mudarabah related products are therefore important. Hence, the more customers have positive perception towards mudarabah related products, the better Islamic banks can maintain more and continues customers that could generate more profits as they would have strong and enough customers.

Concept: concept is the people's psychological representations of categories such as apple and chair, thus concept can be the people's understanding of words and other linguistic expressions. In this case, the concept of mudarabah contract is a general notion and an abstract idea of the Islamic banks customers towards characteristics and unique features of this contract. The knowledge of products and services is another crucial sales skillfulness. This is where the products features and specifications can allow the consumer to present precisely and credibly with a full understanding of the products and services (Govt, 2014).

Given to that, the concept of mudarabah are somehow difficult for some customers to understand the characteristics and conditions as well as the nature of this contract, the understanding mudarabah concept are really a challenge for them. Therefore, the nature and unique features of mudarabah contract may have an impact customer's perception towards mudarabah related products.

Application: application is a company's products and services offered by its consumers. In this case, the applications of Islamic banks are the products and services offered by them. Islamic banks operate within ambit of Islamic principles. The applications provides Islamic financial institutions gives opportunity to the customers to understand the applications in terms of the nature and structure of the most widely employed Shariah principles such as mudarabah contract. Some of the Islamic banks customers developed their intellectual capacity to critically analyze the different applications of Islamic banks products and services, but majority of them cannot critically analyze Islamic banks applications.

In this case, the knowledge and understanding of the current Islamic banks applications is important. Islamic banks provide various Islamic banking and financing mudarabah related products, thus, Islamic banks customers understanding how the applications of mudarabah contract is applied in the present Islamic banking system is very important. The implementation of the different mudarabah related applications in the current Islamic banks are essential and vital to the industry's performance and its market in general. However, the different applications may have an impact to the customer's perception towards mudarabah contract.

Implication: Implications is the conclusion that can be drawn or implied from something, even though the things are not explicitly stated. Customers normally evaluate whether the implications of the products and services addresses their individual priorities

and needs. Moreover, the improvement in the awareness of Islamic banks customers towards different implications of Islamic banks products and services will give advantage and benefit to the Islamic financial institutions in the long run. The customers also benefit by having more knowledge and understanding on the Islamic financial products and services, this may improve their perception towards Islamic banks operations, where the clients choose particular product such as mudarabah related products with full understanding of the nature of the product, and this may help customers to fulfill their financial needs and religious obligation.

In this case, customer's awareness and knowledge about the various mudarabah related products implications such as risk, and management implications is very essential, as this will improve their perception towards mudarabah related products.

2.8 Summary of the chapter

In Malaysia Islamic banks was established to avoid interest based contracts as a business Islamic banking and financial institutions in Malaysia provides special financial contracts that is basically and practically different from their conventional counterparty. Malaysian Islamic banking and finance institution provide products which has unique features like mudarabah contract. The importance of this product is that there is no interest elements involved in this product. For Muslim community there is a great desire for this product and the establishment of this desire has been met for some of Islamic banks, in this

contact customers may serve as a religious obligation at the same time customers are getting profit from this product.

At beginning Malaysian Islamic banking there was expectation that the demand and desire of mudarabah contract to be increase over the year, however, the current practice of Malaysian Islamic banking industry did not meet that desire as they provide and give privilege to the debt financing contracts instead of promoting equity based mode of financing, moreover customers normally choose the most profitable products that is offered by Islamic banks (AbdusSamad& M. Kabir Hassan, 1998).

It has been stated that mudarabah contract is similar to the venture capital which is practiced by conventional banks, even though both contracts are similar but still there is a distinctive differences between both contracts. mudarabah contracts in Islamic banking and finance and venture capital in conventional banks seem to be similar in the sense of that both contracts emphasize the profit of the business rather than loan based on interest as conventional banks normally do. However, the two contracts are different in term of the role of involvement of provider of capital in running the business.

Venture capital of conventional banks often participate and involve the business through supplying a managerial know how to entrepreneurs. However, in contrast the mudarabah contract in Islamic banking and finance system the capital provider participation of the

business is permitted according to the majority of Muslim scholars. Thus the mudarabah contract is more similar to the equity investment of the shareholders in the public listed company (Shaharuddin, 2010).

A review of literature of this contract reveals that a Mudarabah product has been considerably making funds for Islamic banks. Nevertheless, the Mudarabah contract usually fails providing capital for entrepreneurs as there is imbalance of the usage of profit sharing or Mudarabah products in Islamic banks. Mudarabah deposit accounts and Mudarabah investment contribute considerably in attracting the deposit however the Mudarabah financing generate significantly very small percentage of funds for entrepreneurs.

For instance in year 2005 the saving and invest account generated 64.4% of total deposits of Islamic banking while the Mudarabah financing contributed only 5% of total financing of Islamic banks. Islamic banking and financing supposed to provide more on profit sharing and also profit and loss sharing financing products, however instead of promoting those financing products, Islamic banks prefer and give privilege more to provide products through debt such as *Murabahah*, *Bay' Bithamanajil*, *Ijarah* and *Wakalah* (Shaharuddin, 2010). The next chapter of discusses the research methodology used to conduct this study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The previous chapter has provided the discussions of various aspects of the product of mudarabah in Islamic banking, including different types of mudarabah applications with their implications as well as the perception Islamic banking customers toward Islamic banking products and services. Chapter three of this study discusses the aspect of research methodology which is very important in order to achieve a reliable outcome, thus, researcher adopts the most appropriate methodology with a good planning through the study process. Besides, it discusses the methods that the researcher employed to obtain the objectives of the research as well as to answer the research questions that also outlined in the first chapter of this research. This chapter has been organized into five main sections.

First section discusses theoretical frame work of the study. Second section discussed hypothesis testing. Third section the methodology used including research design, sampling design, research method, methods of data collection, variable measurements, pilot testing, validity and reliability of instruments and data collection process. The fourth section discusses the statistical techniques used in this study to analyze data collected from the respondents and the last section is summary and conclusion.

3.1 Theoretical Framework

A theoretical framework is a theoretical model of how any researcher develops a logical sense the relationships between several factors that have been recognized as important to the problem (Sekaran, 2003). In this research the theoretical framework is needed in order to know the relationship between variables. Thus, as the main objective of this research is to examine the perception of Islamic banks customers in Kedah state on the mudarabah concept and its applications of Islamic banks.

The researcher has recognized some characteristics that are unique in the nature of mudarabah contract when compared and evaluated to the other kinds of Islamic banking contracts. An excellent formulated questionnaire is also essential to develop in order to facilitate and make easy respondents to give answers which might be analyzed by the researcher accordingly. The variables of this study were recognized according to the sources from various literatures which are more related to the study area in question. The below diagram Figure 2.1 provides the overview of the main variables chooses for formulating the study tools to facilitate to attain of the study objectives.

Diagram for the theoretical is as follow:

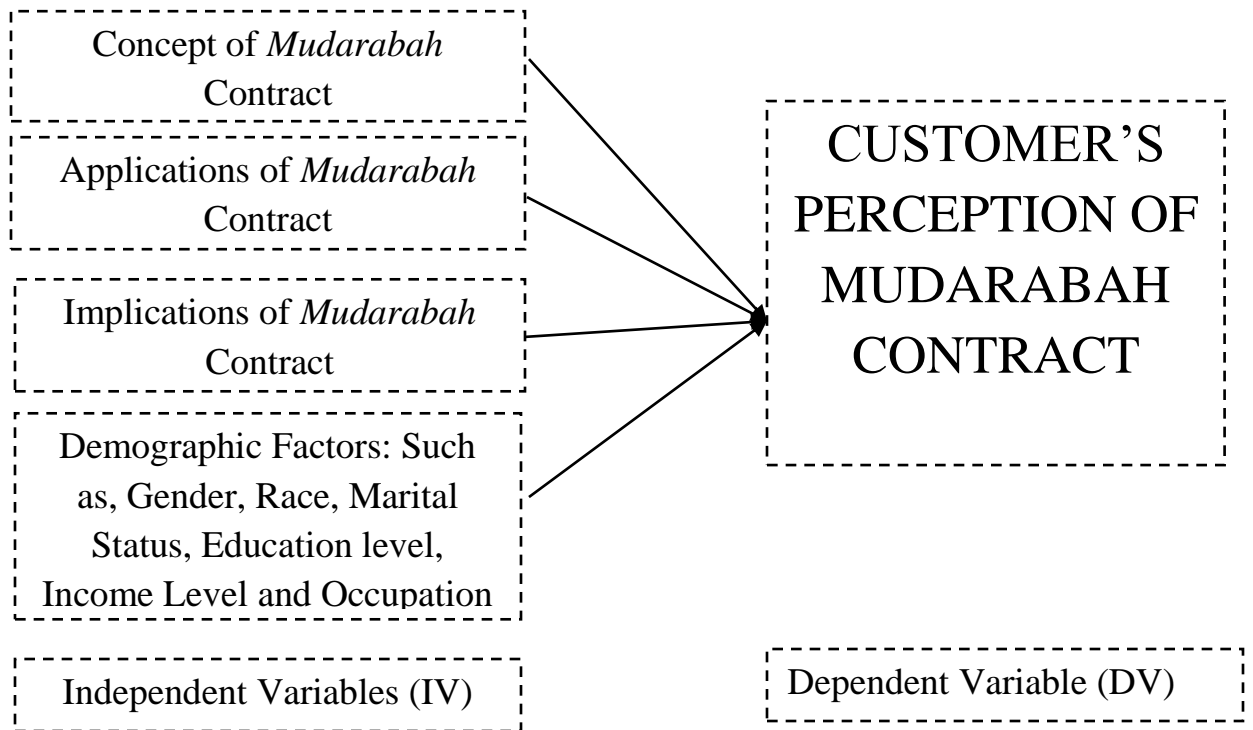


Figure 3.1

Theoretical Framework

3.2 Hypothesis Testing

Hypothesis is statement of association and relationship among two or more variables. Hypothesis always is a declarative sentence structure, hypothesis relate either specially and or generally variable to the variable (Sekaran, 2003). Generally, hypothesis is guide for the examination of the all process of study or research endeavor and hypothesis keeps the research on the central line of the study. Considering the above literature review as well as the questions and objectives, thus the following research hypothesis will be enough for the current study.

Hypothesis One

H0: there is no one variable that is the most important factor that influence customer's perception towards mudarabah contract

H1: there is one variable that is the most important factor that influence customer's perception towards mudarabah contract

Hypothesis Two

H0: there are no significant differences between gender, race and marital status and customer's perception towards mudarabah contract.

H1: there are significant differences between gender, race and marital status and customer's perception towards mudarabah contract.

Hypotheses Three

H0: there are no significant differences between customer's level of education, level of income, and their job sectors and their perception towards mudarabah contract.

H1: there are significant differences between customer's level of education, level of income, and their job sectors and their perception towards mudarabah contract.

3.3 Research Methodology

Research methodology is a way that systematically solves the research problems. Besides, it can be also known as a research procedure it is a foundation to solve the research problems (Kumar, 2008). In addition, it is a broader research framework that includes with the research methods, research design, sampling design, data collection method, data collection process, validity and reliability of instrument (Saunders et al., 2007). The proper research methodology adoption could help the researchers in developing clear research framework which also provides the benefits of getting the research aims and objectives.

There are two kinds of research methodology, first quantitative research methodology second is qualitative research methodology. The quantitative research is a process that engages quantifiable observations or the process that data that can be able to convert it into the numbers. By contrast, the qualitative research methodology is applied and used to investigate and observe matters affected and related to the human behavior (Kumar, 2008). So, the aspect that covered in this study is customer's perception toward mudarabah related products. Since the objective of current research is to examine the particular aspect of perception of Islamic banking customers toward mudarabah contract, this study is conducted as a quantitative study. And as its motivation is to investigate particular phenomenon, the quantitative method is the most appropriate methodology for this research.

