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**FACTORS INFLUENCING ISLAMIC BANKING
SELECTION IN INDONESIA USING PARTIAL LEAST
SQUARE - STRUCTURAL EQUATION MODELLING**



ANDI RENI

UUM

Universiti Utara Malaysia

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**FACTORS INFLUENCING IN ISLAMIC BANKING SELECTION
IN INDONESIA USING PARTIAL LEAST SQUARE -
STRUCTURAL EQUATION MODELLING**



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



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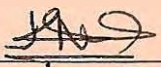
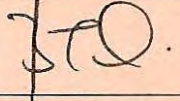


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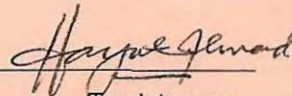
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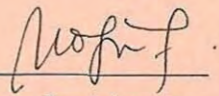
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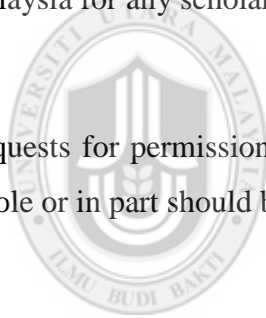
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ABSTRACT

Although being populated by the largest number of Muslims in the world, the market share of Islamic Banking in Indonesia is only five percent of its total banking system. Hence, the quest to attract more Islamic banking customers is a major challenge to Indonesian banks. Few studies have used Theory of Reasoned Action (TRA), and Theory of Planned Behaviour (TPB) to identify factors influencing customers' intention and bank selection. This study aims to fulfil this gap by investigating the constructs of TRA, and TPB (attitude, subjective norm) with additional five new variables; pricing of product and services, religion, knowledge, technology support and government support on customers' intention and Islamic bank selection. Questionnaires were sent to 375 respondents of bank customers in West, Centre, and East regions of Indonesia. Using Partial Least Square Structural Equation Modelling, the extended model explains 48.8 percent of the total variance in intention. Attitude, subject norm, religion, knowledge and government support are found to have significant and positive influence on intention except for pricing. Using intention as a mediator, the model explains fifty one percent of the variation in bank selection. The result shows that intention positively and significantly mediates the relationship between attitude, subjective norm, religion, and knowledge with Islamic bank selection. Government support is found insignificant but positively related. Under the mediation effect, pricing becomes significant but negatively related to selection. The results imply that Indonesian Islamic banks should offer products at competitive prices to attract more customers. More importantly, Indonesian Islamic banks need to create strong intention by developing positive customers' attitude towards Islamic banking through greater dissemination of knowledge, peer and family reference and *Syariah* compliance. In conclusion, the results of PLS-SEM support the application of TRA and TPB theories to enhance Islamic banking selection in Indonesia.

Keywords: Indonesian Islamic banking, intention, selection, Theory of Reasoned Action (TRA), Theory Planned Behaviour (TPB).

ABSTRAK

Walaupun Indonesia mempunyai bilangan penduduk Islam yang besar di dunia, namun penguasaan pasaran perbankan Islam di Indonesia cuma mewakili lima peratus daripada sistem perbankan keseluruhannya. Oleh itu, usaha untuk menarik lebih ramai pelanggan perbankan Islam adalah satu cabaran besar kepada bank-bank Indonesia. Beberapa kajian telah dilakukan dengan menggunakan *Theory of Reasoned Action (TRA)* dan *Theory of Planned Behaviour (TPB)* untuk mengenal pasti factor yang mempengaruhi niat pelanggan dan pemilihan bank. Kajian ini bertujuan untuk memenuhi jurang ini dengan mengkaji konstruk TRA dan TPB (sikap, norma subjektif) dengan tambahan lima pemboleh ubah baharu; penentuan harga produk dan perkhidmatan, agama, pengetahuan, sokongan teknologi dan sokongan kerajaan kepada niat pelanggan serta pemilihan bank Islam. Borang soal-selidik telah di agihkan kepada 375 orang responden yang terdiri daripada pelanggan bank di Barat, Tengah, dan wilayah Timur Indonesia. Dengan menggunakan *Partial Least Square Structural Equation Modelling (PLS-SEM)*, model lanjutan menjelaskan 48.8 peratus variasi dalam niat. Sikap, norma subjektif, agama, pengetahuan dan sokongan kerajaan didapati mempunyai pengaruh yang signifikan dan positif ke atas niat kecuali harga. Menggunakan niat sebagai pengantara, model memaparkan 51 peratus daripada variasi dalam pemilihan bank. Hasilnya menunjukkan bahawa niat mempunyai kesan pengantara yang positif dan signifikan ke atas hubungan antara sikap, norma subjektif, agama, dan pengetahuan dengan pilihan bank Islam. Sokongan kerajaan didapati tidak signifikan tetapi berkaitan secara positif. Di bawah kesan pengantaraan, harga menjadi signifikan tetapi berkaitan secara negatif dengan pemilihan. Keputusan menunjukkan bahawa bank-bank Islam Indonesia harus menawarkan produk dan perkhidmatan pada harga yang kompetitif untuk menarik lebih ramai pelanggan. Lebih penting lagi, bank-bank Islam Indonesia perlu mempunyai tekad yang kuat untuk mewujudkan sikap pelanggan yang positif terhadap perbankan Islam melalui penyebaran pengetahuan yang lebih luas, rujukan rakan sebaya dan keluarga dan pematuhan Syariah. Kesimpulannya, keputusan PLS-SEM menyokong penggunaan TRA dan teori TPB untuk meningkat pemilihan perbankan Islam di Indonesia.

Kata kunci: Perbankan Islam Indonesia, niat, pemilihan, Theory of Reasoned Action (TRA), dan Theory of Planned Behaviour (TPB)

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TABLE OF CONTENTS

PERMISSION TO USE.....	iv
ABSTRACT.....	v
ABSTRAK.....	vi
ACKNOWLEDGEMENT.....	vii
TABLE OF CONTENTS.....	viii
LIST OF TABLES.....	xiv
LIST OF FIGURES.....	xvi
LIST OF APPENDICES.....	xvii
LIST OF ABBREVIATIONS.....	xviii
CHAPTER ONE INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.2 Problem Statement.....	5
1.3 Research Questions.....	12
1.4 Research Objective:.....	13
1.4.1 Specific Objectives:.....	13
1.5 Significance of Study.....	13
1.6 Scope of Study.....	14
1.7 Organization of the Study.....	15
CHAPTER TWO THE NATURE OF BANKING.....	16
2.1 Introduction.....	16
2.2 The Nature of Banking.....	16
2.3 Islamic Banking.....	18
2.3.1 Islamic Finance and Banking Theory.....	21
2.3.2 Historical Development of Islamic banking.....	26
2.4 Islamic banking Products.....	27
2.4.1 Financing Product.....	27
2.4.2 Funding Product.....	30
2.4.3 Service.....	32
2.5 Differences between Islamic and Conventional Banking.....	33
2.6 Overview of Islamic banking Indonesia.....	36

2.7Chapter Summary.....	40
CHAPTER THREE UNDERPINNING THEORIES AND EMPIRICAL EVIDENCE.....	41
3.1Introduction	41
3.2Underpinning Theories.....	41
3.2.1Theory Reasoned Action (TRA)	41
3.2.1.1TRA in Islamic banking Setting	45
3.2.2Theory of Planned Behavior (TPB)	46
3.2.3Consumer Behavior.....	49
3.2.4 Consumer Behavior in Islam.....	50
3.3Past studies on Islamic banking	51
3.4Islamic Banking Selection.....	53
3.4.1Attitude of Customer Behavior	58
3.4.2Subjective norms (Social Influence)	60
3.4.3Religion.....	63
3.4.4Knowledge of Islamic banking	67
3.4.5The Price	72
3.4.6Government Support.....	76
3.4.7Technology Support (Facilitating Condition)	77
3.4.8Intention to Select (Use) Islamic banking.....	78
3.4.9Islamic banking selection as Actual Behavior	81
3.4.10Behavior Intention as Mediating Variable	81
3.5Mediating Effect.....	82
3.6Chapter Summary.....	84
CHAPTER FOUR RESEARCH METHODOLOGY.....	85
4.1Introduction	85
4.2Research Philosophy	85
4.3Research Framework.....	86
4.4Hypotheses Development.....	88
4.4.1Attitude to Intention to Selection	89
4.4.2Subjective Norm to Intention and Selection	89

4.4.3 Religion to Intention and selection	90
4.4.4 Knowledge to Intention and selection.....	91
4.4.5 Price to Intention and Selection	91
4.4.6 Government Support to Intention and selection.....	92
4.4.7 Technology Support to Islamic banking Selection	92
4.4.8 Intention to Islamic Banking Selection (Actual Behavior)	93
4.4.9 Intention as a Mediator.....	94
4.5 Operational Definitions of Variables	95
4.6 Research Design.....	97
4.7 Population and Sampling Method.....	97
4.7.3 Probability sampling of lecture's = $NP * NS/T$	100
4.8 The Instrument	100
4.8.2 Data Collection Method	105
4.9 Pilot Study.....	105
4.9.1 Reliability Test of Pilot test.....	106
4.9.2 Validity Test of Pilot Test.....	107
4.10 Data Analysis	109
4.10.2 Data Analysis Procedure	110
4.10.3 Data Entry	110
4.10.4 Outlier Detection (Mahalanobis Distance).....	111
4.10.5 Assessment of Normality	111
4.10.6 Linearity and Homoscedasticity.....	111
4.10.7 Multicollinearity.....	112
4.10.8 Response Bias	112
4.11 Reliability & Composite Reliability	113
4.12 Validity Test.....	113
4.12.1 Content (face) Validity	114
4.12.2 Construct Validity	114
4.12.3 Convergent Validity	114
4.12.4 Discriminant Validity	115
4.13 Justification for using PLS – SEM.....	115
4.14 Summary of Chapter	117

CHAPTER FIVE RESULTS AND DISCUSSION	118
5.1 Introduction	118
5.2 Response Rate	118
5.3 Data Screening and Preliminary Analysis.....	120
5.3.1 Missing Value Analysis	120
5.3.2 Assessment of Outliers.....	121
5.3.3 Normality Test	123
5.3.4 Multicollinearity Tests	124
5.4 Response Bias	126
5.5 Demographic Profile of Respondents	128
5.6 Descriptive Analysis	132
5.7 Assessment of PLS-SEM Path Model Results.....	134
5.8 Assessment of Measurement Model	135
5.8.1 Individual Item Reliability	136
5.8.2 Internal Consistency Reliability.....	137
5.8.3 Convergent Validity	139
5.8.4 Discriminant Validity.....	140
5.9 Assessment of Significance of the Structural Model	143
5.10 Assessment of Variance Explained in the Endogenous Latent variable.....	147
5.11 Assessment of Effect Size (f^2).....	148
5.12 Assessment of Predictive Relevance.....	150
5.13 Testing Mediating Effect.....	151
5.13.1 Mediation Results	152
5.13.1.1 The mediating effect of Intention: Attitude and IBS.....	152
5.13.1.2 The mediating effect of Intention: Subjective Norm and IBS... ..	153
5.13.1.3 The mediating effect of Intention: Religion and IBS	154
5.13.1.4 The mediating effect of Intention: Knowledge and IBS	154
5.13.1.5 The Mediating effect of Intention in: Pricing and IBS.....	155
5.13.1.6 The mediating effect of Intention: Government Support and IBS	156
5.14 Summary of Findings.....	157
5.15 Chapter Summary.....	158