3.3.1 Research Design

One of important aspect of research methodology is the research design. Research design is essential factor in any specific field of research, as all the study questions shall be appropriately put in a suitable general plan will be prepared to attain the study goals (Bryman and Bell, 2007 and Saunders et al. 2007). Research design is a “blueprint” of conducting particular research work, it is an instrument to guide and facilitate the research through the different stages of the research (Sekaran, 2006 and Malhorta, 2007). Thus, for any research to be carrying out the accurate research design should be formulated, by employing the most suitable techniques. Therefore, a proper tools selection could assist the researcher in order to achieve his/her research aims and objectives by getting close to an accurate conclusions and reliable result.

Nevertheless, before deciding the research design, researcher must first know the purpose of his/her research. Sekaran (2006), Kumar (2008) have laid down three different kinds of studies that are related with any specific research that is, descriptive, explanatory and exploratory studies. Thus, any research must fall into one of these three different types of studies. The objective of descriptive studies is to explain relative aspects of the phenomena of the researcher’s interest from industry-oriented, organization, individual, or other perspective (Sekaran, 2006).

The explanatory as mentioned by Saunders et al., (2007) or as well as hypothesis testing as stated by Sekaran (2006) the aim of this type of research design study, is to explain the outcomes of certain fundamental relationship between number of variables or differences between groups. The final type is termed, exploratory which are normally used when the researcher is looking or observing for solutions of unknown situation and in a situation when there is lack of information available on the problem (Sekaran, 2006; Saunders et al., 2007).

Therefore, this research is quantitative research and the researcher adopts descriptive research design. In a situation of descriptive this research intended to describe the relationship between independent and dependent variables and the impact of independent variables to the outcome of dependent variable. Thus, descriptive research design is most suitable research designs to approach this unique topic. A survey method using cross-sectional has been used in this study.

3.3.2 Sampling Design Process

3.3.2.1 Target Population

For the aim of this research, it has been identified that the Islamic banks customer as the research population. Therefore, this research the primary target population is customers of Islamic banks in Kedah state of Malaysia, the major cities of Kedah state was the target area chosen. The Islamic banking customer is termed any person who use in

Islamic banking facilities in Kedah state, Malaysia. Islamic banks customers can be corporations, societies, individuals and also governments. However, because of number of limitations the researcher should redefine the target population in to a smaller target population.

3.3.2.2 Unit of Analysis

There are different types of customers, such corporations, societies, governments and individuals. Given to the aim and purpose of this study, the primary target population is limited to only individual customers, because it is imposable to identify customers other than the individuals for the reason of regulatory restrictions. Therefore, it is justified the limitation for the researcher to target population to only individual customers. However the ultimate an ideal target population has been identified as individual customers of Islamic banks, who used Islamic financial products in Islamic banking in Kedah state of Malaysia. Several researches related to the perception of Islamic banking customer about Islamic financial products were used the same unit of analysis such as Mohd, (2010) Ismail (2011) and THAMBIAH, (2012).

3.3.2.3 Sampling Technique

The next step of sampling process is the determination of sampling technique to be used in the process of selecting samples from the sample frame. Thus, there are many sampling techniques which are under the two main types of sampling technique, which is

probability sampling and non-probability sampling technique. The probability sampling technique is most appropriate in case of where every element in the population is known and in the case where every element member of the population have an equal chance and opportunity of being selected as the sample, while the non-probability sampling technique is probably more suitable to use in the case where the selection of samples is undertake on the basis of convenience or personal judgment (Sekaran, 2006). According to the (Saunders et al., 2007 and Sekaran, 2006) in most cases the population elements of non-probability sampling are unknown.

The sampling technique that is used in this research is non-probability sampling technique. This is for the reason that data cannot be collected from the entire population as the population of Kedah state, Malaysia is too large, and the researcher was unable to get a sampling frame or full list of the selected banks customers due to the restriction of Malaysian banking legislation of (IFSA, 2013). In non-probability sampling the choices of elements for the sample is not necessarily made with the aim of being statistically representative of the population.

Non-probability sampling technique is the most appropriate sampling technique to be used when time and cost is limited and the target sample is large as well (Sekaran, 2006). As states earlier, the samples in this study should from, Kedah state, Malaysia and the types of non-probability sampling technique used in this research is non-probability sampling by distributing the survey randomly for every (5) customers come to the bank on one questionnaire, this sampling technique could save up time and cost.

The samples of this research comprises the customers from Islamic banks licensed in Malaysian Islamic banking Acts particularly Kedah state such as, the two full-fledged Islamic banks in Malaysia namely, Bank Islam Malaysia Berhad (BIMB) and Bank Muamalat Malaysia Berhad (BMMB), and three Islamic banks subsidiaries those do not have full-fledged Islamic banks but have Islamic banks subsidiaries such as, CIMB Islamic Bank Berhad, Maybank Islamic Berhad, and RHB Islamic Bank Berhad. Selection of samples would be based on convenience and these customers were randomly picked from location like Alor Setar, Jitra and Changlun in Kedah.

The principle reason why researcher chooses Kedah state is due to time and cost limitations but the phenomena are same for the other states in the country. In another word the behavior of Islamic banks customers in Kedah state, Malaysia tends to be more or less similar to the other states of the country. However the below table 3.1 below illustrates the selected Islamic banks of this study.

Table 3.1
Sampled Islamic Banks

No	Types	Islamic Banks
1	Full-fledged Local Islamic Banks	Bank Muamalat Malaysia Berhad Bank Islam Malaysia Berhad
2	Islamic Subsidiary local Financial institutions	Maybank Islamic Bank Berhad CIMB Islamic Bank Berhad RHB Islamic Bank Berhad

Based on the selection process of this study, all the respondents participated were screened before they fill up the survey. Two screening criteria used were as follows:

- i. The respondents are required to use Islamic financial products as well respondents are required to be familiar Islamic financial products. This criteria is very important as it ensures the appropriate sample have been selected to participate in the survey.
- ii. The respondents should be using the banking facilities for at least one year. This criteria is crucial also to ensure that the sample chosen, familiar new acts that effect Islamic financial products, possess banking experience as well and have a minimum banking knowledge. The principle reason why these two important selection criteria chosen were to reduce the selection error and to achieve valid and more reliable answer from the respondents.

3.3.2.4 Sampling Size

As mentioned before this study is based on non-probability sampling. When using non probability sampling method, the sample size is not relevant to accuracy, thus the cost benefit strategy should be used Burns and Bush (2003). However, adequate and an accurate sampling size is needed still to ensure to get a better interpretations of the research findings. Krejcie and Morgan (1970) were arranged a table to be a common guideline and standard for deciding the sample size.

Base on that table peppered by them a population which is one million members or greater than that, a sample size of 384 members is enough. According to Hair et al. (2010), a sample size of less than 100 respondents is considered as small sample, a sample size in between 100 and 200 respondents is considered as medium sample, and a sample size of more than 200 respondents is considered large sample, however Sekaran (2006), that a sample size of larger than 30 units and less than 500 units is the most suitable for most of the studies as a rule of thumb.

The researcher decided to target a sample size of maximum (300) questionnaires for the walk-in customers of selected Islamic banks, but the distributed questionnaires were (250) questionnaires, (50) questionnaires for each selected Islamic bank in Kedah state Malaysia. Out of (250) questionnaires distributed in all selected Islamic banks, only (200) questionnaires were returned to the researcher with (180) being useable. Therefore, the respondent's rate was 72% (180/250). As (180) complete questionnaires were obtained in this research, the respondent's rate was deemed to be enough for statistical reliability based on (Sekaran, 2006 and Hair et al, 2010). However, the table 3.2 below illustrate the response rate of this study as well as the useable questionnaires, the response rate is considered acceptable according to the Krejcie and Morgan (1970).

Table 3.2

Summary of total questions and response rate

Sample size of the study	250
A returned questionnaires	200
A returned and useable questionnaires	180
A returned and unusable questionnaires	20
Non- returned questionnaires	50
Response rate	80%
Useable response rate	72%

The table 3.3 below also illustrates the distribution of the survey to the Islamic banks in Kedah state, Malaysia

Table 3.3

Distribution of Respondents According to Islamic Banks

Islamic Banks	BIMB	Bank Muamalat	Maybank	CIMB	RHB
Sample Size	50	50	50	50	50
Non-Returned Questionnaires	5	7	12	14	12
Returned and Unusable	0	2	5	7	6
Useable Questionnaires	45	41	33	29	32

3.3.3 Research Methods

Research method is termed as a process of utilizing different tools for the data gathering stage (Saunders et al., 2007). Research method is essential to the researcher to identify the appropriate technique or tools for any given research to achieve the desired data for analyses. Normally there are two kinds of research method that leads the process of data gathering that is a quantitative approach and qualitative approach. This study is quantitative research, thus the data are gathered through quantitative approach.

3.3.3.1 Data collection Method

It is important to give consideration to the various factors in order to decide the most suitable research instruments. There are many different kind research instruments which are available in collecting the data like interviews and questionnaires. Mainly there are two types of data that are usually used in any research projects, that is secondary and primary data. In this research data were obtained from the two main sources that are secondary and primary data.

i) Secondary data

For secondary data type, data is obtained from another source, raw format or published (Saunders et al., 2007). Companies share prices, economic indicators, government statistical reports, and any other related information and material which is accessible in a reliable sources. This study, researcher used secondary data for the aim of providing

overview the Islamic financial system of Malaysia and the current financial performance for Malaysian Islamic finance industry. Primarily in this research the data is gathered from published reports of the central bank of Malaysia (BNM), Islamic Financial Service Act IFSA (2013) and also financial reports of the selected Islamic banks. Moreover, the researcher also used other secondary data from different sources like, articles related to profit-and sharing (PLS) arrangements published on the internet, different Islamic banking magazines, professional and academic conferences, and reference books used in order to get the update and most up-to date information regarding to the Islamic financial system development.

ii. Primary data

Mostly primary data is used as it is the appropriate approach for social science studies where data is subjective and not readily available. According to the Sekeran, (2003) primary data gathering is the most appropriate approach for the following types of data: (i) Attitude/opinion (ii) Demographics (iii) intention (iv) Knowledge/awareness/perception (v) Behavior and (vi) Motivation. Furthermore, the data that other researchers collected was generally utilized for specific aims. Thus, it may not be appropriate by other research studies. Hence, due to the lack of appropriate data as well as the nature of this study which is to aspects of perception of customers, the most suitable way of obtaining the data is via a primary data collection process.

Thus, the researcher chooses to utilize primary data for the empirical analyses as well as to test hypotheses to be main part of this study. Generally, this method of primary data collection was utilized by other comparable studies such the studies conducted by S. Haque et al., (2007), Dusuki, (2007), Khan et al., (2008), Mod et al., (2010), Thambiah, (2011), Ismail (2011).

The researcher decided to use a survey method in this present study by using questionnaires, the delivery channel employed this study was drop-off way. The questionnaire was planned as self-administered form which mostly consist questions based on close-ended. The close-ended kind of questions was proper this study as it will enhance the response rate and it also helps the respondents to answer the survey easier and faster (Vaus, 2002). Furthermore, close-ended kinds of questions have also benefits of being easier administer, analyses and code the data (Vaus, 2002).

3.3.4 Instrument Development

According to the Malhorta, (2007), a questionnaire is formalized as an official set of questions for getting the relevant information from individual or respective respondents of the research study. The main purpose of this study was to examine the perceptions of Islamic banks customers on *Mudarabah* contract and its application by Islamic banks. Therefore, a set of questionnaires was developed and undertaken, based on the formalized of the proposed of theoretical framework of this study and after detailed review of literature.

For the Islamic banking study about analysis perceptions of Malaysian Islamic banks customer regarding mudarabah based products of deposits, served as the major basis for the questionnaire developments in this study. Besides, that questions from other studies of the fields such as, Islamic banks patronage studies, perception of customers in Islamic banking studies and Islamic banking customer's awareness of Islamic banks products and services studies. All these were done to ensure validity of the contents of the questionnaire, the researcher made modification some questions, and some format of the questions styles was replicated. The replication of those questions may be adopted to manage to achieve good response rate as well as to make easier for the coding and analyses of the data.