CHAPTER SIX CONCLUSION AND RECOMMENDATION	160
6.1Recapitulation	160
6.2Main Findings	161
6.2.1Profile of Islamic banking customer	161
6.2.2Objective One: What are the significant factors (attitude, subjective norms, religion, knowledge, pricing, and government factors) influencing Intention to select IB?	162
6.2.2.1The relationship between attitude and Intention (H1)	163
6.2.2.2 Relationship between subjective norm and intention (H2)	163
6.2.2.3The relationship between Religion and intention (H3)	164
6.2.2.4The relationship between Knowledge and intention (H4).....	164
6.2.2.5The relationship between Price and intention (H5)	164
6.2.2.6The relationship between Government Support and Intention (H6)	165
6.2.3Objective two: What are the significant factors (attitude, subjective norm, religion, knowledge, pricing, government support, and technology support) influencing Islamic banking selection?.....	165
6.2.3.1The relationship between Attitude and IBS (H7)	165
6.2.3.2The relationship between Subjective norm and IBS (H8).....	166
6.2.3.3The relationship between Subjective Norm and IBS (H9).....	166
6.2.3.4The relationship between Knowledge and IBS (H10).....	166
6.2.3.5The relationship between Price and IBS (H11)	166
6.2.3.6The relationship between Government Support and IBS (H12) ..	167
6.2.3.7The relationship between Technology Support and IBS (H13) ...	167
6.2.3.8The relationship between Intention and IBS (H14).....	168
6.2.4Objective three: To establish the mediating effect of intention as mediator between the factors influencing intention and selection of Islamic banking. .	168
6.3Implications of the Results.....	168
6.4Contribution of the Study.....	170
6.4.1Academic Contributions	170
6.4.2Practical Contributions.....	172
6.5Limitations and Recommendations.....	172

6.6Recommendation..... 172

REFERENCES.....174



LIST OF TABLES

Table	Page
Table 1.1 Indonesian Growth of Islamic banking (Year 2009 – 2013).....	3
Table 1.2 Islamic Banks in Indonesia	3
Table.1.3 Statistics of Syariah Banks Vs Commercial Banks: 2009 – 2013 (in Billion IDR)	7
Table 2.1 Differences between Islamic & Conventional Banking	33
Table 2.2 Islamic Banking Indonesia.....	40
Table 3.1 Summary of past studies using TRA in Islamic banking setting	45
Table 3.2 Summary of past studies using TPB in Islamic banking Setting	49
Table 4.1 Sample Size Determination.....	100
Table 4.2 Proportion of the sampling universities and the percentage sampling.....	100
Table 4.3 Summary of measure and reliability of Cronbach’s Alpha from pilot test	107
Table 4.4 Results of Factor Analysis	108
Table 5.1 Distribution Sampling.....	119
Table 5.2 Response Rate of the Questionnaire	119
Table 5.3 List of deleted items after the application of Mahalanobis Distance.....	122
Table 5.4 Correlation Matrix of the Latent Construct.....	125
Table 5.5 Variance of Inflation Factors (VIF)	126
Table 5.6 Results of Independent-Sample T-test for Response Bias	127
Table 5.7 Demographic Profile of respondents.....	129
Table 5.8 Descriptive statistics for Latent variables	132
verage Variance Extracted	137
Table 5.10 Latent Variable Correlations and Square Roots of Average Variance Extracted	141
Table 5.11 Cross Loading	141
Table 5.12 Results of Structural Model (Including Mediating Effect of Intention)	145
Table 5.13 Variance Explained in the Endogenous Latent Variables.....	148
Table 5.14 Effect Sizes of the Latent Variables on Cohen’s (1988) Recommendation.....	149
Table 5.15 Construct Cross-Validated Redundanc	151
Table 5.18 Intention Mediating the relationship between subjective norm and Islamic banking selection	153
Table 5.19 Mediating Result of Intention on Religion and Islamic banking selection	154

Table 5.20 Intention Mediating the relationship between knowledge and Islamic banking selection	155
Table 5.21 Mediating Result of Intention on Price and Islamic banking selection	155
Table 5.22 Intention Mediating the relationship between Government support and Islamic banking selection	156
Table 5.23 Summary of Hypotheses findings	157



LIST OF FIGURES

Figure	Page
Figure 2.1 Banking Systems in Indonesia under Law No 10/1998 and No. 21/2008.....	36
Figure 3.1 Theory of Reason Action (TRA).....	42
Figure 3.2 Theory Planned Behavior (TPB).....	46
Figure 4.1 Research Framework / Conceptual Model	88
Figure 5.1 Histogram and Normal Probability Plots.....	124
Figure 5.2 A Two-step Process of PLS Path Model Assessment	134
Figure 5.3 The measurement model.....	135
Figure 5.4 Structural Model with Mediating Variable (Full Model)	144



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LIST OF APPENDICES

Appendix A RESEARCH QUESTIONNAIRE	214
Appendix B RESEARCH OUTPUTS	227



LIST OF ABBREVIATIONS

ATD	Attitude
ATM	Automatic Teller Machine
BAMUI	Board of Arbitration Muamalat Indonesia
CMW	Common Method Variance
DTPB	Decompos Theory of Planned Behavior
GDP	Gross domestic Bruto
GS	Government Support
IBS	Islamic banking Indonesia
ICMI	Ikatan Cendekiawan Muslim Indonesia
IDR	Indonesian Rupiah
INT	Intention
IT	Information Technology
KNL	Knowledge
L/C	Letter of credit
PBC	Perceive Behavioral control
PHD	Doctor of Philosophy
PLS	Partial Least Square
PRC	Price
Q2	Construct Cross Validated Redundancy

R2	R-squared Values
RLG	Religion
SEM	Structural Equation Modelling
SN	Subjective Norm
SPSS	Statistical Package for the Social Sciences
SWT	Subhanahu Wa Ta'ala
TAM	Theory of Acceptance Model
TRA	Theory of Reasoned Action
TPB	Theory of Planned Behavior
TS	Technology support
USA	United States of America



CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Indonesia has 252 million people in the year 2014 from which 226.8 million people are Muslims representing 90 percent of the population (Indonesian Central Bureau of Statistics, 2014). Although this percentage represents the largest number of Muslims in the world, Islamic banking came fairly late to Indonesia and the market share is only 5.1 percent. After slow starts, Islamic banking in Indonesia is presently developing rapidly and with strong support from groups of scholars and government authority such as Otoritas Jasa Keuangan Indonesia (OJK) via Five Year Road map for Indonesia (MIFC, Bis Review 2015). A research finding by OJK (2015) shows that 103 out of 162 Islamic rural banks are found in Java. This finding highlights that many provinces in other regions of Indonesia have no rural Islamic banks. The Indonesian government has noted that Islamic banking in Indonesia has not spread out evenly throughout the country and hence, greater efforts are in place to expand Islamic banking in Indonesia (GBG Indonesia, 2015).

One of the efforts is to introduce dual banking system. Since the advance development of dual banking system in Malaysia, Indonesia has implemented the same, in which both the conventional and Islamic banking operates in parallel to serve the economy (Muh Abduh, 2012). Following that, Islamic banking in Indonesia has three types: (i) Islamic Commercial Banks which are fully governed by Shariah law (ii) Islamic banking Units which are the subsidiary of conventional banks but

operating on Syariah-based principles in their operations and (iii) Islamic Rural Banks. These banks are smaller compared to regular banks.

If compared to Organization of Petroleum Exporting Countries (OPEC) or Malaysia, the operation of Islamic banking in Indonesia was relatively late since it started only in 1992. This is because Islamic banking did not receive supportive political will despite frequent meetings between the Minister of Finance Ali Wardhana, and OPEC members (KH.Hasan Basri, MUI as cited in Hosen, N (2004). Due to its late entry and infrastructure problems during the 1990s, Islamic banking in Indonesia did not grow as rapidly as conventional banking. However, since 2000, the Islamic banking development in Indonesia has been commendable after the government had made several initiatives to expand Islamic banking. In 2000, two Syariah banks expanded to three banks while three Syariah units increased to 26 with 176 and 164 branch and sub branch offices respectively. There were 139 Islamic rural banks by the end of 2009. Since then, there are 11 Syariah banks with 1,920 branch offices, 24 Islamic Business unit with 554 number of offices, and 160 Islamic Rural Banks by the end of 2013 (Indonesia Central Bank, 2009; 2013).

The rapid expansion of Islamic banking is a proof of greater public confidence and interest in the Islamic banking system in Indonesia. Bank Muamalat Indonesia is the pioneer bank followed by Bank Syariah Mandiri, Bank Mega Syariah, Bank Rakyat Indonesia Syariah, Bank Bukopin Syariah and Bank Panin Syariah. The success of Muamalat Bank in the Islamic banking industry has inspired conventional banks to open more syariah units or branches. Table 1.1 shows the trend in Indonesian Islamic banking.

Table 1.1
Indonesian Growth of Islamic banking (Year 2009 – 2013)

Year/Div of unit	2009	2010	2011	2012	2013	% Growth
Syariah Bank	6	11	11	11	11	8 %
Syariah Window	25	23	24	24	24	-4 %
SyariahRural Bank	138	150	155	158	160	15.9 %

Source: Statistik Perbankan Syariah Agustus 2013.

The growth of Islamic banking is indicated by the number of Syariah commercial banks and Syariah windows of conventional banks in Indonesia. This growth is also shown in Table 1.2.