3.3.4.1 Measurement of Variables

It is integral part of any research to measure the variables of the research, as an important aspect of research design (Sekeran, 2006). In fact the research could not be able to answer the research problem unless the variables are measured (Sekeran, 2006). Therefore, the coming sections define the different variables used in this research as well as the operational definition of the variables. The researcher measures both dependent and independent variables.

i. Dependent Variable

The dependent variable of this study is Islamic banks customers' perception on mudarabah contract. Given to the purpose of this study the perception of Islamic customer's perception is measured with their satisfaction and confidence the usage of mudarabah based products. The usage of Islamic financial products can be described, the current usage of Islamic financial products by Islamic banking customers in Malaysia. Therefore, the usage of Islamic financial products is formulated with the eight questions in the survey (see the appendix A) these questions intended to measure the perception of the customers toward Islamic financial products. A four point interval Likert scale was used to gauge each question. In which (1) indicated highly aware (2) "Aware", (3)"Not aware", (4)"Not aware at all.

ii. Independent Variables

The research comprises three independent variables that is, the concept, Applications and the Implications of mudarabah. Interval Likert scale was employed to measure the respected questions of the variables in the survey. A four point interval Likert scale was used to gauge each question. In which (1) indicated highly aware (2) "Aware", (3)"Not aware", (4)"Not aware at all.

3.3.4.2 Operationalisation of the Variables

Operationalisation is a construct to render the concept measurable, thus it is done by looking the behavioral facet, dimensions or the properties donated by the concept (Sekaran, 2006). This study most of the items utilized in the questionnaire survey were operationalized based on the variables of the study such as the dependent variable (Perceptions of Islamic banks customers on mudarabah contract) and three independent variables (Concept, Application, and Implication of mudarabah) the questions of the survey adopted from previous studies with slight modification to.

the construct of most of the items of the questions in the survey of this study were developed, by Mohd (2010) and Junaid and Mohamed (2011). After the collection of the all questions, the researcher has discussed the construct items of the questionnaire with the supervisor to examine and review the content of the questionnaire for completeness. The table 3.4 below illustrates the number of sub-questions according to variables and measurement scales. (Please refer appendix A for more details)

Table 3.4
Measurements of the Questionnaire

Variables	No. of Questions	Items	Source	Measurement Scale
Demographic Factors	1-10	10	Self-created	Nominal Scale
Perception	1-8	8	Mohd et al (2010)	Likert scale measurement
Concept	1-7	7	Junaid and Muhammad (2011)	Likert scale measurement
Application	1-13	13	Mohd et al (2010)	Likert scale measurement
Implication	1-10	10	Mohd et al (2010)	Likert scale measurement

The above table 3.4 illustrates the measures utilized to operationalize the constructs taken from theoretical model of this research study. The table also illustrates the relevant Likert scale that being used as well the researchers that previously measured. To choose the most suitable of scale and measurement is essential to make sure that the research objectives and aims are fulfilled, as it will affect the data interpretation and analyses. According to the Melhorta (2007), in formulating the questionnaire, the researcher give consideration in a different scaling methods and standard measurement, that is ordinal, nominal, interval and ratio. Nominal and interval measurements of scale are found to be the most appropriate tools for this study. For the scaling form, a likert scale was adopted in planning the questionnaire base on the objectives and nature of the questions.

Nominal scale is considered to be the simplest scale, were letters or numbers are assigned to the objects, which serves as labels for classification or identification (Sekaran, 2006). An excellent example to show nominal scale is being used are demographical, gender, race and marital status. On the other hand the interval scale measures, the distance among the two points of the scale (Sekaran, 2006). A four point interval Likertscale was employed to measure each question of both dependent and independent variables. In which (1) shows highly aware”, (2) “Aware”, (3) “Not aware”, (4)”Not aware at all. The four scales were considered to be enough to measures the different dimensions as well as the degree of differences regarding, the concept, application, implication on *Mudarabah* and the perception of Islamic banks customers on *Mudarabah* contract.

The principle reason why researcher used, (1)highly aware”, (2) “Aware”, (3) “Not aware”, (4)”Not aware at all, the measurement for the measurement of the variables instead of using agree or not agree is because of this studies examines the perception of Islamic banks customer’s towards mudarabah contract, thus questions of the variables or items is based on asking about knowledge, of Islamic banking products of mudarabah because respondents can only have either negative or positive perception when he/she has knowledge about the concept, applications and implications of mudarabah related products.

3.3.4.3 Questionnaire Contents

The questionnaire consists of thirtieth 38 main questions. The researcher divided the questionnaire into five main sections. First section of the questionnaire is assigned for demographic profiles of the respondents. Second section of the questionnaire measures the customer’s perception toward Islamic banking products and in mudarabah contract related products in particular. Section three of the questionnaire deals with the nature of the concept of mudarabah. Section four of the questionnaire measures customer’s awareness toward the applications of mudarabah products offers by Islamic banking in Kedah state Malaysia. The final section of the questionnaire measures the implications for mudarabah related products. The questions cover a broader range of that particular topic, the researcher aware the type of questions that the respondents answering base on the research hypotheses.

3.3.4.4 Pilot Testing

It is suggested that the ultimate draft of the questionnaire to be evaluated and checked by group of people at the pilot testing stage, before the actual distribution of questionnaire to be done (Malhotra, 2007). The researcher takes advantage by doing this process by improving the questionnaire and also identifying as well as removes the potential problems of the questionnaire (Malhotra2007). In the process of doing pilot testing, there important areas the researcher gave attention, as recommended by Saunders et al. (2007) and Malhotra, (2007).

The time of answering the questionnaires, as the researcher put effort that questionnaire will take not much time to the respondents. Secondly, the researcher put effort to make sure that instruction written to the questionnaire must be able to help the respondents to comfortably answer the questionnaire. Thirdly, there is a difficult questions based on the feedback from pilot testing, the researcher restructured these questions to make them easier to understand. Fourthly, the researcher did amendments for number of contents that has been detected by the groups. And finally, the researcher also gives main attention to the layout and the respondents highlighted their feeling toward the layout of the questionnaire.

In this study, the researched did two rounds of pilot testing stages that contain 25 respondents for each one of pre-test. 25 respondents returned the questionnaire for both first and second pre-test with feedbacks and comments the response rate was satisfactory. The convenience method were used as a sampling process of the pilot testing, were the

mixture groups of people was selected, and these groups were from different backgrounds, and among of them were PhD students and Islamic banking master students who have knowledge and experience in Islamic banking, some of the university lectures also among the respondents and they give feedback to the layout.

From the process of pilot testing, the researcher benefited the feedbacks from the first pre-test as there were issues on the structures of the questions, contents and the layout of the survey form were also identified. The researcher did all important modifications with consultation of the supervisor. In the second pre-test the outcome from pilot testing was encouraging, as number of suggestions was received from the first pre-test phase, however some slight changes were also carried out accordingly. Table 3.5 illustrates the Cronbach's Alpha measured for the pilot data of second pre-test.

Table 3.5
Results of Reliability Analysis for Pilot Test

Variables	Number of Item	Cronbach's Alpha
PERCEPTION	8	0.819
CONCEPT	7	0.893
APPLICATION	13	0.688
IMPLICATION	10	0.751
ALL VARIABLES	38	0.865

(Please refer Appendix B for more details)

Cronbach's Alpha reliability gets to 1.0 is better. In general reliability less than 0.6 are consider to be poor. Those in the 0.7 range are acceptable, Cronbach's Alpha reliability more than 0.8 rates is considered good (Sekaran, 2006). The overall reliability analysis for pilot tests was 0.865 for all the variables (see appendix B). Therefore, Cronbach's Alpha of pilot testing fulfills the threshold alpha of 0.6 (Sekaran, 2006).

3.3.5 Data Collection Process

Data collection process of this research takes one week. This study adopted self-administrative questionnaire, using drop off approach. There are different modes of data collection that may employ for data collection such as, mall-intercept interview, online and internet surveys, in-house interviews, and drop-off based survey, mailing survey and many more (Sekaran, 2006). For this research the researcher used a drop-off based survey mode since it is the most appropriate, viable and economical mode.

In drop-off survey mode the researcher introduces the overall aim of the study to the respondents and leaves to answer on his/her own (Sekaran, 2006).). The complete questionnaire form will returned to the researcher at the same day. Also, the walk-customers were approached by the researcher. All questionnaires were returned back to the researcher on same day some times before and after their transaction of banking at the bank branches counter or at the ATM machine area.

The work-in customers who come and visit the selected Islamic banks were randomly selected as respondents of this study. The customers were treated in a friendly manner the

researcher asked customers whether they are customers who used mudarabah related products. If the customer is not one of the customers of the Islamic bank but come to perform other Islamic banking transactions, the customer replaced him/her with another one who met the selection criteria, if not found the customers of selection criteria, the researcher distributes survey to the customers in general. Moreover, the researcher was asked the customers for their willingness to participate this survey.

Once researcher convinced the respondents to participate to the survey, a copy of survey based on English language was given to each respondent. The respondents were also given enough time to fill out a complete and fill out the questionnaire, besides the researcher did not also interfere during the process of completing the questionnaire to ensure to avoid bias of response. However, if the respondents ask questions and further clarification the researcher was ready to answer to them. After that the complete survey were returned back to the researcher.

3.4 Data Analysis Techniques Used

Data analyses are one of the most important stages in any research. A proper data analyses technique helps to the researcher to obtain a valuable interpretative outcome which able to guide the researcher to get a meaningful finding and conclusion that meets the purpose of the study (Malhotra, 2007),. Meanwhile, Hair et al., (2010) also stated that in any misused and inappropriate data analyses leads in incomplete, unclear and in the worst situation, wrong, conclusion. So, it is necessary to the researcher to give consideration to the most suitable data analysis process, and then to choose the most

appropriate techniques for data analysis that facilitates to meet the aims of the research. The following crucial steps of data analyses suggested by the Sekaran (2006) and Hair et al., (2010) first of all getting the data complete for analysis, secondly, getting a feel for the data, thirdly, testing the quality of the data (reliability), and lastly testing the hypothesis.

Step one, (getting the data ready and complete for analysis)

This study the researcher decided to utilize the statistical analysis Statistical Package for the Social Sciences (SPSS) software version 22.0, the data were coded in accordance to the system, the researcher edited inconsistent as well as incomplete responses, with the objective of increasing precision and accuracy. Then, essential data checking process like handling missing data or incomplete data and grouping the data were conducted as specified, for instance like, by Proctor (2005), Sekaran, (2006), Hair et al., (2010).

The researcher screened the missing values of this study. The initial step of screening was the reviewing completeness of the questionnaires. 28% of the questionnaires were unanswered and the reason was that non-respond of the respondents who participated in this study were discarded (Sekaran, 2006; Malhotra, 2007). The researcher administrated the data collection personally the majority of the respondents answered mostly all sections of the questionnaire correctly. Therefore, the useable questionnaires were coded into an SPSS data file according to the item numbers as well as the respective sections of the questionnaire. In order to ensure illegal entries and missing values the researcher used frequency test for the variables.

Step two, ((Getting a feel for the data)

According to theHair et al., (2010) the entire version of the data should then tabulated to make sure to get the main idea of the survey result. In this study, the researcher used descriptive, to get standard deviation, variance and mean of the variables in order to see the initial perceptions of the Islamic banking customers about the variables that were asked to the questionnaires. The researcher also used frequency distribution to analyze demographic profile of the respondents.

Step three (quality of the data)

After that, the data were analyzed in order to ensure the reliability and validity. For this study the researched utilized Cronbach's Alpha reliability in order to assess the dimensionality of the measurement scales. Reliability scale will be assessed in term of items-to-total correlation and Cronbach's alpha to determine internal consistency of the measurement scale (Sakaran, 2006). It measure relationships of inter-item within one scale, which could provide the general consistency of the scale. Normally, Cronbach's alpha result ranges from zero (0) to one (1). A higher score ofCranachs alpha indicates the scale is more reliable (Pallant, 2007).