Table 1.2
Islamic Banks in Indonesia

No	Name of Commercial Bank	No	Name of Syariah Windows
1	PT. Bank Syariah Muamalat Indonesia	1	PT. Bank Danamon Syariah
2	Bank Syariah Mandiri (BSM)	2	PT. Permata Syariah
3	Bank Sariah Mega Indonesia (BSMI)	3	PT Bank International Indonesia (BII)
4	Bank Syariah BRI	4	PT CIMB - Niaga Syariah
5	Bank Syariah Bukopin	5	HSBC, Ltd
6	Bank Syariah Panin	6	PT Bank DKI
7	Bank Syariah Victoria	7	BPD DIY
8	BCA Syariah	8	BPD Jawa Tengah
9	Bank Jabar dan banten Syariah	9	BPD Jawa Timur

Table 1.2 (Continued)

10	CIMB - Niaga Syariah BNI Syariah	10	BPD Banda Aceh
11	PT Maybank Indonesia Syariah	11	BPD Sumatera Barat (Sumbar)
		12	BPD Riau
		13	BPD Sumatera Selatan (Sumsel)
		14	BPD Kalimantan Timur (Kaltim)
		15	BPD Nusa Tenggara Barat (NTB)
		16	BPD Sulawesi Selatan (Sulsel)
		17	PT BTN
			PTBank Tabungan Pensiunan
		18	Nasional (BTPN)
		19	PT OCBC NISP
		20	PT Bank Sinarmas

Source: Statistik Perbankan Syariah Agustus 2013

Table 1.2 shows the name of Islamic banks in Indonesia by type of bank. The rapid development of Islamic banking in Indonesia in general indicates that more people are accepting the Islamic banking system in Indonesia. Like any other banks which operate as financial intermediaries (Samuelson & Nardham, 1989), Islamic or Islamic bank also operates like a financial intermediary. However, the presence of Islamic contracts such as Mudharaba, Musyarakah besides Murabahah (cost-plus based) extends the functions of Islamic banks to being partners in the Profit and Loss sharing contracts besides being the financial intermediary (Ahmad, A., Humayoun, A.A., Ul Hassan, U, 2010).

Indonesia also experienced adverse effects from the Asian Financial Crisis in mid-1997. There was an evidence of inequality used in conventional banking system, or interest based system (Ibrahim, 2003) since many borrowers were caught with high interest rates which caused difficulties to the borrowers to pay their loans, consequently increase the credit risk of conventional banks. Consecutively, Islamic banking, which is based on profit and loss sharing basis become more attractive to bank customers in Indonesia than conventional banks which are guided mainly by the profit maximization orientation (Olzon & Zoubi, 2008).

1.2 Problem Statement

One of the issues facing Syariah banks is how to increase the Islamic banking business?. Few studies which covered this issue are not empirically based. This gap motivates this study to explore the situation empirically to identify the factors (attitude, subjective norm, religion, knowledge, pricing, technology, and government support) that hinder high growth of the Muslim population adopting Islamic banking. As written in the background of the study, the entrance of the Syariah Bank in Indonesia in 1992 (after the Act No.7, year 1992) was however, relatively late compared with establishment of Islamic banks in Organization of Petroleum Exporting Countries (KH. Hasan Basri, MUI, as cited in Hosen (2004).

Its late entry and difficulty to access to the banking system have been cited by Ersyam Fansuri (2010) as factors contribution to low participation of the people in Islamic banking. According to the Ernst, Y (2013), World Bank Report only 49 percent had easy access to conventional banks, meaning that 51 percent remains

untapped. Another reason is that Islamic banking in Indonesia did not grow as rapidly as conventional banking.

Table 1.3 shows as at 2013, the Islamic banking share of assets, funding and financing is 6.5%,5.1% and 3.64% respectively. Although the operating system of Islamic windows and Islamic banks are based on Syariah, its share in the total banking system of 5.1 % was very far behind the conventional banking. This market share was small compared to Malaysia where its Islamic banking constituted 20%, Qatar 24%, and Turkey 7 % of the total banking system. The statistics also indicate weak participation by the Indonesian Muslim population of 226.5 million in Islamic banking compared to Malaysia which has achieved a 20.6 percent share of Islamic banking in 2013 although its total population was only 29.7 million (Economic Report, Ministry of Finance, Malaysia). This task presents a challenge to Indonesian Islamic banks in marketing of their financial services to their retail customers who are in the culture which greatly depends on face to face relationship to build sales (Global Business Indonesia, 2013). The challenge motivates an investigation to be undertaken to identify factors which could assist Islamic banks to develop appropriate strategies to create demand and intention to use Islamic banking among bank customers. This empirical investigation is premised on the application of TRA and TPB which involve consumer behaviour elements.

Table.1.3

Statistics of Syariah Banks Vs Commercial Banks: 2009 – 2013 (in Billion IDR)

Year/Div of unit	2009	2010	% Gr	2011	% Gr	2012	% Gr	2013	% Gr	% Av Gr
Asset IB	66,190	97,519	47.3	145,467	49.1	195,018	34.1	223,503	14.6	36.3
ComBank	2,534,106	3,008,853	18.7	3,652,832	21.4	3,542,518	-3.0	3,197,384	-9.7	6.85
Total Ass	2,600,296	3,106,372	19.5	3,798,299	22.3	3,737,536	-1.6	3,420,887	-8.5	7.9
% IB of Asset	2.55	3.14	23.12	3.83	21.97	5.23	3.7	6.5	24.3	18.3
Depof IB	52,271	76,036	45.5	115,415	51.8	147,512	27.8	170,222	15.4	35.1
Depof CB	2,180,934	2,563,562	17.5	3,093,848	20.9	3,542,518	14.5	3,197,384	-9.7	10.8
Total Dep	2,233,205	2,639,598	18.2	3,209,263	21.6	3,690,030	14.9	3,367,606	-8.4	11.58
% IBof Deposit	2.34	2.88	23.1	3.6	25	3.99	10.8	5.05	26.6	28.15
Financ IB	46,886	68,181	45.42	102,655	50.6	147,505	43.7	174,537	18.3	39.5
Finan CB	2,282,179	2,765,912	17.5	3,412,463	23.38	4,172,672	22.8	4,627,191	10.9	18.65
TotFinanc	2,329,065	2,834,093	21.7	3,515,118	24.1	4,320,177	22.9	4,801,728	11.2	19.96
% IBofFin	2.01	2.41	19.9	2.92	21.2	3.414	16.9	3.635	6.5	16.13

Source: Statistik Perbankan Syariah (Islamic banking Statistics), August 2013

Table 1.3 show that the end 2013, total deposit at conventional banks was Rp.3,197,384 Billion IDR, while total deposit Islamic bank system was Rp.170,222 Billion. This represents 5.3% market share for Islamic banking deposits. In the case of loans, Rp.4,627,191 billion IDR was disbursed by the conventional banks compared to Rp.174,537 billion given by Islamic banks. This shows the Islamic banking market share in terms of lending is 3.7 % in 2013.

In order to increase the market share, Islamic banks in Indonesia should understand the behavior of their customers. However, there is a limited amount of information about the profile of customers of Islamic banks. This provides a gap to which this study attempts to fulfill by documenting the demographic information about existing and Islamic bank customers. A complete profile of Islamic banking customers which is currently lacking hinders the Islamic banks to meet the expected needs and wants of the customers adequately. Khan (1984) said that studying consumer behavior is

important in order to understand Muslims' behavior with respect to consumption of products and services. Khan (1995), find that a consumer ranks his choices according to his preferences. In this case, his choice will either be Islamic banking or conventional banking. Information or customers data base is therefore, important to be made available to Islamic banks for them to design appropriate strategies to attract this customers.

According to Didin Hafiduddin (2010), Islamic banking in Indonesia has three challenges consisting of; (1) development and enhancement of Islamic finance and banking knowledge, (2) Human resource in terms of Islamic finance and banking talent pools institutional, and regulation development, and (3) advertisement / advertising and socialization of Islamic concept and practical aspects of Islamic economics. Government is seen to be a catalyst in promoting Islamic banking in Indonesia, both in terms of institutional and regulatory development and human talents. Although in Malaysia government support is recognized as one of the major strengths in promoting Islamic banking and capital market, few studies in the past have studied the influence of government support in Indonesia, in building up the necessary infrastructure to facilitate the growth of Islamic banking to an extent, that bank customers can see the benefit of Islamic banking and it becomes their selection to do banking transactions using Islamic banking.

Studies on consumers behaviors are mostly related to the Theory of Reasoned Action (TRA). TRA has elements such as attitude and subjective norm, which have been proven to influence customers intention and actual behavior. This theory has been applied in marketing and management related studies but, few studies in banking

particularly Islamic banking has tested the application of this theory in Indonesia. KuMadjadi (2013) study of customers' selection of Islamic banking in Thailand used Islamic banking criteria, not TRA. In this context, the elements of TRA will be a new test to Indonesian Islamic banks. Others factors such as religion, knowledge, pricing, technology support have been discussed by Wahyuni Salamah (2012) and, Hanuddin Amin (2011) in their studies of consumers behavior in Malaysia. These factors which have not been examined with Indonesian bank customers will be investigated and tested in this study.

Futhermore, these factors justified for futher study because many people lack understanding of Islamic banking products that use the Islamic terms such as *Mudharabah*, *Musyarakah*, and others (Ersyam Fansuri, Chairman of the Indonesian Association of Islamic banking, East Java, 05/30/2010.<http://www.republika.co.id>).

Many opinions have been expressed but without statistical evidence about the lack of knowledgeable syariah bankers. This limit the ability of the bankers in Islamic banks to explain about Islamic banking products to the customers; hence the customers may not have been attracted to use Islamic banking or change their attitude towards Islamic banking. Therefore, to what extend is the expertise and knowledge of bank employees influence the customer's choice of Islamic banking has not empirically tested in case of Indonesia Islamic banks. This gap needs to be analyzed to assess its importance in creating the need for Islamic banking in Indonesia.

The knowledge and understanding of society on Islamic banking is perceived still low as many people lack understanding of the Arabic terms in Islamic banking products for example *Mudharabah*, *Musyarakah*, and other contracts (Ersyam

Fansuri (2010); Chairman of the Indonesian Association of Islamic banking, East Java, 05/30/2010.<http://www.republika.co.id>). Lack of socialization or promotion by Islamic banks to the community is one of the reasons of people not knowing about Islamic banking products. There is still another issue of confidence as the attitude of public in general is that they are still in doubt about Islamic banking.

The contention is about the Indonesians' intention to select Islamic banking and subsequently to actually select Islamic banking for their banking transaction rather than select conventional banking. Should there be an increasing number of bank customers who intend to operate Islamic banking and actually select them, then the market share of Islamic banking in Indonesia would be significantly increased. The central question is; how or what are the elements necessary to; firstly create the intention of using Islamic banking among the bank customers, and secondly; to see the intention turns to the actual bank selection. The relationship between intention and selection of Islamic banking in Indonesia has not been empirically investigated.

The justification for the need to have investigation on the relationship between intention and selection is based on TPB and TRA which postulate that behaviour of a person depends on his intention. The intention henceforth results in action, which to a certain extent is also influenced by the people surrounding him (subjective norms) and attitude. These theories have been tested in several past studies such as Amin *et al.*, (2011), Taib *et al.*, (2008). However, these studies were in Islamic home financing and halal foods sector respectively. In the context of Indonesian banking system, the application of these theories has not been tested particularly in the Islamic banking sector.

This is an important research gap in order to assess whether the theory of TRA is applicable in understanding the intention and selection of Islamic banking among customers in Indonesia.

The contention issue is about the customers' intention to select Islamic banking. TRA postulates that there should be intention before selection. The central questions are; how or what are the elements necessary to firstly create the intention of using Islamic banking among the bank customers? and secondly; how is intention related to selection?. Intention has been found to mediate significantly the relationship between the predictors and selection in Malaysian halal food industry (Amin, H, 2011) and Islamic banks (Wahyuni, S, 2013). However, these studies have not been empirically verified in the context of Islamic banking selection studies in Indonesia with more comprehensive variables.

The customers of Indonesian banks generally are sceptical about Islamic banking. They perceive that Islamic banking in Indonesia is not different from conventional banking. Therefore, it is a problem to change their behaviour towards patronizing Islamic banks. This problem needs research in order to identify the factors which could change the customers' perception and behaviour towards selecting Islamic banking. This study will address this issue by identifying the factors through the application of TPB and TRA.

According to Wilson et al. (2013), some Indonesian Muslims are still reluctant to use Islamic banks. Therefore, the high growth of the global Islamic bank industry is not in line with the slow penetration growth in Indonesia. Despite the potentiality that comes from the large Muslim population (Moody's Global Banking, 2008), the

Islamic bank asset penetration in Indonesia is still around 4.58 per cent (Bank Indonesia, 2013). This fact shows that the acceptance of Islamic banks in Indonesia is still unsatisfying.

One reason why the Islamic banking industry in Indonesia is yet to gain full momentum is weak government support. While in the United Kingdom and Malaysia, there have been ministerial-level coordinations in Islamic finance and banking sector, Indonesia has been lacking such high-level coordinations. Moreover, the current legal environment in Indonesia can be labelled as uncertain (Indonesia Investments, 2014).

1.3 Research Questions

Against the background issues described in the above sections, the research questions are as follows:

1. What is the influence of attitude, subjective norm, religion, knowledge, pricing, government support, and technology support on customers' intention to select Islamic banks?
2. Which of the factors significantly influence intention and selection of Islamic banks?
3. Does Intention mediate the relationships between the factors influencing intention and selection of Islamic banks?

1.4 Research Objective:

The main objective of this study is to identify factors which have impact on Islamic banks' intention and to establish the linkage between these factors and Islamic banking selection using intention as a mediating variable.

1.4.1 Specific Objectives:

Specific objectives of this research:

1. To investigate the correlation between the variables; attitude, subjective norm, religion, knowledge, pricing, government support, intention and bank selection in the research model.
2. To determine the significant factors (attitude, subjective norm, religion, knowledge, pricing, , and government support) influencing the intention and selection of Islamic bank in Indonesia.
3. To establish the mediating effect of intention as the mediator between the factors influencing intention and selection of Islamic banking.

1.5 Significance of Study

1.5.1 This study is significant because it would be the first time a study involving a more comprehensive method to identify significant factors influencing Islamic banking intention and Selection using SEM-PLS. The method is also comparatively new to be applied in the Indonesian banking setting.

The determinants are important to bank management because linking determinants of intention to selection of Islamic banks in Indonesia, they would know the most

effective strategy (direct path) to use in order to identify which factors could influence more customers to select Islamic bank after establishing their intention to do so and subsequently to select Islamic banking.

1.5.2 The policy makers and the government can refer to the findings of this study to formulate policies in order to promote greater participation in Islamic banking in Indonesia.

1.5.3 For bank customers, they will be getting better service, greater knowledge on Islamic banking products and services through mass media, technology and advertising coverage which will help them to make better decision in selecting their banks between conventional banks and Islamic bank.

1.5.4 In terms of academic contribution, academicians will benefit from the new findings and this study at the same time, will expand the number of empirical investigation in Islamic Banking in Indonesia. This study also could become reference in terms of the application of the TRA and TPB in banking area.

1.6 Scope of Study

This study is applied to Islamic banking selection setting. Hence, it does not include conventional banks. The respondents are the lecturers of the public universities who are customers of the banks and those who intend to select Islamic banks. This study selected this type of respondents because they are bank customers and the public universities are well represented geographically in the three main regions in Indonesia. The five public universities in the 3 regions are: University Sriwijaya in Palembang (west region), University Indonesia and University Syarif Hidayatullah in

Jakarta (Centre region), and University Hasanuddin and University Islamic Alauddin in Makassar (East region).

The study was confined to primary data, where the questionnaires were distributed to lecturers from these three universities. Only lecturers among the public sector university are taken.

Another limitation is that the findings were obtained from banking customers in selected regions of Indonesia. Thus, one could not make generalization of results to depict the Muslim customers behaviour in other parts of Indonesia or the world.

1.7 Organization of the Study

This study is organised as follows: Chapter one describes background, research gaps, objectives and significance of the study. Chapter two presents the nature of banking and as well as the banking and Islamic banking system in Indonesia. Chapter three contains the review of the literature, underpinning theory. Chapter four consists of research methodology including theoretical framework, hypothesis and model specification for the study. The measurement sampling and instrumentations are also provided in this chapter. Chapter five discusses the findings, followed by conclusion in chapter six.

CHAPTER TWO

THE NATURE OF BANKING

2.1 Introduction

Chapter Two is aimed to present reviews of the literature related to nature of banking and Islamic banking. This chapter also include the reviews on related theories on Islamic finance and banking as well as the historical development of Islamic Banking globally and in Indonesia. This chapter also explains about the Islamic banking products and the differences between Islamic and Conventional banking. The chapter ends with a chapter summary.

2.2 The Nature of Banking

In modern economy, banks which are functioning as an intermediary institutions occupy a vital position in the economy. Trade traffic, both domestic, national, regional and international needs a support device in the form of financial institution, payments or transaction purposes. Financial intermediation as an insidious characteristic of all world's economies. It's the process of channelling funds or financial resources from surplus units of the economy to deficit units of the economy (Abiah, F.K & Wabekwa, 2012).

Avgouleas, E., Buckley, R., and Arner, D (2015), mentioned that the nature of banking world is changing rapidly. The changes involve the function of banks from being product oriented to customer oriented. The banking system is more complicated and hence, require talented human capital to manage banking

transaction efficiently for better performance. The banks' performance affects the efficiency of the funds flow in the financial system; which smoot then national productivity and income generation. However, Law and Singh, (2014), discover that finance generated form bank income generation stimulate economic growth at a certain threshold level, beyond which further development of finance incline to affect growth adversely.

Banks also act as financial intermediaries between capital providers and capital users. The funds lent out by banks to their customers are charged interest to cover the banks' cost of funds. This is conventional banks' practice. For Islamic banks, they also play the intermediary function of matching the needs between the depositors and consumers but the relationship is not between a debtor and a creditor but between a capital provider and an investor (Khan, F., 2010).

The main activities of the banks are basically to mobilize funds from the public for further distribution to individuals or institutions in the form of loans for investment purposes. The banks form part of the financial system. They perform an important intermediary function within the economy by channeling savings from households and other excess units to those parties who need funds for business, consumption and investment (Avgouleas, E. *et al*, 2015).

According to Mishkin & Eakins (2007), banks play a primarily function as an intermediary between a capital surplus unit and capital deficiet unit. In this context capital surplus unit is a person, organization of the corporation that has excess funds. Capital deficit unit on the other hand is a person, organization or a corporation that require funds and capital (Samuelson, P., & Nordhaus, W. (2012). As intermediaries,

banks are also vital in supporting infrastructure to support the smooth growth of the economy (Greenbaum, S. I., Thakor, A. V., & Boot, A.. (2015). According to Mikshin and Eakins (2007), there are three reasons why banks have an important role in the economy: a) Banks provide channel that links between people who want to save with who want to invest b) Banks determine money supply and the transmission of monetary policy in the economy c) A bank is a source of financial innovation where people can invest their savings in the new financial products.

2.3 Islamic Banking

Islam is a religion which provides a guide for human beings with Syariah or Islamic laws to live in this world and the world hereafter (Asmadi, 2000). Islam is the one religion that has a complete guide of life. It is composed of maxim of laws and rules to follow and practice by the followers in all fields and life activities. It is sad to mention that until the last few decades, the Muslims around the world on average have not managed to practice these laws and rules fully specifically when dealing with banking and financial affairs (Yatim, 2007).

Imam and Kpodar (2015) showed that Islamic banking is positively associated with economic growth, even after controlling for the level of financial depth. Yet no formal theoretical analysis of Islamic banking is available.

According to Demirguc-Kunt *et al.*, (2013), a large part of the Muslims are unwilling to deposit their savings into banks that do not operate based on their religious principles. This implies that there is a large potential market for Islamic banking.

MYT- Ghamr Bank was the first Islamic bank established in 1963 in Egypt. It operates successfully based on the combination of management styles of banking in Germany with Muamalah principles of Islam. The bank's products were suitable for rural areas and agriculture sector. In 1997, the Bank was closed due to political problems. In 1971, Egypt established the second Islamic bank; Nasser Social Bank with the operations based on social than commercial oriented (Ariff, Muhammad (1988); Lewis, M.C & Algalaoud, (2001); Rammal, G.H. & Zurbruegg, R. (2007). Since 1980's, Islamic banking has spread from Egypt to Sudan, Gulf Countries, Turkey, Iran, Bangladesh, Pakistan, Malaysia, Thailand, and Indonesia.

Syed (2004) indicated that Islamic financial industry has expanded to comprise Islamic banks, Investment fund management, asset management companies, House finance companies and takaful companies. In 2008, Islamic banking assets worth greater than USD 500 billion, Vayanos & Wackerbeck, (2008). By 2013, according to Jinjiri, R.K (2013), the total assets Islamic banks were estimated to be \$1.6 trillion Islamic banking expected to remain the major contributor at more than 80 per cent share.

Islamic banking which previously focus mainly in the Middle East (especially Bahrain) now spread to South-East Asia with high growth in Malaysia. Islamic finance and banking principles are now increasingly applied in Islamic developing economies such as Iran and Sudan and in dual banking systems (conventional and islamic) which include Indonesia, Malaysia, Pakistan and the United Arab Emirates (El-Qarachi 2005). Islamic finance and banking is also operating in developed

economies where there exist few Islamic financial institutions and large conventional banks that offer Islamic financing windows (Archer & Rifaat, 2002).