Cronbach's Alpha reliability gets to 1.0 is the better. In general reliability less than 0.6 is consider to be poor, 0.7 rates is acceptable while Cronbach's Alpha more than 0.8 rates is good (Sekeran, 2006). In this study questions adopted Likert scale, it was suitable to test the questionnaires items reliability by utilizing Cronbach's Alpha. The Cronbach's alpha values for all dimensions of this research ranged from 0.670 to 0.887, far from the

minimum 0.6 (Hair et al. 1998). Furthermore, the overall Cronbach's Alpha for all the variables was 0.846 (see appendix E). Hence, the value of Cronbach's Alpha were more than 0.6, the variables conducted by this study were reliable. Cronbach's alpha rates of the dimensions illustrated table 3.6 below

Table 3.6
Summary of Reliability Test

Variables	Item	Cronbach's Alpha
PERCEPTION	5	0.827
CONCEPT	7	0.877
APPLICATION	10	0.887
IMPLICATION	8	0.670
ALL VARIABLES	30	0.846

(Please refer Appendix E for more details)

Step four (hypotheses testing)

After taking these above mentioned steps, the researcher was satisfied on the last step of the set of data. This shows that data was ready for more analysis of hypotheses testing. By testing the hypotheses, it must identify the most suitable tests that could turn out of the outcomes that can meet the aims of the research. The researcher used descriptive statistics to analyze the demographic profile of the respondents, as well as to get maximum, minimum, variance, standard deviation and mean of the variables of the study. Factor analysis was also used to describe the most significant factors of this study. Inferential analysis was also identified as the most suitable statistical techniques that facilitate to achieve the objectives of this study, as this describes the differences between the variables of the study. Hence, the data was analyzed where the hypothesis is tested.

Nevertheless, prior to conducting technical analysis several diagnostic tests have been carried out Firstly, the assessment of the normality of the data was conducted. To determine the normality of the data skewness and Kurtosis were analyzed. Skewness is considered as indicator that prove exactly what extent the distribution of data leans from the symmetry around the mean and the values of skewness that are outside the range of -1 to +1 are considered to be a substantially skewed distribution.

Moreover, Kurtosis is a technique used to test the flatness of the data distribution. Similarly, the skewness and Kurtosis measurements, is considered within a normal range if they are anywhere in between +1 to -1 (George & Mallery, 2006). For the purpose of this research, the skewness and kurtosis of empirical statistics of the variables of this study were examined, since these empirical statistics provides a guide and proper direction to the variables with considerable and significant deviations from normality. In this study the skewness and kurtosis values for all the variables were in between -1 and +1. Table 4.10 shows the skewness and kurtosis of each variable of this study. See the output in SPSS form (appendix C).

Table 3.7
Summary of Skewness and Kurtosis Values of the Variables

Variables	Skewness	Kurtosis
Customer Perception on <i>Mudarabah</i>	0.182	0.361
Concept of <i>Mudarabah</i>	0.184	0.365
Application of <i>Mudarabah</i>	0.181	0.360
Implications of <i>Mudarabah</i>	0.181	0.360

(Please refer Appendix C for more details)

3.4.1 Descriptive Analysis

The objective and purpose of this statistical analysis of descriptive is to define the characteristics of the data or in another word to organize summaries the data (Pallant, 2007). Thus, this research descriptive analysis was utilized as the measurement of the standard deviation, variance and the mean of the dependent variable and independent variables of the research. Furthermore, in this research descriptive statistics of frequency were also used to analyze the background information of demographics of the respondents.

3.4.2 Factor Analysis

Factor analysis, is procedures helps the goodness of measures of the data. Thus, the result of factor analysis of the all items tapped for independent variables in this research study. Factor analysis is data reduction method employed to reduce the large number of variables or items of the study to a smaller set of underlying factors that summarizes for the crucial and meaningful information contained in the items or variables (Sekaran, 2006). According to the Hair et al (2010), conducting the factor analysis the researcher seeks to test the validity the variables or items employed in the study. Thus, in this research study a principle component factor analysis was carried out in order to measure the unidimensionality of the variables or items used in the study, this is to ensure validity of the data collected.

3.4.3 Independent Sample T-test

T-test is essential when researchers are testing the differences between two groups' means in relation to detect in case there is a statistical significant difference between the means of different groups (Gorman & Robert , 2014). In this study the t-test is employed in order to analyze the difference between gender (male and female) towards their perception on the *Mudarabah* related products with other independent variables which are involved in this study. This indicates whether the perceived difference is meaningfully different between female and male, Malay and Chinese, and single and married customers. The interpretation of the output, the researcher needs to refer to the column labeled significance. Thus the significance level which is (>0.05) shows statistically significance differences between the groups that are involved.

3.2.4 Analysis of Variance One-way ANOVA

ANOVA stands Analysis of Variances is part of the inferential analysis which is normally used to test the difference between at least three groups or more because the test is use for the case of two groups is covered by t-test (Sekaran, 2003). Therefore, since there were more than two groups in this study, one-way ANOVA is more suitable in order to test the hypothesis involved the selected demographic profiles of the study.

Thus the significance level which is (>0.05) shows statistically significance differences between the groups that are involved.

Prior conducting One-way ANOVA it is important certain assumptions such homogeneity of variance be met. Therefore, in this study One-way ANOVA is used in order to make comparison among the different levels of education possessed by the respondents of this study, and also to make comparison between the different levels of income of the respondents of this particular study. This analysis is essential in order to study in detail the differences of the respondents in terms of their education level as well as their income levels, towards their perception on the *Mudarabah* related products.

Table 3.8
Statistical tools for data analyzing

Hypothesis	Test measurement
H01: there is no one variable that is the most important factor that influence customer's perception towards Mudarabah contract	Factor Analysis
H02: there are no significant differences between gender, race and marital status and customer's perception towards <i>Mudarabah</i> related products.	Independent T test
H03: there are no significant differences between customer's level of education, level of income, and their job sectors and their perception towards <i>Mudarabah</i> related products	One way ANNOVA test

3.5 Summary of the chapter

In this chapter entirely discussed the research methodology utilized in this research. It starts with the discussion towards the theoretical framework and hypothesis testing, then the proper method used this study was also discussed including discusses research design and research method. The research is based on quantitative research, with primary data gathered through questionnaire survey. The chapter also discussed different matters related to the research method including, the population, sample size, questionnaire instrument development sampling identification data collection and data analysis technique. Moreover, techniques of data analysis were also explained followed by the statistical techniques used in the study such as, descriptive analysis, factor analysis, independent sample T-test and one ANOVA test. Next Chapter of this study is data analysis and interpretation.

CHAPTER FOUR

FINDING

4.0 Introduction

This chapter presents the finding and data analysis based on primary data collected regarding the perception of Islamic banks customers in Kedah state, Malaysia on the mudarabah contract and its application by Islamic banks. The study covers Islamic banks customers in Kedah state. Two hundred and fifty (250) sets of questionnaires were distributed in response rate of 72%. Data were coded using SPSS version 22.00, and descriptive statistics, factor analysis, independent t-test and one way ANNOVA are used in data analysis.

The chapter is divided into the six main sections, the first section presents profile analysis of the respondents, section two, provides descriptive analysis of customer perception on Islamic banking facilities, concept of mudarabah, its application and implication. Section three analyses factor analysis to explain the independent variable of Islamic banks customers' perception regarding mudarabah contract. Section four analyses independent sample T-test. Section five analyses One-way ANOVA. Last section is summary and conclusion of findings.

4.1 Demographic Profile of the Respondents

The respondents of this study were the individual customers of Islamic banks in Kedah state Malaysia, using Islamic financial products and services for at least one year and more. The principle reason why the researcher selected customers based on these criteria is to obtain meaningful inputs from respondents. In addition, the banks customers with the above mentioned prior experiences was also acquired to have better understanding on Islamic financial products and services, and that they are the most suitable respondents to participate this study and answer the survey questionnaire of this research. The previous studies conducted in Malaysia have also employed individual customer as the sample of their research (Mod, 2010), Ching Wing Lo and Chee Seng Leow, 2014). The demographic profile of the respondents is presented in table 4.1 and 4.2

Table 4.1
Demographic Profile of the Respondents

No	Demographic items	Frequency	Percentage
1	GENDER		
	Male	78	43
	Female	102	57
2	RACE		
	Malay	171	95
	Chinese	9	5
3	AGE		
	21-30	43	24
	31-40	40	22
	42-50	62	34
	Above 50	35	20
4	MARITAL STATUS		
	Single	61	34
	Married	119	66
5	RELIGION		
	Muslim	177	98
	Buddhist	3	2

4.4.1 Classification of the respondents by Gender, Age, Race, Marital status, and Religion

According to the table 4.1 more than half 57% of the respondents were female and 43% were male. Overwhelming majority 95% were Malay and only 5% were Chinese. Thirty four percent 34% of the respondents were aged between 41 and 50 years old, 24% of the respondents were between 21 and 30 years old, 22% were between 31 and 40 years old, and 19% of the respondents were above 50 years old. 66% of respondents were married whilst 34% of them were single respondents. Moreover 98% of the respondents were Muslims and only 2% were non-Muslims. Below table presents the remaining parts of the demographic profile of the respondents of this study.

Table 4.2
Second part of respondent's profile

No	Demographic items	Frequency	Frequency
6	EDUCATION LEVEL		
	Primary/Secondary School	23	13
	Diploma	24	13
	Degree	93	52
	Professional Qualification	10	6
	Postgraduate (Master/PhD)	30	16
7	INCOME LEVEL		
	Less than RM 1000	5	2.8
	RM1001-RM3000	32	17.8
	RM3000-RM5000	53	29.4
	RM5001-RM10,000	78	43.3
	RM10.001-RM20,000	12	6.7
8	OCCUPATION		
	Manager/Executive	9	5.0
	Academicians/Education	24	13.3
	House wife	60	33.3

	Student	49	27.2
	Businessman	19	10.6
	Others	19	10.6
9	DURATION		
	1-3 years	24	13.3
	3-5 years	37	20.6
	more than 5 years	119	66.1
10	FACILITIES		
	Current account	14	7.8
	Saving account	44	24.4
	General investment account	5	2.8
	Specific investment account	9	5.0
	House financing	25	13.9
	Vehicle financing	23	12.8
	Others	60	33.3

(Please refer Appendix D for details)

4.4.2 Classification of the respondents by Education, Income, Occupation, and use of banking facilities.

According to the above table 4.2 more than half 52% of the respondents was degree holders, 18 of the respondents was either master or PhD holder, 13% were diploma holders, almost 13% of the respondents also had basic education, and only 7% of the respondents have professional qualification. 43% of the respondents were monthly earned between RM5001-RM10,00, 29% were monthly earned between RM3000-RM5000, 18% of the respondents were monthly earned between RM1001-RM3000, 7% of the respondents were monthly earned between RM10.001-RM20,000, and only 3 % of the respondents were monthly earned Less than RM 1000.

In this study, majority of the respondents were housewives for 33%, students respondents were 27%, 13% of the respondents were academicians, business people and other respondents were 21% together, whilst only 5% of the respondents were managers. 66% of respondents were using Islamic banks facilities for more than 5 years, 21% were using between 3 to 5 years and only 13% of the respondents were using Islamic banking facilities between 1 to 3 years. 33% were used other Islamic banking products and services other than the Islamic financial products mentioned in the survey, 24% of the respondents were used saving account, 14% were used house financing, 13% were used car financing, 8% were used current account, 5% were used specific investment account while only 3% of the respondents were used general investment account.

Therefore, the opinions express in the survey reflect perception of Malay, Muslim, iddle age, married, female, middle income, highly educated, using different Islamic banking facilities for more than 5 years.

4.2 Descriptive Statistics

This section of the study presents the descriptive statistics of the independent variables and dependent variable employed in this research. In this research, there is one dependent variable which is the Islamic banks customers' perception on mudarabah contract, besides that there is three independent variables that is, concept, application and implication of mudarabah contract. The below tables illustrates the summary of minimum, maximum, mean, standard deviation, of the e variables of this study. The items

of each variable were measured on a four-point Likert-type scale (from 1 = highly aware to 4 = not aware at all).

4.2.1 Descriptive analysis customer's perception on Islamic banking facilities

In order to know the general perception of Islamic banks customers regarding Islamic banking facilities eight characteristics of Islamic banking facilities were identified in survey. The items were measured on a four-point Likert-type scale (from 1 = highly aware to 4 = not aware at all). The results are presented in the form of percentage and descriptive statistics. Mean scores range from maximum of 1.34 to a minimum of 1.04 regarding the awareness on each characteristic as shown in the Table 4.3 Overall, most of the respondents were highly aware to somewhat aware about these eight characteristics of different Islamic banking facilities, as indicated by mean score of at least 1.04. The standard deviation scores ranges from maximum of 0.475 to a minimum of 0.207 revealing that most of the responses were clustered around highly aware to somewhat aware on each statement. (please refer appendix F for more details)

Table 4.3

Descriptive analysis Customer's perception on Islamic banking facilities

Statement	Highly aware (%)	Aware (%)	Not aware (%)	Not Aware at all (%)	Mean	Std Dev
Conventional banks use interest in accepting deposits and for providing financing facilities.	96	4	0	0	1.04	.207
Interest-based transactions are prohibited in Islam.	91	9	0	0	1.09	.293
Interest free banking scheme (IBS) is the only viable alternative to conventional banking system.	94	6	0	0	1.06	.230
Islamic banks use profit-sharing contract (<i>mudarabah</i>) and guaranteed safe keeping contract (<i>wadiah</i>) in accepting Islamic deposits.	95	5	0	0	1.05	.219
In investment account, Islamic banks share profits with customers but in <i>wadiah</i> saving account, Islamic bank does not provide returns.	91	9	0	0	1.09	.293
Interest on deposit that paid by conventional banks is not the similar the profits on deposit paid by Islamic banks.	92	8	0	0	1.08	.269
Islamic banks use trade-based contracts and profit sharing contracts in providing financing facilities.	77	23	0	0	1.23	.424
For example, in house financing, Islamic bank buys the house at a cost & sell to customers at cost plus profit.	66	34	0	0	1.34	.475

Note: 1 = highly aware; 2= aware; 3= not aware; 4= not aware at all.

4.1.2 Descriptive analysis Customer's perception on *Mudarabah* concept

In order to know the general perception of Islamic banks customers about the concept of *mudarabah* seven characteristics of *mudarabah* concept were identified in the survey. The items were measured on a four-point Likert-type scale (from 1 = highly aware to 4 = not aware at all). The results are presented in the form of percentage and descriptive statistics. Mean scores range from maximum of 1.59 to a minimum of 1.06 regarding the

awareness on each characteristic as shown in the Table 4.4 Overall, most of the respondents were highly aware to somewhat aware about these seven characteristics of mudarabah concept, as indicated by mean score of at least 1.06. The standard deviation scores ranges from maximum of 0.505 to a minimum of 0.240 revealing that most of the responses were clustered around highly aware to somewhat aware on each statement of the mudarabah concept. (Please refer appendix F, for more details)

Table 4.4

Descriptive analysis Customer's perception on Mudarabah concept

Statement	Highly aware (%)	Aware (%)	Not aware (%)	Not Aware at all (%)	Mean	Std Dev
<i>Mudarabah</i> is a partnership where one party provides the capital and other party act as an entrepreneur.	93	7	0	0	1.07	.250
The partners share profit based on agreed ratio but the capital provider bears the loss.	91	9	0	0	1.09	.285
In <i>Mudarabah</i> (profit sharing) contract capital provider do not take any part in the management of the business or the project.	92	8	0	0	1.08	.277
In <i>Mudarabah</i> contract (profit sharing) parties cannot predetermine a guaranteed profit.	91	9	0	0	1.09	.293
The portion of profit to be distributed among the partners should be decided at the time of affecting the contract.	94	6	0	0	1.06	.240
In general <i>Mudarabah</i> , the capital provider give freedom to entrepreneur to invest the money in any profitable and <i>Shariah</i> compliant businesses anywhere & any time.	76	24	0	0	1.24	.428
In restricted <i>Mudarabah</i> , the capital provider restricts the investment to a particular location, types of investment & business.	42	58	0	0	1.59	.505

Note: 1 = highly aware; 2= aware; 3= not aware; 4= not aware at all

4.2.3 Descriptive analysis Customer's perception on application of *Mudarabah* in Islamic banking products

In order to know the general perception of Islamic banks customers about the current applications of *mudarabah* in Islamic banking products thirteen applications of *mudarabah* related products were identified in the survey. The items were measured on a four-point Likert-type scale (from 1 = highly aware to 4 = not aware at all). The results are presented in the form of percentage and descriptive statistics.

Mean scores range from maximum of 2.67 to a minimum of 2.31 regarding the awareness on each applications as shown in the Table 4.5 Overall, most of the respondents were not aware to somewhat aware about these current applications of *mudarabah* related products, as indicated by mean score of at least 2.31. The standard deviation scores ranges from maximum of 0.725 to a minimum of 0.535 revealing that most of the responses were clustered around not aware to somewhat aware on each applications of the *mudarabah* related products. (Please refer appendix F, for more details)

Table 4.5

Descriptive analysis Customer's perception on application of Mudarabah in Islamic banking products

Statement	Highly aware (%)	Aware (%)	Not aware (%)	Not Aware at all (%)	Mean	Std Dev
Islamic banks provide project financing base on <i>Mudarabah</i> , where Islamic bank become the investor and the project manager becomes the entrepreneur.	5	31	64	0	2.59	.587
In project financing, Islamic bank does not involve in management but share the profit with project manager based on agreed ratio.	4	25	71	0	2.67	.559
In project financing, in case of loss, Islamic bank losses its capital but the project manager losses its efforts.	5	28	67	0	2.62	.580
Islamic banks offer <i>mudarabah</i> current account-i, <i>mudarabah</i> saving account-i, <i>mudarabah</i> investment account-i.	7	30	63	0	2.56	.627
Under these <i>mudarabah</i> accounts, depositors become investors and the bank becomes the investment manager and profits are shared based on agreed ratio.	14	34	52	0	2.37	.725
Islamic banks offer three types of investment accounts, General Investment Account-i (GIA), Special Investment Account-i (SGIA) and Specific Investment Account-i (SIA).	13	34	53	0	2.40	.706
Under General Investment Account-i(GIA), depositors give Islamic bank absolute freedom to invest the money in any shariah compliant investment.	7	54	37	2	2.35	.638
In General Investment Account –i(GIA) the ratio of profit sharing is more or less uniform/standard between the bank and the customer.	6	58	36	0	2.31	.570
In Special investment account-i (SGIA) Islamic bank invest depositors fund in specified companies & investment.	3	59	38	0	2.36	.535
Specific Investment Account-i (SIA) involve large sum of money & Islamic bank invest the fund in either short term or long term projects.	4	46	48	2	2.48	.602
Under new regulation, Islamic Financial Service Act (IFSA) 2013, deposit accounts are classified into Islamic deposits accounts and	6	43	45	7	2.53	.705

Investment Account Unit Trust is based on <i>Mudarabah</i> contract, where the investors' capital providers and the unit trusts company provide management and any profits are to be shared based on agreed ratio.	3	47	48	2	2.48	.593
Takaful operators also used contract of <i>mudarabah</i> , where policyholders are the capital providers and Takaful companies manage the fund.	2	65	31	2	2.33	.558

Note: 1 = highly aware; 2= aware; 3= not aware; 4= not aware at all.

4.2.4 Descriptive analysis Customer's perception on implication of *Mudarabah* contract

In order to know the general perception of Islamic banks customers about the current implications of *mudarabah* contract in Islamic banking related products ten implications of *mudarabah* related products were identified in the survey. The items were measured on a four-point Likert-type scale (from 1 = highly aware to 4 = not aware at all). The results are presented in the form of percentage and descriptive statistics.

Mean scores range from maximum of 1.76 to a minimum of 1.09 regarding the awareness on each applications as shown in the Table 4.6 Overall, most of the respondents were highly aware to somewhat aware about the implications of *mudarabah* related products, as indicated by mean score of at least 1.09. The standard deviation scores ranges from maximum of 0.743 to a minimum of 0.293 revealing that most of the responses were clustered around highly aware to somewhat aware on each implications of the *Mudarabah* related products. (Please refer appendix F, for more details).

Table 4.6

Descriptive analysis Customer's perception on implication of Mudarabah contract

Statement	Highly aware (%)	Aware (%)	Not aware (%)	Not Aware at all (%)	Mean	Std Dev
In investment account, depositors earn high returns compared to other accounts.	53	47	0	0	1.47	.501
Mudarabah contract is more risky to the depositors in case Islamic bank makes losses from the investment.	62	38	0	0	1.38	.486
Islamic banks take into consideration the source of income of their depositor when opening the investment account.	57	43	0	0	1.43	.496
Returns in mudarabah deposit worth the risk taking.	64	36	0	0	1.36	.480
Islamic banks explain to customers profit distribution ratio & the rate is fair to customers.	58	42	0	0	1.43	.518
Islamic banks explain to customers implications of opening investment account.	42	40	18	0	1.76	.743
Islamic banks customers are fully ware about the mudarabah products, their applications and implications.	48	45	7	0	1.59	.623
Islamic banks minimise use of mudarabah financing due to exposure to financial risk.	81	19	0	0	1.20	.415
Islamic banks avoid use of mudarabah financing because of lack of proper monitoring & supervision of the project managers.	85	15	0	0	1.15	.358
Islamic banks minimise use of mudarabah financing due to moral hazard.	91	9	0	0	1.09	.293

Note: 1 = highly aware; 2= aware; 3= not aware; 4= not aware at all.

The finding from descriptive statistics reveals that overwhelming majority of Islamic banks customers in Kedah state, Malaysia are highly aware to somewhat aware the concept and implications of mudarabah related products. However, more than half of the respondents are not aware the applications of mudarabah related products offered by Islamic banks in Kedah state Malaysia.

Perhaps customers think that current applications of mudarabah as complex. The main reason why Islamic banks customers are skeptical about mudarabah applications is customer's lack of understanding about the current mudarabah related products and lack of proper information from the regulatory and Islamic bankers being transmitted to the customers. Insufficient information from the regulatory and Islamic banks towards the applications of this contract could also leads the lack of interest from the customers in knowing the current applications of mudarabah related products offered by Malaysian Islamic financial institutions.

4.3 Factor Analysis of Customer's General Perception about the Concept, Applications and Implications of *Mudarabah* Contract

In an effort to identify which of principle, applications and implications of mudarabah related products are the most important factors that will influence the perception of Islamic banks customers towards mudarabah related products, thirty variables were identified from the literature and incorporated into the questionnaires. These variables represent three broad factors that positively or negatively influence customer's perception towards mudarabah related products. They include: principle of mudarabah contract, Applications of mudarabah contract in related Islamic banking products and Implications of mudarabah related products to Islamic banking customers. Factor analysis is appropriate for this analysis because factors such as concept, applications and implications of mudarabah related products could affect the general perception of Islamic banks customer towards mudarabah related Islamic financial product.

According to the Hair et al (2010), conducting the factor analysis the researcher seeks to test the validity of the variables or items employed in the study. Thus, in this research study a principle component factor analysis was carried out in order to measure the un-dimensionality of the variables or items used in the study, this is to ensure validity of the data collected. Vaus (2002) stated that factor analysis is a suitable method when factors are not single measurable entities but are constructs of a number of other directly observable variables. Thus, the analysis can cluster observable variables into factors and each reflects an underlying property which is commonly shared by a certain group of variables (Vaus, 2002). It also helps respondents to differentiate between the different variables although the similarity of the items questioned (Hair, et al., 2010).

Before running the factor analysis, there are two main issues that any researcher should be considered: the strength of inter-correlation between the variables and sample size (Pallant, 2007). According to him Correlation coefficient tends to be less reliable for factor analysis when the sample size is small. According to Hair et al. (2010), a sample size of less than 100 respondents is considered as small sample, a sample size in between 100 and 200 respondents is considered as medium sample, and a sample size of more than 200 respondents is considered large sample however Roscoe (1975) taken by sekeran, (2003) proposes the rules of thumb for determining sample size. According to the rules, a sample sizes larger than 30 and less than 500 are appropriate for most research. In this study, the samples that were collected as complete and valid were 180 with 72% response rate, thus it is assumed that the correlation coefficients should be more reliable.