For Islamic banks, their role goes beyond intermediaries. The central principles of profit and loss sharing and riba' free also included participation where Islamic banks participate in the form of equity participation and profit and loss are shared between the banks and investor based on their equity holding in a project.

Warde (2000) defines Islamic finance institutions as those whose objectives and operations are based on Syariah principles. In contrast to Western banking operations which focus on the capitalist economic and financial processes, Islamic banking principle offers a moral and a fair equitable distribution of resources (Ahmad, 2000., Chapra, 2000., and Gilani, H 2013).

A.Gait & A.C.Wothington (2007) defined Islamic finance as a financial service which observes sharia (Islamic) Law. The core principles of Islamic finance are no interest as well as no speculation. Islamic finance requires information in a financial contract to be fully disclosed and there should not be any asymmetrical information in such a contract. To make the Islamic contract lawful, any financing and dealing should not be in activities such as gambling, production of liquor and casinos (Iqbal & Mirakhor, 2011). It is also a requirement that a financial transaction needs to be based on real economic transactions and justice and should be fair to all parties in the contract (Haron and Azmi, 2008., Gilani, H 2013).

Muslims view Islamic banking as an alternative to interest-based financial system and non-Muslims view it as a healthy development which offer another competitive

financial system (Luqman, 1999). Similarly, Dogarawa, (2011), Islamic banking not only for specific needs of Muslims but not-Muslim communities alike who wish to pursue economic ventures that are devoid interest.

2.3.1 Islamic Finance and Banking Theory

According to Cizakca, (2011) there are four principles related to Islamic finance and banking (i) Islamic Law (Shariah) (ii) no interest *or riba* as it is totally unacceptable (iii) the Islamic banking theory which is based on a profit and loss sharing (PLS) concept (iv) Forbidding *Gharar*. Similarly with Cizakca, (2011), the rise of Islamic banking can be characterized by the *Shari'ah*-compliant asset-based financing including *murabaha* (mark-up contract), *bai-muajjal* (variant of *murabaha*), *bai-salam* (forward sale contract) and *ijara* (leasing), profit and loss-sharing *mudaraba* (trust based contract) and *musharaka* (partnership/ equity based contract).

According to Siddiqi (2004) *Riba* is prohibited in Islam due to five reasons (1) *Riba* is corrupting the public (2) *Riba* encourages improper appropriation of other people's property, (3) *Riba* leads to negative growth, (4) *Riba* lowers human dignity and personality and (5) unjust (Olson & Zaoubi, 2008).

According to Khan, M.A and Alam, S.M (2008), *riba* include an addition to or a charge on the principal amount for a particular time limit. It includes usury and interest. Prohibition of interest is strict, absolute and unambiguous and the fact interest is fundamentally repugnant to the spirit of Islam.

Islamic banking strictly follows Shariah compliance and prohibits interest (*riba*). Its involvement is not only restricted to giving and take interest, but also forbids other

activities such as liquor, speculation and gambling which are considered as unethical under Islamic laws (Ali, M; Reza, S.A; Puah, C.H. (2015).

According to Yaakob (1986), the Islamic economic system propogates individual freedom, where people have the freedom to make decisions relating to the full fillment of their basic needs. With this freedom, people can optimize their potential, but this freedom is not without limits, which would make someone do without social considerations. Individual freedom is balanced with social security. In Islamic economics it is believed that every individual has the right to live in a country, and every citizen is guaranteed for each basic needs. In the Islamic economic system, the states have a responsibility to allocate resources to improve people's welfare in general.

This means that the Islamic economic system is concerned that all people should get the same welfare. Hence, together with the Islamic banking is wealth management through the regulation of zakat, infaq, sadaqah, waqaf, as a means of gaining a more prosperous community. This is because the basic principles of Islamic economy is to give priority to justice, equality, welfare, utilization of resources, independence and syariah based (Naqwi, 2012., and Febianto, I, 2012).

In practice, banking operation is a reflection of the application of economic values of Islam which aims for the good welfare of the society. According to Chaudhury MA & Husein M (2005), solutions to the problems faced by the community should be shown by all operational mechanisms of Islamic banking, because it is not an alternative, but a solution.

Islamic banking is defined as a financial institution that provides credit and services in payment traffic and circulation of money that it operates adjusted with the principles of Islamic Law (Omar, 2010). Islamic banking is defined as a bank operating practices based on Fiqh muamalah which the rules of Al-Quran and al – Hadith. The definition of “fiqh muamalah” is the rules that control relationship of between humans or the individual with society. Sharia banking and financial activities can be viewed as a vehicle for modern society to implement Al-Qur’an principles, such as “At-Ta’wun” which means mutual help and mutual cooperation among members of society. Sharia banking and financial activities can be viewed as a vehicle for modern society to implement Al-Qur’an principles, such as “At-Ta’wun” which means mutual help and mutual cooperation among members of society.

After the 1996-1997 crises which hit Indonesian banking sector, the Islamic banking development achieved a faster growth as well an increase in the Islamic bank community’s trust in the system (Abduh & Omar, 2007). This is a real evidence that the system and operational mechanism of Islamic banking which promote principles of justice and equitable prosperity, is a solution to the economic problems of society (Mirakhor, 2000 and Warde, 2000).

The Holy book of Islam (The Qur’an) citation of no *riba* in three Madanni surahs as *Al-Baqarah* 2, *Al-Imran* 3 and *Al-Nisa* 4 and in one of Makki Surah; *Ar-Rum*: 30. Besides the al-qur’an, the Holy Prophet Muhammad saw (pbuh) has also described the prohibition of *riba* in many occasions.

The detail description of *Riba* stated in different Surah of the Holy Quran are as below: *Surah Al-Baqara 2 ayat no 275: who's who eat Riba (Usury), will not stand on the day of Resurrection expect like the standing of a person beaten by shaitan (Satan) leading his insanity. That is because they say: trading is only like riba (Usury), whereas Allah has permitted trading and forbidden Riba (Usury). So who's ever received an admonition his Lord and stop eating Riba (Usury) shall not be punished for the past, his case for Allah (to judge).*

Surah Al-Baqara 2 Ayat no.276: Allah will destroy Riba (Usury) and will increase for Saddaqaat (deeds as Charity). And Allah likes not the disbelievers sinners.

Surat Al-Baqara 2 Ayat no.278: O you who believe! Fear Allah and give up what remains of (your demand for) usury, If you are indeed believers.

Surah Al-Baqara 2 no.279: But if you do it not, then beware of war from Allah and His Apostle, and if you repent, you shall back your principles, do not wrong and you shall not be wronged.

Surah Al-Imran 3.no.130: O you believe! Devour not the Usury multiplied manifold. And fear Allah so that you may be successful.

Surah An- Nisa 4.no.161: and because they took usury, though they were forbidden and because they consumed (others) people property wrongfully. We have prepared to disbelievers among them a grievous torment.

Surah Ar- Rum 30.no.39: and whatever that you give as interest to increase the wealth people, eat riba, it does not increase with Allah, and whatever you pay

towards the obligatory charity because seeking approbation of Allah, it is they who are to increase (their wealth) manifold.

The operating systems of Islamic banking based on the basic principles of sharia incorporate Islam values such as fairness, usefulness, willingness, autonomy, and halalness (Khir *et.al*, 2008; Mirakhor, 2000; Warde, 2000).

Money is viewed in Islam as only a medium of exchange, not as a commodity. Therefore, the demand for money is a motive to meet the needs of the transaction or money demand for transaction, not for speculation, because in Islam because speculation is forbidden. Contrary to conventional system, there is no provision of interest on loan. Money belongs to the people, so hoarding money or left it unproductive is not allowed because it means reducing the amount of money circulating in the community (Perwataatmaja & Tanjung, 2007).

From Islamic point of view, money should flow in the economy. Lewis (2001) suggests that greater is the efficiency in the flow of money, the better will it benefit the economy. For those who cannot make their asset productive, Islam recommends to invest with profit sharing contracts such as musyarakah or mudharabah. On the other hand, Islam allows lending based on Qard Hassan principle which is also known as benevolent loan (Ariff, M. 1988).

In a micro level, Qard does not provide direct benefits to those who lend money. But in a macro level, it provides indirect benefits for the overall economy since the economic agents who are in need of the funds would be able to use the Qard for productive use resulting in an increase in their income.

2.3.2 Historical Development of Islamic banking

Year	Event
1900-30	Declaration by Syariah scholars that interest in all forms amounts to <i>Riba</i> .
1930-50	Provision of an alternative Islamic economic partnership activity in accordance with Syariah.
1950s	Islamic Economics introduced an interest-free based financing ; a two-tier Mudarabah or Wakala basis.
1960s	Establishment of Mitghamir Bank in Egypt and Lembaga Urusan Tabung Haji in Malaysia.
1970s	Emergence of Islamic banks such as Islamic Development Bank and other Islamic financial institutions in several Muslim countries and the activities of scientific and strategic studies such as Islamic economic conferences.
1980s	Increasing number of banks, Islamic financial institutions and educational institutions in Islamic economics and finance in Muslim countries.
1990s	Incorporation of public and financial policies in the Islamic financial system with the establishment of AAOIFI.
2000-2005	Issuance of Islamic private debt securities and government sukuk led by Malaysia. The establishment of governing institutions such as Islamic Financial Services Board (IFSB), International Islamic Finance Market (IIFM), International Islamic Rating Agency (IIRA), General Council of Islamic Banks and Financial Institutions (CIBAFI), and Arbitration and Reconciliation Centre for Islamic Financial Institutions (ARCIFI).
2006	Establishment of Islamic capital Market in Malaysia.
2013	410 Islamic banking institution by end 2013, SUKUK market grow from USD 10 billion in 2003 to USD 270 in 2013.

(Source: IMF Working Paper, WP/15/120; 2015)

2.4 Islamic banking Products

The products offered by Islamic banking comprise three major sections (1) financing; (2) funding products and (3) services.

2.4.1 Financing Product

Islamic modes of finance can be grouped into four categories which are distinguished based on using objective such as: (a) financing with the purchase principle; (b) financing with leasing principle; (c) financing with the equity and profit sharing principle, and (d) the supplement aqad (Al-jarhi, 2004; Gait.A & A.C.Warthington, 2007).

a) Sale Principle (Ba'i).

Deferred sale is done in connection with this transfer ownership of goods (transfer of property). The bank profit rate was determined in the future and become part of the price of goods sold. Deferred sale comprises:

(i) *Murabaha (Cost-plus financing)*: This technique is extensively used to facilitate trade financing activities of Islamic financial institutions.