To test the factorability of the data, the Kaiser-Meyer-Olkin (KMO) and Bartlett's test of sphericity are used. The former measures sampling adequacy while the latter is a test of sphericity. Bartlett's test of sphericity is a statistical test used to examine the hypothesis that the variables are uncorrelated in the population. In other words, the population correlation matrix is an identity matrix, each variable correlates perfectly with its self ($r = 1$) but has no correlation with other variables ($r = 0$) (Malhotra and Birks, 2003). While on KMO, Kaiser (1974) suggests that if a KMO measures 0.90+, then sample adequacy is considered as 'marvelous'. If it measure 0.80 – 0.89, then the sample is 'meritorious'; if 0.70 – 0.79, then the sample is 'middling'; if 0.60 – 0.69, then the sample is 'mediocre'; if 0.50 – 0.59, then the sample is 'miserable'; and if less than 0.50, then the sample is 'unacceptable'. On the other hand, for the factor analysis to proceed, Bartlett's test of sphericity should be significant (i.e. $p < 0.05$) (Vaus, 2002). Table 4.7 below presents the results of the statistical tests which support the use of factor analysis.

Table 4.7
KMO and Bartlett's Test Results for 14ItemsCombined

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.780
Bartlett's Test of Sphericity	Approx. Chi-Square	1616.152
	df	91
	Sig.	.000

Please refer (Appendix G) for more details

From the above Table 4.7, the KMO measure for concept, applications and implications of *Mudarabah* related products items combined showed a value of 0.780. This indicates a 'meritorious' sample adequacy according to the Kaiser (1974) scale, motives and hence is deemed appropriate for use in further factor analysis. The Bartlett's Test of Sphericity

also reached statistical significance (0.000), supporting the factorability of the correlation matrix.

Based on results shown in Table 4.7, factor analysis proceeds to conduct Principal Component Analysis (PCA) and Varimax rotation with Kaiser Normalisation. The Principal Component Analysis is concerned with specifying a number of factors to account for the maximum amount of variance in the data. PCA with an Eigenvalue greater than 1.0 is regarded as significant and can be used to determine the factors to extracts (Pallant, 2007). An eigenvalue is a statistical tool that relates to a factor which indicates the amount of variance in the pool of initial items which that particular factor explains (Vaus, 2002). Measures of sampling adequacy (MSA) for factor analyses were checked on both for each variable and overall basis. Partial correlations (anti-image) between the variables were then tested. According to Hair et al., (2010) MSA values of 0.50 or less are considered unacceptable and items with this MSA value are deleted from subsequent run of factor analysis.

The items employed to measure the variables of this study were adopted from previous studies, the items were also developed by the researchers of those studies. The researcher conducted pilot testing however only a pilot testing does not guarantee success in the main study but it can only reduce the possible error that can occur in the overall research. Therefore, the validity of those items that have been developed and adopted by previous

researchers must also test, hence, it is necessary to test the validity all construct items of the study.

Principal Component Analysis (PCA) has been conducted based on grouping. The first component is the first independent variable of the study which is concept of mudarabah contract with seven (7) items. The second component is the second independent variable of the study which applications of mudarabah contract with thirteen (13) items. The last component is third independent variable of the study which is implications of mudarabah contract with ten (10) items. However one item were removed from the first component, nine items were removed from the second component, and six component were removed from the third component, together sixteen items were removed, and the reason why those items were removed is because of measures of sampling adequacy of those items were less than .50. Therefore, fourteen out of thirty survived in the MSA process in which all of them are greater than 0.50.

In Table 4.8 below there are three factors with an eigenvalue greater than 1 (5.263, 2.909 and 1.800). This initial analysis therefore resulted in a three-factor solution. That is, fourteen items were reduced to three factors. Each factor explains a particular amount of variance in the items. In this case, Factor 1 explains 37.60%, Factor 2 explains 20.78% and Factor 3 explains 12.85%. Together these three factors explain a total of 71.23% of the variance. According to Vaus (2002), the more variance that is explained by the

factors, the better the factor solution and the more comfortable the study is in reducing the initial thirty items to three factors.

Table 4.8
Total Variance Explained

Component	Total Variance Explained						
	Initial Eigenvalues			Extraction Sums of Squared Loadings		Rotation Sums of Squared Loadings ^a	
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	5.263	37.596	37.596	5.263	37.596	37.596	4.631
2	2.909	20.779	58.375	2.909	20.779	58.375	3.869
3	1.800	12.854	71.228	1.800	12.854	71.228	2.385
4	.859	6.134	77.363				
5	.754	5.384	82.746				
6	.597	4.261	87.007				
7	.534	3.817	90.825				
8	.457	3.264	94.089				
9	.275	1.965	96.054				
10	.204	1.458	97.512				
11	.118	.841	98.353				
12	.098	.702	99.054				
13	.077	.547	99.602				
14	.056	.398	100.000				

Please refer (Appendix G) for more details

Furthermore, the Scree plot below depicts that the plot slopes steeply downwards from factor one to factor three before moving slowly towards the horizontal line. An inspection of the scree plot in Figure 4.1 reveals a clear break after the third factor and varimax orthogonal rotation is used to ensure that factor produce is independent or unrelated to each other.

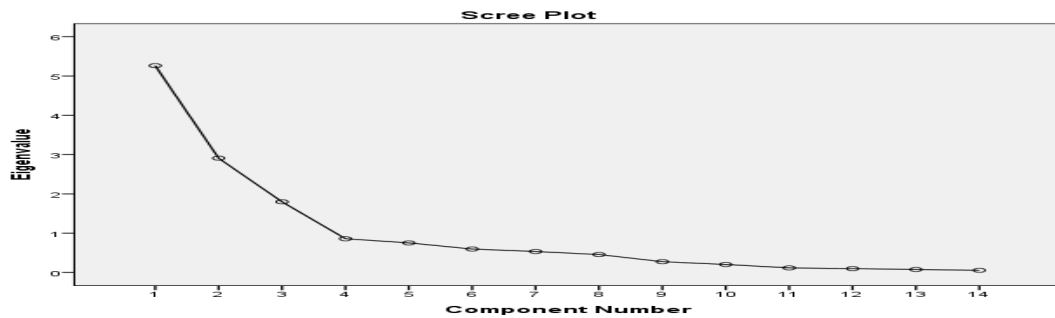


Figure 4.1
Scree Plot

To aid interpretation of these three factors, there are two methods available for rotation of factors, orthogonal and oblique rotation. The former ensures that the factors produce will be unrelated to each other, while the latter produces factors which are related to each other. However, no specific rule has been developed to guide the researcher in selecting a particular method, i.e. orthogonal or oblique technique (Hair et.al, 2010). In this study, varimax orthogonal rotation was used because the study wants to ensure that the factors produced will be independent or unrelated to each other. Variables which are mostly highly loaded (correlated) with the first factor are clustered together and arranged in descending order according to the size of their correlations. Then, variables which are strongly loaded with the second factor form the second factor and the third factors follow the same.

Furthermore, the rotated solution presented in Table 4.9 revealed the presence of three factors with a number of strong loading. The interpretation of the three factors based on the loadings of fourteen variables of these factors. A factor loading is a correlation coefficient showing how much weight is assigned to that factor. The higher the loading,

the more that variable (or item) belongs to that factor (Vaus, 2002). According to Hair et.al (2010), although factor loadings of .30 to 0.40 are minimally acceptable, values greater than .05 are generally considered necessary for practical significance.

Table 4.9

Rotated Component Matrix on Concept, Applications and Implications of Mudarabah Contract

Items	FACTOR			Communality of Each Variable
	1 Concept of <i>Mudarabah</i>	2 Applications of <i>Mudarabah</i>	3 Implications of <i>Mudarabah</i>	
X1	.889			.821
X2	.914			.808
X3	.921			.836
X4	.871			.818
X5	.777			.644
X6	.585			.385
X7		.905		.841
X8		.923		.868
X9		.940		.912
X10		.926		.859
X11			.571	.367
X12			.790	.654
X13			.731	.546
X14			.711	.613
Eigenvalue	5.263	2.909	1.800	
% of variance	37.60	20.78	12.85	
Cummulative %	37.596	58.375	71.228	

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser normalization.

a. Rotation converged in 6 iterations.

Items:

X1	- <i>Mudarabah</i> is a partnership where one party provides the capital and other party act as an entrepreneur.
X2	- The partners share profit based on agreed ratio but the capital provider bears the loss.
X3	- In <i>Mudarabah</i> (profit sharing) contract capital provider do not take any part in the management of the business or the project.
X4	- In <i>Mudarabah</i> contract (profit sharing) parties cannot predetermine a guaranteed profit.
X5	- The portion of profit to be distributed between the partners must be agreed upon at the time of affecting the contract.
X6	- In general <i>Mudarabah</i> , the capital provider give freedom to entrepreneur to invest the money in any profitable and <i>Shariah</i> compliant businesses anywhere & any time.
X7	- Under General Investment Account-i(GIA), depositors give Islamic bank absolute freedom to invest the money in any shariah compliant investment.
X8	- In General Investment Account –i(GIA) the ratio of profit sharing is more or less uniform/standard between the bank and the customer.
X9	- In Special investment account-i (SGIA) Islamic bank invest depositors fund in specified companies & investment.
X10	- Specific Investment Account-i (SIA) involve large sum of money & Islamic bank invest the fund in either short term or long term projects.
X11	- Islamic banks customers are fully ware about the <i>mudarabah</i> products, their applications and implications.
X12	- Islamic banks minimize use of <i>mudarabah</i> financing due to exposure to financial risk.
X13	- Islamic banks avoid use of <i>mudarabah</i> financing because of lack of proper monitoring & supervision of the project managers.
X14	- Islamic banks minimize use of <i>mudarabah</i> financing due to moral hazard

The results in Table 4.9 indicate that 14 items of concept, applications and implications of *mudarabah* related product factors exhibit large factor loading (above 0.6). Sixteen of the variables with factor loading less than 0.6 are considered not significant and they were deleted as mentioned earlier from subsequent run of factor analysis. The three factor solution explained a total of 71.23% of the variance, with Factor 1 explaining 37.60%,

Factor 2 explaining 20.78 % and Factor 3 explaining 12.85%. Table 4.9 also shows the communality of each variable. Communalities measures correlations among the fourteen items to be factor analyzed. The higher the correlations among the variables, the higher would be their communalities. For example, a community of 0.385 for the item X6 indicates that the variable has 38.5% of its variation in common with other variables in forming a factor. On the other hand, a variable having a very low communality (closer to zero), is not likely to be associated with any other variables in defining a factor.

From Table 4.9, the concept of mudarabah contract is the most important factor that has positively influence Islamic banks customer's perception towards mudarabah related products. This is because Factor 1 (Concept of mudarabah Contract) has the highest eigenvalue and variance (eigenvalue = 5.263 and variance = 37.60). The items that are listed under Factor 1 include: X1, X3, X4, X5, and X6 namely 'mudarabah is a partnership where one party provides the capital and other party act as an entrepreneur', the partners share profit based on agreed ratio but the capital provider bears the loss', In mudarabah (profit sharing) contract capital provider do not take any part in the management of the business or the project', In mudarabah contract (profit sharing) parties cannot predetermine a guaranteed profit', and the portion of profit to be distributed between the partners must be agreed upon at the time of affecting the contract.

In other words, the more Islamic banks customers aware about the concept of mudarabah, the more positively it will influence their perception towards Islamic banks mudarabah related products and services. This is consistent with the view of Thambiah, (2011) where he argues that the general perception of Islamic banks customers toward Islamic banks products and services are mostly derived by religious factor such as understanding Islamic banking principles and religious knowledge.

Moreover, Table 4.9 also reveals that the applications of related mudarabah contract is the second most important factors that the respondents believe will positively influence their perception towards mudarabah related products. This is because Factor 2 (Applications of mudarabah Contract) has the eigenvalue and variance (eigenvalue = 2.909 and variance = 20.78%). The items that are listed under Factor 2 include: X7, X8, X9 and X10, namely ‘Under General Investment Account-i(GIA), depositors give Islamic bank absolute freedom to invest the money in any shariah compliant investment’, In General Investment Account-i(GIA) the ratio of profit sharing is more or less uniform/standard between the bank and the customer’, In Special investment account-i (SGIA) Islamic bank invest depositors fund in specified companies & investment’, and Specific Investment Account-i (SIA) involve large sum of money & Islamic bank invest the fund in either short term or long term projects.

Last but not least, Table 4.9 further shows that implications of mudarabah related products is the third most important factors that the respondents believe will affect their perception towards mudarabah contract.. This is because in Factor 3 that is implications of mudarabah contract has the eigenvalue of 1.800 and variance of 12.85. The items that are listed under implications include: X11 X12 and X13 and X14 namely ‘mudarabah contracts offer high returns but entails high risks, Islamic banks minimize use of mudarabah financing due to exposure to financial risk’, Islamic banks avoid use of mudarabah financing because of lack of proper monitoring and supervision of the project managers’, Islamic banks minimize use of mudarabah financing due to moral hazard. The proposed hypothesis for this variable is as follows:

Hypothesis One

H0: there is no one variable that is the most important factor that influence customer’s perception towards mudarabah contract

H1: there is one variable that is the most important factor that influence customer’s perception towards mudarabah contract

As mentioned earlier the concept of mudarabah contract is the most important factor that has positively influence Islamic banks customer’s perception towards mudarabah related products. Thus, null hypothesis is rejected and hence we can conclude that independent variable of the concept of mudarabah is the most important factor that influence customer’s perception towards mudarabah contract

In general, the respondents highly considered that the concept, applications and implications of mudarabah contract positively influences their perceptions towards mudarabah related products offered by Islamic banks. In other words, if customers are highly aware about the concept of mudarabah, its application in Islamic banking products and services and its implications in terms of risks and returns will positively influence their perception to mudarabah related products offered by Islamic banks such as investment accounts.

These findings are supported due to the importance concept of mudarabah related products such as the nature and structure of these products which are more associated the spirit of the fundamental teaching of Islam. Besides, the importance of Shariah-compliance principles of the Islamic financial products in general in particular mudarabah related products, as Islamic banks customers are more concerned whether applications of Islamic banks are really in compliance with the Islamic Shariah law. Furthermore, the respondents are also considered implications of mudarabah related products one of most important factors that will affect their perception towards mudarabah contract this is because of the market implications of these products such the risk nature of mudarabah related products as well as the issue of profit and loss sharing.

4.4 The difference between Gender, Race and Marital Status towards customer's perception on *Mudarabah* related products

The independent T-test is the appropriate and most suitable to make comparison distinct between two different groups. This study, the independent T-test is employed in order to make comparison between male and female customers, Muslim and non-Muslim customers, Malay and non-Malay customers and also single and married customers, concerning the preferences and perception towards *mudarabah* related products. The proposed hypothesis for this variable is as follows:

Hypothesis Two

H0: there are no significant differences between gender, race and marital status and customer's perception towards *Mudarabah* contract.

H1: there are significant differences between gender, race and marital status and customer's perception towards *Mudarabah* contract.

Table 4.10

The difference between gender race and marital status

Variables	Mean	Std. Deviation	t	Sig.
Gender				
Male	1.10	.133	-1.623	0.106
Female	1.13	.152		
Race				
Malay	1.12	.143	-.973	0.332
Chinese	1.17	.188		
Marital Status				
Single	1.10	.134	-1.218	0.225
Married	1.13	.150		

(Please refer to Appendix H for detail output)

Based on above Table 4.10, this analysis correspond the second objective of this study that is to examine the significant differences between customer's gender, race and marital status towards their perception on mudarabah related products. Thus, the independent sample T-test is employed to test first hypothesis of the study. Hence, for the gender finding shows the mean of the male respondents is 1.10 with standard deviation of .133, whilst mean of the female respondents is 1.13 with standard deviation of .152.

The race factor indicates that Chinese respondents have slightly higher mean compare to the Malay respondents which are 1.17 and 1.12 respectively, and the standard deviation for both Chinese and Malay respondents are .188 and .143 respectively. For the marital status finding shows the mean of the single respondents is 1.10 with standard deviation of .134, while mean of the married respondents is 1.13 with standard deviation of .150.

All factors such as gender, race and marital status shows insignificant different as the significant level of these factors is above 0.05 ($p=0.000$). Therefore, the null hypothesis for this test is failed to reject, hence, we can conclude that there is no significant difference between gender, race and marital status and customer's perception towards mudarabah related products.

4.5 Differences between Level of Education, Level of Income and Job Sector towards customer's perception on *Mudarabah* related products

(ANOVA) which is abbreviation of Analysis of variances is statistically used to assess the differences between the means of two or more variables (Hair et al., 2010). In this study, the researcher employed One Way ANOVA test in order to examine the differences between three groups or more than two groups such as customer's level of education, level of income and their job sector, towards their perception on *mudarabah* related products. The proposed hypothesis for this variable is as follows:

Hypotheses Three

H0: there are no significant differences between customer's level of education, level of income, and their job sectors and their perception towards *mudarabah* contract.

H1: there are significant differences between customer's level of education, level of income, and their job sectors and their perception towards *mudarabah* contract.

Table 4.11

Differences between level of education level of income and job sectors

Items	Mean	Std. Deviation	F	Significant
Level of Education			5.389	.001
Primary/Secondary	1.11	.143		
Diploma	1.16	.156		
Degree	1.10	.135		
Professional Qualification	1.08	.009		
Postgraduate	1.18	.166		
Level of Income				
Less than RM 1000	1.13	.125	4.755	0.001
RM 1,001 - RM 3000	1.06	.095		
RM 3,001 – RM 5,000	1.18	.181		
RM 5,001 – RM 10,000	1.10	.118		
RM 10,001 – RM 20,000	1.35	.155		
Job Sector			1.621	.157
Manager/Executive	1.18	.178		
Academicians	1.12	.117		
House Wife	1.09	.134		
Students	1.12	.160		
Businessman	1.19	.163		
Others	1.09	.118		

(Please refer Appendix I for more details)

Table 4.11 above illustrates the mean and standard deviation between three variables that is level of education, level of income and job sector. In terms of level of education it indicates the mean for diploma, degree, and professional qualifications, post-graduate are 1.13, 1.12, 1.08, and 1.23 respectively while the standards deviation of these items is .149, .138, .008, and .155. For the level of income, it shows the mean for customers who monthly earn less than RM 1000, RM 1,001 - RM 3000, RM 3,001 – RM 5,000, RM 5,001 – RM 10,000 and RM 10,001 – RM 20,000 are 1.13, 1.06, 1.18, 1.10, 1.13 respectively whilst the standard deviation of these items is .125, .095, .181, .118, .155.

For the job sector, it shows the mean for managers, academicians, housewives, students, businessman, and customers with different and other customers with different occupations are 1.18, 1.09, 1.179, 1.11, 1.19 and 1.09 respectively whilst the standard deviations of these items is .178, .113, .202, .155, .163, .118.

Moreover, the F values of level of education, level of income and job sectors of the customers are 5.389, 4.755, and 1.863 respectively. In terms of significance, both level of education and level of income have same positive significant value ($p < 0.05$) whilst the significant level of job sector negative significant value ($p > 0.05$). For the level of Education, the F value is 5.389 with a positive significant value of 0.01 for level of income F value is 4.755 with a positive significant value of 0.001 and for the job sector F value is 1.863 with a insignificant value of 0.103.

The finding is reveals that the factor of job sector shows insignificant difference whilst other factors which are level of income and level of education shows significant difference, we can conclude that null hypothesis is rejected and both factors of level of education and level of income of the customers have positive significant difference towards customer's perception of mudarabah related products. In particular this means, the increase level of education of customers towards mudarabah related products will positively influence their perception towards mudarabah contract. Similarly, the increase level of income of the customers will influence their perception towards mudarabah

contract. This is because the customers of higher level of income perhaps using mudarabah products that requires higher investment such mudarabah investment account.

4.6 Chapter Summary

180 respondents have participated in this study. The response rate from the research is 72%; a several different tests were employed in order to analyze the data properly. For instance, normality test was carried out and it shows that the variables of this study are normally distributed. Moreover, the reliability was testes and the Cronbach's alpha, which normally supports the consistence of the research were also met. Descriptive statistics was used to examine the general perception of Islamic banks customers towards mudarabah contract. The finding from descriptive statistics indicates that overwhelming majority of the respondents are highly aware to somewhat aware the concept and implications of mudarabah related products. However, more than half of the respondents are not aware the applications of mudarabah related products offered by Islamic banks.

Factor analysis was also employed in this study to examine the most important factors that have association with the Islamic banks customer's perception towards mudarabah contract. The finding from the factor analysis revealed that the concept of mudarabah contract is the most single important factor that has a significant relationship with customer's perception towards mudarabah related products, followed by applications and then implications of mudarabah related products that offered by Islamic banks in Kedah state, Malaysia.

Independent sample T-test is employed this study to know differences between male and female customers, Malay and non-Malay customers and also single and married customers, concerning their preferences and perception towards mudarabah related products. The finding from T-test reveals all factors such as gender, race and marital status shows insignificant differences. Therefore, there is no significant difference between these factors that is gender, race and marital status and customer's perception towards mudarabah related products.

One Way ANOVA test is also in this study in order to examine the differences between customer's level of education, level of income and their job sector, towards their perception on mudarabah related products. The finding is reveals that the factor of job sector shows insignificant difference whilst other factors which are level of income and level of education shows significant difference, we can conclude that null hypothesis is rejected and both factors of level of education and level of income of the customers have positive significant differences towards customer's perception of mudarabah related products.

CHAPTER FIVE

DISCUSSION AND CONCLUSION

5.0 Introduction

This chapter discusses and summarizes the finding of the data analysis that the researcher explained in the previous chapter. In addition this chapter also presents to ensure whether the objective of the study mentioned in chapter one is achieved or not. The chapter also highlighted research contributions, implications of the study and provides suggestions for future research.

5.1 Discussion Based on the Objectives of the Study

The overall aim of this research is to examine the perception of Islamic banks customers in Kedah state, Malaysia on the mudarabah concept and its applications to the customers. However in particular the study attempt to achieve three main objectives that includes, to examine significant relationship between concept, application and implication of mudarabah and customer's perception towards mudarabah contract. Thus, in order to achieve these objectives, survey was conducted and two hundred and fifty (250) questionnaires were distributed to selected Islamic banks branches in Kedah state, Malaysia. The respond rate is 72% thus, this section explain how these objectives have achieved.

There are three specific objectives of this study. Firstly is to examine the most important factor that influence customer's perception towards mudarabah contract. Secondly is to examine the differences between the demographic factors such as gender, race and marital status and customer's perception towards mudarabah contract, the last objectives is to examine differences between the demographic factors such as level of education, level of income and job sectors towards customer's perception on mudarabah contract.

5.1.1 Objective 1: To examine the most important factor that influence customer's perception towards *Mudarabah* contract

The first objective of this study deals to examine the most important factor that influence customer's perception towards mudarabah contract. Factor analysis was used to analyze this objective. The finding of the factor analysis reveals that the concept of mudarabah is the most important factor that has relationship with customer's perception towards mudarabah related products, followed by the applications of mudarabah contract and implications of mudarabah contract.

Respondents of this study are highly considered that the concept, applications and implications of mudarabah contract positively influence their perceptions towards mudarabah related products offered by Islamic banks. In other words, if customers are highly aware about the concept of mudarabah, its applications and its implications in Islamic banking products and services will positively influence their perception towards mudarabah related products offered by Islamic banks such as investment products.

In general the outcome of factor analysis reveal that highly level of awareness among customers on the concept of mudarabah, its applications in Islamic banking products and services and its implications to customers, positively influence customers perception towards mudarabah related products and services. In other words, the more the customers are informed about the concept of mudarabah, its application in banking products and its implication to them, the more positive perception they have towards mudarabah related products and services.