In a *Murabaha* contract, the financing bank purchases an asset from a third party on behalf of its client. The bank sells to its client on a "mark-up" in its sale price. The client subsequently pays for it on a deferred basis. The mark-up represents the margin for the Islamic bank who assumes the risks and provide a guarantee in terms of the quality of the asset. The client will obtain the full title to the asset when all deferred payments have been made. From the perspective of modern finance, a *Murabaha*

facility is equivalent to an asset-backed risky loan. If the capital market is perfect where all agents in the economy have equal access to information, then *Murabahah* financing would generate the same expected return as that of conventional loans. (Ahmad, R. Ahmad, 2006).

(ii) *Salam financing (purchase with deferred delivery)*. It is defined as the forward purchase of specified goods with full forward payment. This contract is normally used for financing agricultural production. Salam based future contracts for agricultural commodities, supported by Islamic banks, will offer to overcome the agricultural financial problem (Usmani, 2005 & Ahmad, R.Ahmad, 2006).

(iii) *Istishna (purchase with specification)* is a sales contract between the bank and the customer where the customers specify goods to be made. After the goods are made or shipped, the bank sells them to the customer according to a pre agreed arrangement. In *Istishna'*, the payment can be done to the bank in several installments. *Istishna'* contracts are commonly applied in construction and manufacturing sectors (Usmani, 2005 & Khan et al, 2008).

b) Lease and Hire Purchase (Ijarah)

Ijarah is a contract under which the bank leases equipment to a customer for rental fee. At the end of the lease period the customer will buy the equipment at an agreed price from the bank, after with the rental fees already paid as the part of the price (*ijarah muntahhiyah bittamlik*). Like the purchase transactions but different the object, the object *ijarah* is service and the purchase principle is the goods object (Ahmad, R. Ahmad, 2006)

c) Profit Sharing Principle (Syirkah)

The Islamic financing products that based on profit sharing are as follow as :

(i) *Musarakah (Equity Partnership)* means a profit sharing joint venture, designed to limit the production or commercial activities in the long term. In this case the bank and the customer contribute capital jointly. They also contribute managerial expertise and other services at agreed proportions. Profit and losses are shared according to the contract agreed upon. An individual partner does not become liable for the losses caused by others (Usmani, 2005 & Khan et al, 2008).

(ii) *Mudharabah (Capital Financing)*. Mudharabah is a contract between at least two parties in which the bank as the investor supplies the entire capital of the business and forms a relationship with the user of capital. These two parties (the bank and the investor) work together and share profit and loss. Under “*Mudharabah*” financing, the investor is known as shahib al-maal which means the owner of the property and the entrepreneur is called mudharib means the manager capital. This contract is responsible for the management of the business and provides professional, managerial and technical expertise for opening and operating the business enterprise or project, Profit is shared according to a preagreed ratio, while loss (if any) is born by the capital provider (bank) (Haron & Balla, 1997; Usmani, 2005).

d) The Supplementary Aqad

In making financing transactions, sometime it is also need supplementary aqad. The supplementary aqad is not to profit oriented but to finance transactions. The models of the supplementary aqad are:

(i) **Factoring (Hiwalah)**; an agreement by the bank to undertake some of the liabilities of the customer. When the liabilities mature the customer pays back to the bank. The bank is paid a fee for undertaking the liabilities concerned.

(ii) **Collateral Agreement (Rahn)**; an agreement to provide the appropriate collateral to the bank, either in the bank's or the customer's custody as appropriate. This is connected with some other form of lending.

(iii) **Benevolent Loan (Qardh)**, this qardh implies is an interest free loan, generally with a charitable motivation (Khan et al, 2008).

(iv) **Agency (Wakalah)**; an agreement to authorize another to be an agent to conduct some business. In this case, an authorization to the bank to conduct some business on the customer's behalf, for example: open L/C, incasso and money transfer.

(v) **Kafalah (Bank Guarantee)**. The bank Guarantee can approve to the obligation of payment. The bank can require a customer to place bank guarantee for funding facilities. The bank can also to receive fund with Wadiah principle. The bank can take a charge for replacing its services.

2.4.2 Funding Product

The form of Islamic banking funding could be in like Current account, savings, and demand deposits. The operational principle of Islamic banking that applied in the public funding are Wadiah and Mudharabah principles.

a) Wadi'ah Principle

Wadiah principle means trusteeship, in the principle the bank is given an authorization by depositors to use the fund at the bank's own risk. Wadiah principle comprises into two types: (1) wadi'ah dhamanah and (2) wadi'ah amanah (Ahmad, R. Ahmad, 2006).

b) Mudharabah Principle.

In applying mudharabah principle, saver or depositors act as shahibul maal (owners of capital) and bank as mudharib (manager). These funds are used to murabahah or ijarah as discribed earlier and can also be used to conduct a second mudharabah financing. The result of this effort will be divided based on the agreed ratio (nisbah). If the bank used it to make second mudharah, the banks are fully responsible for the loss (Ahmad, R. Ahmad, 2006).

Mudharabah principle is applied to the product time deposit. Based on authority by saver or depositor the mudharabah principle comprises are:

(i) ***Mudharabah Mutlaqah (URIA = Unrestricted Investment Account)***, there is no limitation for banks to use this funding. The customer does not give any requirement for a bank in distributing the funding.

(ii) ***Mudharabah Muqayyadah (Restricted Investment Account = RIA)***, comprises into:

- Mudharabah RIA on Balance Sheet, This is special saving account mudharabah (restricted investment) where the owner can give requirement that bank must comply, ex; required to be used for the business or for a particular customer instantly.

- Mudharabah RIA of Balance Sheet, This mudharabah is channeling funds in implementing its business directly, where banks act as intermediaries (arranger) that unite between the owners of the funds with the business executive. The owners of fund can give requirement that bank must accomply in searching business executive.

(iii) *Supplementary Akad.*

One of the supplementary agreements which can be used for funding is wakalah agreement.

Wakalah is applied when the customers give authorization to the bank to represent himself doing the work of certain services, such as; Incasso and money transfer.

2.4.3 Service

While function as intermediaries between the parties need of funds (deficit unit) with those surplus of funds (surplus unit), Islamic bank can also make various services to customers with a reward in the form of rent or profit. The banking services include is:

a) Sharf (Purchase Foreign Currency).

In principle, foreign exchange trading in line with the sharf principle, Banks can take advantage of this buying and selling foreign exchange.

b) Ijarah (Operating Lease).

Ijarah involves leasing of machinery, equipment, buildings and other capital assets. The financier purchases the asset and leases it to the end-user for an agreed rental which may be fixed in advance or subject to occasional review by a mutually

acceptable third party, e.g. an international firm of accountants. Insuring of the asset remains a contentious issue.

2.5 Differences between Islamic and Conventional Banking

Differences between Islamic and conventional banking was shown in the table.2.1:

Table 2.1

Differences between Islamic & Conventional Banking

Characteristic	Islamic banking System	Conventional Banking System
Guiding principle	Guided by Quranic edicts , Hadeeth, Islamic ethics and Islamic laws	Guided by profit motive alone, with no religious or ethical considerations.
Ethics of financing	Financing being asset-backed and meant for productive use helps reduce the overall debt burden.	Debt burden arising out of excessive use of credit leads to bankruptcies, and waste of financial resources.
Liquidation Assets	An Investment Account Holder will have similar rights as shareholders	Depositors are paid before the shareholders.
<i>Involvement of risk & Equity financing</i>	Equity financing is available to a project or venture that involves profit-and-loss sharing. Risk-sharing and profit sharing go together	Commercial banks do not usually indulge in equity financing; only venture capital companies and investment banks do. Conventional banks carry much less risk a major part of the risks being transferred to the borrowers

Table2.1 (Continued)

Characteristic	Islamic banking System	Conventional Banking System
<i>Return on Capital</i>	Depends on productivity, idle money cannot earn any return. Money is not capital per se, only potential capital	Even idle money in bank deposits earns returns
<i>Prohibition of Gharar (uncertainty)</i>	The existence of uncertainty in a contract is prohibited because it requires the occurrence of an event which may not ultimately occur. "Full disclosure" by both parties is the norm in contracts. Derivatives trading e.g. options are considered as having elements of Gharar	Trading and dealing in derivatives are widely considered as the main source of liquidity in the conventional financial, commodity and capital markets.
<i>Profit and Loss Sharing</i>	Most transactions are based on this variable returns, dependent on lenders' performance. The Greater share of risks forces them to manage risks more professionally, to ensure better returns than conventional accounts. Depositors & investors have the opportunity to earn higher returns than in conventional systems.	There is no relationship between bank performance and returns to the depositors or investors, who most enjoy a risk-free return. Conventional institutions mostly act as intermediaries between lenders & borrowers enjoying almost a risk-free spread.
<i>Zakat</i>	It has become one of the functions of the Islamic banks to collect and distribute Zakat.	Government Taxes perhaps serve the same purpose mode and rate of charging are different though.

Table 2.1 (Continued)

Characteristic	Islamic banking System	Conventional Banking System
<i>Compounding or Interest on interest</i>	The Islamic banks have no provision to charge any extra money from the defaulters	It can charge additional money (compound rate of interest) in case of the defaulters.
<i>Money-Market Borrowing</i>	For the Islamic banks, it is comparatively difficult to borrow money from the money market.	For commercial banks, borrowing from the money market is the main source of liquidity
<i>Developing expertise</i>	Since it shares profit and loss, the Islamic banks pay greater attention to developing project appraisal and evaluation systems.	Since income from the advances is fixed, it gives little importance to developing expertise in project appraisal and evaluations.
<i>Viability v/s credit-worthiness</i>	The Islamic banks, on the other hand, give greater emphasis on the viability of the projects.	The conventional banks give greater emphasis on credit-worthiness of the clients.
<i>Relationship with Clients</i>	The status of Islamic bank in relation to its clients is that of partners, investors and trader.	The status of a conventional bank, in relation to its clients, is that of creditor & debtors.
<i>Capital Guarantee</i>	No guarantee.	Built into the system
<i>Deposit insurance</i>	In Malaysia, deposit insurance include Islamic bank	An integral component.