This result is supported by other previous studies such as study conducted by Metawa and Almossawi (1998), the finding of that study reveals that the most important factor when customers selecting Islamic banks is Islamic principles. They also found that there is significant relationship between Islamic banking principles and the perception of Islamic banking customers. This finding also is similar to the result of the study conducted by Haque et al. (2007), the study found that there is relationship between perception of Islamic banking customers and applications as well as the service availability of Islamic banks.

Furthermore, the factor analysis finding of this study is also similar the finding of the study conducted by Rashid et al. (2009) in Bangladesh, key finding of the study was that there is relationship between Islamic banking products and services implications and customer's perception and their relationship with the banks. Kader (1993, 1995) was also examined the performance and the market implications of Islamic banking. Kader study

was only based on the case analysis of only single Islamic bank that is Bank Islam Malaysia Berhad (BIMB). The study found that market implications have influence to the customer's perception in terms of selection criteria.

5.1.2 Objective 2: To examine the significant different between demographic factors of gender, race and marital status and customer's perception towards mudarabah contract.

The second objective of this study is to examine the significant different between demographic factors such as gender, race and marital status and customer's perception towards mudarabah contract. Independent sample of T-test were used to analyze this objective. The results indicate that there is no different between gender (male and female), race (Malay and Chinese), and marital status (single and married) and customer's perception towards mudarabah related products. This finding contradicts the finding Fishbein (1975) attitude and perception theory that implicate demographic profile such as gender, race and marital status as an important variable that influence the perception and attitude of the customers. This finding also contradicts the finding of the study conducted by Mohamed Ishak (2007), the finding of that study reveals that there is significant difference gender and customer's adoption towards Islamic banking products and services.

In terms of race, the finding of this study contradicts the previous finding of the study conducted by Ahasanul, Jamil and Ahmad (2007) the finding of that study reveals that there is a significant difference between race and perception towards Islamic banking products and services. However, the different outcome between finding of this study in terms of, gender, marital status, and race and the finding of the previous studies might be because of the socio-demographics factors of the different environment of the regions where studies are conducted.

5.1.3 Objective 3: To examine the significant different between level of education, level of income, job sector and customer's perception towards mudarabah contract.

The third objective of this study is to examine the significant different between demographic factors such as level of education, level of income and job sectors of the respondents customer's perception towards mudarabah contract. One way ANNOVA were used to analyze this objective. The finding reveals that the finding is reveals that the factor of job sector shows insignificant differences whilst other two factors which are level of education and level of income of the customers shows significant differences.

In particular this result shows, the increase level of education of customers towards mudarabah related products will positively influence their perception towards mudarabah contract. Similarly, the increase level of income of the customers will influence their perception towards mudarabah contract. This is because the customers of higher level of

income perhaps using mudarabah products that requires higher investment such mudarabah investment account.

For instance, the result of one way ANNOVA reveals there are different mean between diploma, degree, professional qualification and postgraduate customers with 1.13, 1.12, 1.08, and 1.12 respectively. Even though the deviation is small this sheds light on how the customer's level of education has different perceptions towards Islamic banking mudarabah related products. It means the customer's higher level of education has significant different towards Islamic banking and finance mudarabah related products. Perhaps the reason is customers who have higher level of education have more experience and awareness than other customers who are not well educated.

This finding is supported by previous studies conducted by Amin (2007) and Khattak & Rehman (2010) the result of these studies showed statistically significant references when the level of education is taken into account. This finding also consistent with finding of another study conducted by Keong Lee (2012) who concluded that there are significant differences between educational level and customer's perception towards of Islamic banking products and services.

In terms of monthly level of income, the finding of this study is similar with finding of previous study conducted by Amin (2007), he found that income will affect customer's perception in Islamic banking in Borneo. In Malaysia, the study finding is similar the result of study conducted by Run and Yeo, n.d.). That finding shows middle income

customer of RM3000-Rm3999 monthly income has a significantly different perception and understanding level of Islamic financing. In general above finding of indicates the highly educated and high-income respondents are more aware about the concept of mudarabah, its applications and implications. These in turns positively influence their perception towards mudarabah related products and services.

In terms of job sectors, the finding of this study is contradicting the finding of previous study conducted by Khattak and Rehman (2010), they found occupation has significant relationship with Islamic banking, the different findings between Khattak and Rehman's study and this research might be because of the different environment of the studies. However, the finding of the study is similar the result of previous study conducted by Haque et al., (2009), he found that is no significant difference between customer's job sectors and the overall perception of the customers towards Islamic banks products and services.

5.2 Implication of the study

This study is conducted on the background of Islamic Financial Service Act, IFSA 2013, implications on Islamic banks. According to IFSA 2013, Islamic banks are required to convert customers deposit into only two accounts that is Islamic deposit accounts and Islamic investment accounts will purely base on the contract of mudarabah. This is design to attract risk taking investors, as this account offers high returns but high risk. Therefore, the knowledge of mudarabah its applications and its implications are important for

investors. However, the finding reveal that majority of the customers are unaware about applications of mudarabah contract in Islamic banking products.

One of the significant implications provides by this study to the policy makers is, it draws attention to the Islamic financial institutions, and policy makers to improve customer's perception towards mudarabah (profit sharing) related applications, BNM, is needed to issue effective guidelines for Islamic banks to explain the customers about mudarabah (profit sharing) related applications, publicity are highly suggested to use to boost the current level of customer's understanding regarding Islamic banking products and services. Policy makers have to identify the customer's perception before they enforce new rules that can affect the customer's perception toward Islamic financial product.

5.3 Contribution of the Study

In general this research study is useful because of its significant to the Islamic banking sector in Malaysia, as Malaysia is the one of leading countries in Islamic banking and finance. The finding of this research study provides several valuable theoretical and practical contributions. Theoretical contribution or knowledge is one of the important contributions of this research as this study attempts to fill the research gap, and adds to the literature of Islamic finance. Based the knowledge of the researcher, there is hardly any empirical study on customer's perception on mudarabah contract in Malaysia as well as other countries that provide Islamic financial products. Thus, this study will increase knowledge in the area of Islamic banking and finance.

Furthermore, the practical contribution of this study is it provides significant implication to the policy makers as findings of the study reveals that most of the respondents are unaware about application of mudarabah related products. Therefore, Bank Negara Malaysia should explain Islamic banking applications to the customers this will increase consumer satisfaction and it makes Islamic banks products more competitive. Thus Islamic banker can be able to attract and retain customers. Thus, Bank Negara Malaysia (BNM) must issue guidelines for Islamic banks to explain the applications of their products to the customers.

The finding of this study provides significant implication to the regulatory understand deeply the perception of the customers regarding mudarabah contract. As study addresses contemporary problems of some Islamic acts of Malaysia highlighted, such Islamic Financial Service Act (IFSA) 2013, that classified Islamic mudarabah related deposits contract in to the two categories namely Islamic deposits and investment accounts. One of notable contribution of this study is that policy makers must identify the actual needs and wants of the customers before they issue new rules that can affect the customer's perception toward particular Islamic financial product. As such this study inspires Islamic banking policy makers to enhance the perception of customers regarding Shariah promoted financial products such profit and loss sharing contract specially mudarabah contract.

5.4 Limitation of the study

Although research is considered as a success based on the meaningful finding that obtained from respondent's that participated in study. Nevertheless, there were several challenges and limitations that hindered the researcher to obtain more robust outcomes. As this study deals mass market surveys, almost all the obstacles and limitations of this study are related to the sampling limitation which also created other additional limitations.

First, the researcher has faced challenges and limitations of targeting the most suitable respondents. For instance, targeting Islamic banks customers use mudarabah related products. In the ideal situation, the researcher should select Islamic banking customer who use Islamic financial products related to the mudarabah contract in order to provide more precise customers perception toward the product. But, since the regulatory restricts the secrecy of Islamic financial institutions, the researcher could choose Islamic banking customers in general as sample without knowing what kind of Islamic financial products and services they use.

Secondly, because of the cost and time constraints this study is limited only to sample from the Islamic banking customers in Kedah state, Malaysia. The research would be more precise and rigorous if enough time was assigned in order to obtain huge the sample size and also approach the customers from other states of the country. Moreover, the research would be more representative if different Islamic banks approached as a sample.

But the researched chooses only five Islamic banks among the seventeen Islamic banks in Malaysia and the selected banks were located only in Kedah state.

The researcher has very limited time to finish this study most of times were taken by getting approval from the selected Islamic banks as well as data collection process which also took much time. In addition, researcher faced several difficulties and challenges in getting help from most of selected Islamic banks as they did not permitted to the researcher to distribute the questionnaire inside the banks. In addition, the researcher distributed 250 questionnaires but only 180 questionnaires were useable, due to the some of the respondents were skeptical to properly answer the questionnaire since they were scared of fraud. And some respondents did not fill up the respondents profile section. Thirdly, because of the sampling technique limitations the researcher would not able to use more robust and strong statistical tools in order to analyze the data appropriately, such a few statistical techniques only is used which perhaps are more powerful such, factor analysis, independent T-test analysis and one way ANNOVA test.

5.5 Future research and recommendation

Based on the limitation that the researcher was identified during the research process, the researcher would like to give few recommendations for the future researchers that may be taken study similar with this one. The following recommendation and suggestions could be very important for future research.

(i) Future researches may increase the sample size by including more Islamic banks furthermore future studies may also enlarge the coverage of the study by covering other states and regions in Malaysia or other countries in the world.

(ii) The future research may also want to know that the collaboration with the industry practitioners is very important. For example, the Islamic banking player as well as Islamic banking and finance regulatory, in order to uphold the purposes of the study. Like this research as well as other similar researches, help from regulators is crucial in inspiring Islamic financial institutions to help distributing the survey though email to the customers used Islamic financial products based on mudarabah contract. The mentioned collaboration from the regulatory and Islamic banks could help the researcher to use probability sampling technique. The outcome and result from random sampling may assist to the researcher to get more representative data and these would help the researcher also to use robust statistical tools such as parametric statistical tools in order to make more and proper conclusive analysis.

(iii) Furthermore, the applications of mudarabah do not give significant relationship on the perception of Islamic banks customers about mudarabah contract, thus, the further investigation of this result is needed in order to improve our knowledge as well as to provide more details about its relationship on perception of Islamic banks customers on mudarabah contract. Finally, a similar area or topic research can be very important and beneficial to other factors particularly by investigating the influence and relationship existence, different players of Islamic banks such as banker and policy makers in enhancing perceptions of Islamic banks regarding the mudarabah contract.

Besides there are few suggestions and views from the respondents the suggestions from the respondents were regarding the subject matter of this study that is the perception of Islamic banks customers on mudarabah contract. As such several respondents provide different views about Islamic financial products of mudarabah. Most of the respondents mentioned that this product is very important in Islamic banks as well as customers, as it is facilitates the creation of different jobs which can be benefit to the community.

Other respondents believed that there is still lack of sufficient rules and standards regarding to the mudarabah contract, thus, the policy makers must provide new rules and regulation that can improve this important Islamic financial product of mudarabah. In addition, several respondents said that they don't have positive perception in this contract, thus a more awareness is needed in order to increase the customer's perception toward this contract. This suggestion also is valuable to the policy makers as well as Islamic financial institutions.

5.6 Conclusion

Study recognizes variables that could significantly influence the perceptions of Islamic banks customers on mudarabah contract that is concept, applications and implications of mudarabah. The results of factor analysis reveal the concept, applications and implications of mudarabah contract positively influence their perceptions towards mudarabah related products. In addition, the result of independent t-test and ANOVA results reveal that there are no significant difference between gender, race, marital status, and job sectors in relation to the level of their awareness towards mudarabah contract. However there are significant different between customer's level of education and level of income and customer's perception towards *Mudarabah* (profit sharing) related products

Finally, this study is set up to investigate the concept, application and implication of Mudarabah and Islamic banks customers on mudarabah contract. The dedication and strong efforts put this study especially during the data collection as well as the data analysis prior have yielded a meaningful and more significant result, which is very critical success factor. As the empirical result of previous chapter explains, the objectives and aims of this study have been fulfilled, it is hoped at least one or more if not all the parts of this study, being applied and useful by any of the Malaysian Islamic banking and finance stakeholder.

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