Source: Shakeel Ahmad (<http://www.xlri.ac.in.Dubai>, 2004)

2.6 Overview of Islamic banking Indonesia

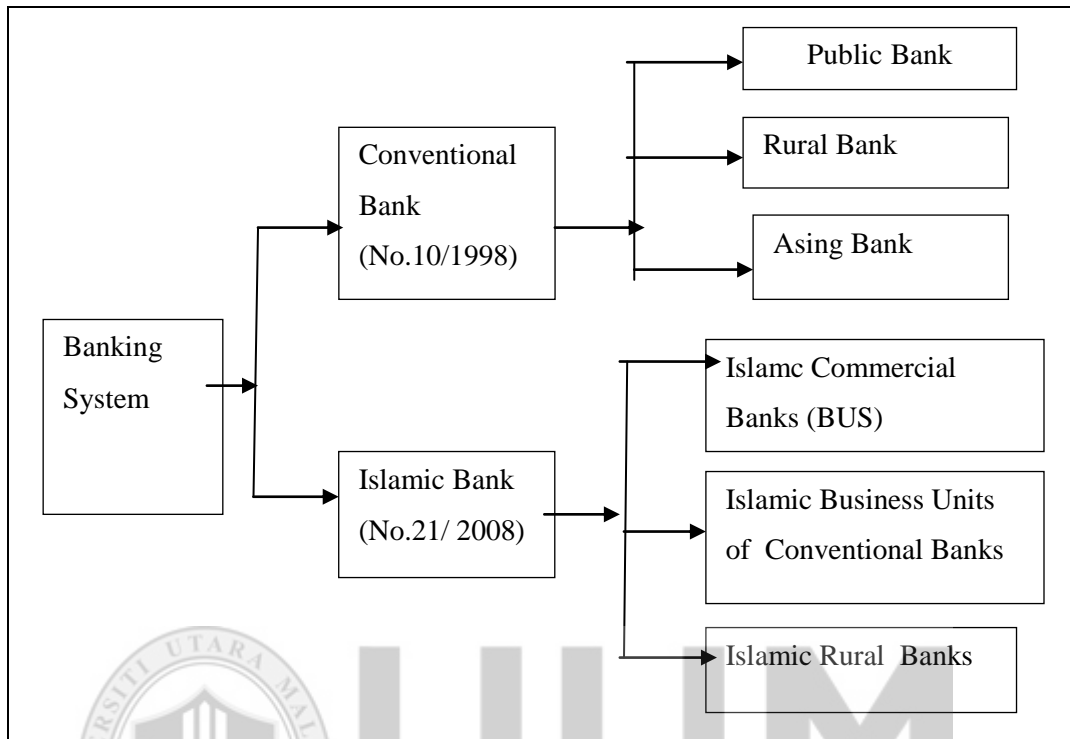


Figure 2.1
Banking Systems in Indonesia under Law No 10/1998 and No. 21/2008
Source: (OJK, Indonesia: Statistik Perbankan Syariah, 2015)

Based on figure 2.1, it can be summarised that the banking institution in Indonesia comprises of commercial banks and the rural banks; which conduct the business activities in conventional and Syariah based principle. Islamic bank conduct business on Shari'ah principle.

In Indonesia, the development of Islamic banking thoughts and their applicants in the financial institutions was first initiated in 1974 in a Seminar on “the Middle East-Indonesia relations” sponsored by the Institute for the Study of Society Sciences (LSK) Indonesia. In this Seminar, the need of Indonesian Muslims to have the financial institution based on Islamic Syariah principles was deliberated especially at bank interest and tax versus Zakat among the Ulema, Muslim scholars and

intellectuals in Indonesia. The outcome of the seminar is the establishment of Bank Muamalat Indonesia in 1992.

The emergence of Shariah banks, in Indonesia started from a belief that the conventional bank's operating system which use interest rate or usury/riba is deemed inappropriate and does not represent the aspirations or the spirit of Muslims (M. Umar Chapra, 2001 and Yusuf Al-qhardawi, 2001). Efforts have emerged to establish more financial institutions that are in accordance with the guidance and Islamic values. Several Shariah banks and Islamic windows based banks were development and their presence enriches as the Islamic financial and banking system in Indonesia.

Operation permit of the Sharia Bank in Indonesia is based on Act No.7 in the year 1992. Article 1 paragraph 12 gives the opportunity to operate bank with profit sharing system. Greater support by laws was obtained with the release of government regulation No.72 in the year 1992 concerning profit and sharing bank operations. Then followed by other deposit and financing Syariah based activities in accordance with Act No.10 in 1998. The financings are based on the principle of equity participation (*musyarakah*), profit sharing (*mudharabah*), sale and purchase (*murabahah*), or financing of capital goods based on leasing without option (*ijarah*), or with the option of transfer of owners of goods that are lease from the bank by another parties (*ijarah wa iqtina*).

Islamic banking differs with the conventional banking mainly on the prohibition of riba (interest) in its operations, but allowed sale and purchase (Al Bai'). Therefore, the main profit of banking primary conventional principle derived their spread from

interest taken from the borrower or debtor (a spread based); while the banks which are based on Sharia principles provide financing based on profit sharing (*mudharabah*), based on partnership (*musharakah*), based on sale and purchase (*murabahah*), or based on lease (*ijarah*).

The result of the research conducted by Bank Indonesia and LPM UNHAS (2000), found that there are fundamental differences between conventional bank with the Islamic banking, firstly, in terms of “aqad” and legality aspect “aqad” of the sharia bank has conducted worldly and ukhrawi consequences because the contract is made according to Islamic laws. When there is any dispute occurred between the customer and the bank, the sharia banking can refer to the Sharia Board of Arbitration Muamalat Indonesia (BAMUI) where the settlement is based on Islamic law. Second, in terms of the organizational structure, sharia banking has a similar structure with conventional banks. The Syariah Supervisor Board is assigned to control the operation of Islamic banking and the products and services must conform to syariah principles. Third, business must be existing. Fourth, the job environment and corporate culture include Islamic ethics, as trust must be the underlying factor based on Islamic professionalism.

From law and government support, Islamic banking has equal strong laws with conventional banks, as regulated in law No. 7 of 1992, a point 12 was changed by Act No RI.10/1998, article 5 paragraph (1) which gives the bank the operation opportunities with profit sharing system; and Government Regulation No 72 year 1992 concerning bank based profit sharing principle. Enactment of laws and regulations is an indication of the government strong support for the development of

sharia banking. Even Government owned banks (state owned enterprises) engage and organize and to provide an opportunity to conventional banks to open Islamic windows (Rasyid, 2008).

Another aspect that supports the development of Islamic banking in Indonesia is the implementation of office channeling policy (BI Regulation no.9/7/PBI/2007). This policy allows commercial bank branches which have the Shariah Banking Units (SBU) to serve shariah banking customers in the opening of accounts, deposits and the cash management and the socialization policy of acceleration of Islamic banking. The presence of new investors also encourages the growth of Islamic banking. Many of the investors participated in government issued SUKUK. A number of foreign banks also participate on the issuing of SUKUK which are arranged by Citibank and HSBC. The banks also have operating Islamic banking units.

In terms of products, Shariah banks have equally competitive products offered by conventional banks. The fundamental difference is that Islamic banking products must comply to Shariah rules, otherwise they provide similar types of banking products community needs as good as conventional banks do (Wilson *et al*, 2013).

According to Huda, A.N (2012), The Islamic banks in Indonesia have not fully Shariah-compliant as they use more Of Murabaha or debt-like instruments rather than profit and loss sharing instruments.

Table 2.2 shows the current position of Islamic banking in Indonesia. The overall expansion in Islamic banking industry in Indonesia is reflected from the increase in number of banks as well as business unit. The value of total assets of Islamic banks as at 2014 is 272.34 IDR trillion compare to 66.10 IDR trillion in 2009.

Table 2.2
Islamic Banking Indonesia

Year	2009	2010	2011	2012	2013	2014	2015
Islamic Commercial Banks (BUS)							
No of Banks	6	11	11	11	11	12	12
No of Offices	711	1,215	1,401	1,745	1,998	2,151	2,121
Islamic Business Units							
No of Conventional Banks	25	23	24	23	22	22	22
No of Offices	287	262	336	517	590	320	327
Islamic Rural Banks							
No of Banks	138	150	155	158	163	162	162
No of Offices	225	286	364	401	402	439	433
Total No of Offices	1,223	1,763	2,101	2,663	2,990	2,910	2,881

*As at June 2015

Source: OJK, Indonesia, Statistik Perbankan Syariah, (2015).

2.7 Chapter Summary

This chapter reviews the development of Islamic banking globally as well as in Indonesia. It also describes the historical development of Islamic banking from its early inception until 2013. Islami banking has grown rapidly in terms of assets and banking products especially SUKUK. Malaysia is now the largest SUKUK issuer. This chapter also highlight the development of Islamic banking in Indonesia. Basicly Indonesian Islamic banking is devided into three types: Islamic Business Unit, full fledged Islamic Commercial Bank, Islamic Rural Bank. The number of Islamic banks in Indonesia total to 196 banks. Despite the increase in the number of Islamic bank and the potentiality that comes from the large Muslim population (Moody's Global Banking, 2008). The Islamic bank asset penetration in Indonesia is still around 4.58 per cent (Bank Indonesia, 2013). This fact shows that the acceptance of Islamic banks in Indonesia is still unsatisfying.

CHAPTER THREE

UNDERPINNING THEORIES AND EMPIRICAL EVIDENCE

3.1 Introduction

Chapter three is aimed to present reviews of the literature related to Islamic banking intention as well as selection criteria. This chapter also include the reviews on related theories on how customers approach the Islamic banking as well as the empirical evidence on factors affecting customers' intention and their selection to use or adopt Islamic banking. Hence, this chapter consists of 2 parts: (1) Underpinning Theory and (2) Empirical evidence.

3.2 Underpinning Theories

Several underpinning theories have been developed to examine and understand the factors affecting intention and Islamic banking selection (actual behaviour) include TRA (Fishbein & Ajzen, 1975) and TPB (Ajzen, 1985, 1991).

There are numerous previous studies have investigated the Banking selection setting TRA and TPB like Taib *et al.*, (2008); Lada *et al.*, (2009); Salamah W (2012); Amin *et al.*, (2009); Amin *et al.*, (2011); Abduh *et al.* (2011); Syah Alam *et al.*, (2012); Echchabi and Aziz (2012); Ozge ozgen (2013); Mahmoud and Abduh (2014).

3.2.1 Theory Reasoned Action (TRA)

This theory explains the relationship between attitude, intention, and behavior. It is developed by Marthin Fisbhein and Icak Ajzen (1980), which they publish in their

book “Understanding attitude and Predicting Behavior”. TRA states that behavior of a person depend on his intention, while the intention depends on the attitude and Subjectif Norm. An individual’s attitude is influenced by the extend of his beliefs in the subject matter.

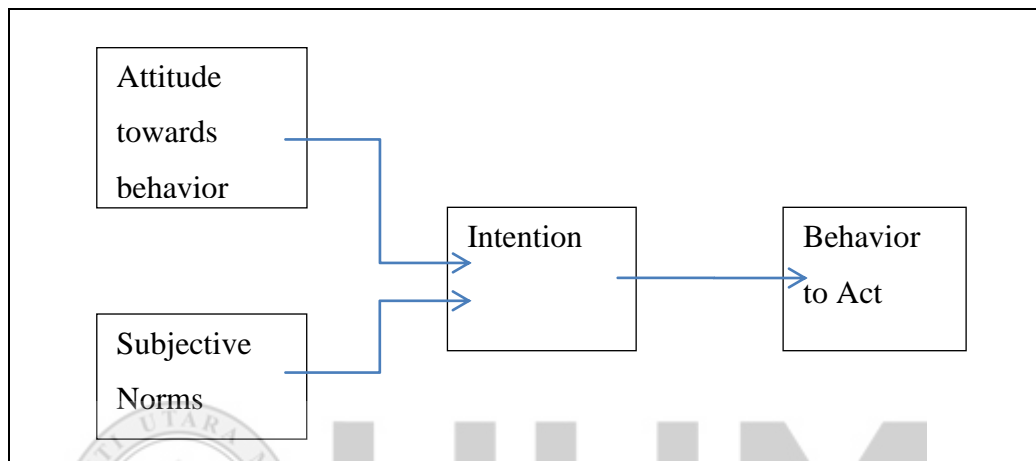


Figure 3.1
Theory of Reason Action (TRA)
Source: M.Fishbein& I.Ajzen (1980)

(a) Attitude toward Behavior

Attitude is a positive or negative component of knowledge and evaluation. It is formed from the belief of the effects and evaluation of the knowledge available. The theory suggests that the intention of an individual consumer is also influenced by subjective norms such as family, friends and peers.

(b) Subjective Norm

Adjzein (2005) describes Subjective norm as the component that contains the decisions made by individuals after considering the views of people regarding a particular behavior. Subjective norm is a product of someone from a belief that the referent of the opinion should be doing / not doing certain behaviors and motivation

to comply with the opinion. Thus, someone will be a positive subjective norm when his normative beliefs are positive and there is motivation to comply with the opinion of the reference.

(c) Intention

This component refers to intention to perform a certain behavior. It is a mediating influence of various motivational factors that impact on behavior. In addition, the intention also shows a person attempts to perform behavior, or how much effort is planned to act and the intention is most influential to subsequent behavior (Ajzen,1991).

(d) Behavior

This component describes a particular behavior. The Behavior indicated intention of behavior has been realized in the form of behavior that appears. TRA consider that the behavior of purchasing / choosing something can be predicted and it is the result of what they do about their intention to buy / vote at a particular time.

3.2.1.1 TRA in Islamic banking Setting

TRA has been used in past studies as in Table 3.1

Table 3.1
Summary of past studies using TRA in Islamic banking setting

Author(s)	Research Setting	samples	Constructs	Results
Salamah W((2012)	Indonesia	198 Muslim Communiy	Attitude, Social Influence, knowledge, pricing, intention to use IB	The result showed attitude and subject norm are very significant, but price and knowledge did not moderate the relationship between the predictors and intention to use Islamic banks.
Lada <i>et al.</i> (2009)	Malaysia	485 consumers	Attitude, subjective norm, intention to choose halal products	The finding indicated that TRA is a valid mode in the prediction of intention to choose halal products.
Abduh <i>et al.</i> (2011)	Malaysia	368 respon-dents	IBS behaviour, attitude, subjective norm.	The finding indicates that although both attitude and subjective norm are significantly influence the decision of Islamic bank customers to or not withdrawl their fund. The subjective norm gives more influence to depositors decision as compared to attitude toward the behaviour.
Ozge Ozgen (2013)	Turkey	120 undergradu ate University	Attitude, subject norm, Behavioral Intention	The result show that consumers have more unfavorable attitude and subject norm for buying purchase behavior did whereas the true Islamic brand actual not differ across condition

Table 3.1 (Continued)

Authors	Resesarch Setting	Samples	Constructs	Result
Mahmoud and Abduh (2014)	Mauritania Afrika	227 respondents	Attitude, Subjective norm, and awareness	Their paper examined the role of awareness and used TRA theory to measure the relationship between the exogenous and endogenous variables used SEM in the model. The results showed that TRA is a valid model in predicting the intention of Mauritanian. Attitude and subjective norm positive influence the intention to patronize Islamic bank.

3.2.2 Theory of Planned Behavior (TPB)

TPB postulates that consumers are conscious about the consequences of several alternative behaviors and choose the one that is most practical. The result of this choice forms the reason for the consumer's intention to behave in the desired manner.

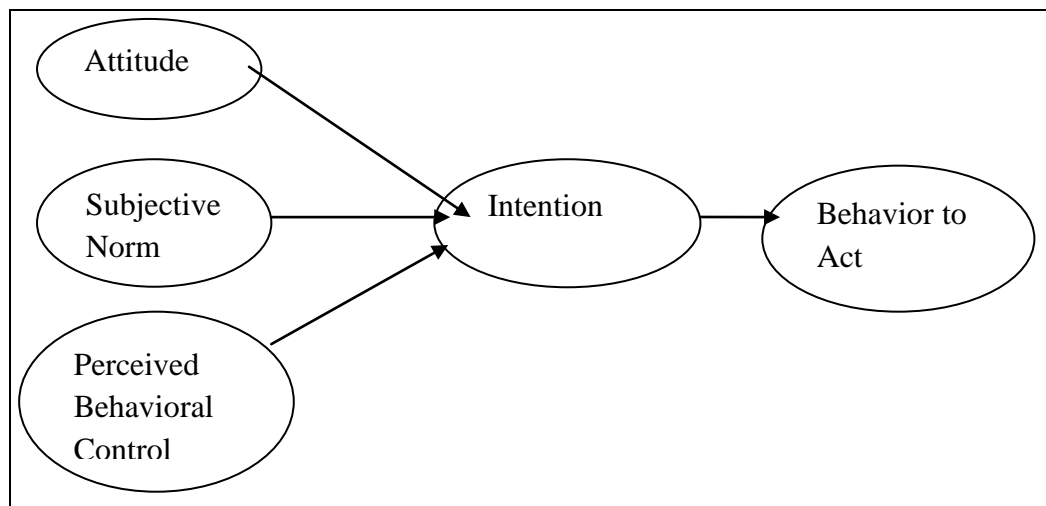


Figure 3.2
Theory Planned Behavior (TPB)
Source: Icek Ajzen, 2006

TPB suggests that people tend to behave in the way which is evaluated favorably by other people, and which they feel confident that they can perform. They tend to refrain from behaviors that are regarded unfavorably, that are unpopular with others, and/or which they do not think they can perform.

The elements of TPB are defined as follows:

(1) *Behaviors* are component which refer to specific actions directed at some target object occur in a situational context or environment and at a particular time.

Behavior is the manifestation of an observable response in a given situation with respect to a given target. In the TPB, behavior is a function of compatible intentions and perceptions of behavioral control. Conceptually, perceived behavioral control is expected to moderate the effect of intention on behavior, such that a favorable intention produces the behavior only when perceived behavioral control is strong. In practice, intentions and perceptions of behavioral control are often found to have main effects on behavior, but no significant interaction.

(2) *Behavioral Intention* (BI) proposes connecting oneself with a future action or behaviour. An intention is created through a choice or decision process about consequences and capabilities to perform the behavior or a set of alternative behaviors from which a behavior will be selected among them.

Intention on the other hand, indicates a person's readiness to perform a given or an immediate behavior. It is a function of attitude toward the behavior, subjective norm, and perceived behavioral control. Each of these predictors' importance is weighted in relation to the behavior of the respondents.

(3) *Subjective Norm (SN)* component reflects consumers perceptions of what they think other people want them to do. Consumers salient normative beliefs regarding doing what other people want them to do and their motivation to comply with the expectations of these people are combined to form Subjective or Social Norm.

(4) *Perceived Behavioral Control (PBC)* refers to what extent the consumer believes that he or she is actually able to execute the behavior. PBC is formed from the combination of the power of a factor to assist the action with the degree of access to that factor which the customer believes he has. Ajzein, (2005) further opinion that the presence of factors that facilitate or impede the performance of the behavior constitute PBC. In total, the strength of belief that one could control leads to the perception that one has or does not have the capacity to carry out the behavior.

Hence, the PBC could be summarized as:.

$PBC = \sum_{i=1}^z c_i p_i$, where;

PBC = perceived behavioral control

C₁ = the control believe that control factor I will be present

P₁ = the power of a factor to facilitate or inhibit performance of the behavior.

Z = is the sum over the number of accessible beliefs.

Measurement of PBC could be obtained by asking people to what extend they have control over their behavior of interest.

Theory of Planned behavior (TPB) comprises: Attitude (A), SN, and PBC which combine together will influence BI. The influence will vary depending on circumstances.

3.2.2.1 TPB in Islamic banking Setting

Table 3.2

Summary of past studies using TPB in Islamic banking Setting

Authors	Research setting	Samples	Construct	Results
Syah Alam <i>et al.</i> , (2012)	Malaysia	300 Muslim home financing.	Attitude, SN, PBC, and religious, Islamic financial Intention	Attitude, PBC, and religious significant to Islamic financial intention, but SN insignificant. Attitude have influence and significant to intention to adopt IB services in Marocco, but SN, and PBC has a negative influence on intention.
Echchabi and Aziz (2012)	Marocco	200 of Moroccan Customers	Attitude, SN, PBC	Attitude and SN influence significant on behavioral intention Islamic home financing.
Taib <i>et al.</i> , (2008)	Malaysia		Attitude and SN	
Amin <i>et al.</i> , (2009)	Malaysia			

3.2.3 Consumer Behavior

Consumer behavior has influenced sustainable companies' life. The success of the business depends on the understanding, care and ways to influence consumers to

achieve organizations goals. Therefore, knowledge about consumer's needs are understood and analyzed in conjunction with marketing strategies.

According to Engel JF (1994; 3) consumer behavior is an act that directly involved in trying to obtain, consume, and spending for goods and services, including the decision processes that proceed the next action. Loudon and Delta Bitta (1985; 6) defines consumer behavior as a decision making process and activities of the individuals physically involved in evaluating, acquiring, using or may use goods and services. Consumer Behavior is influenced by various factors that move dynamically both internal and external. Kotler (1996; 204-223) classified it into four groups:

A Cultural group that comprises are; culture, subculture, and social class (based on income)

- Social group comprises; preferred groups, families, and the role of the social status (based on activities)
- Personality Groups comprises; age and the stages of human life cycle, occupation, lifestyle, personality and self -concept.
- Mental Group comprises; motivation, perception, learning, beliefs and attitude.

3.24 Consumer Behavior in Islam

Consumer behavior could have a narrow and static view for example, a customer in Islamic society is strictly guided by a series of restrictions (eg: cannot eat pork, drink alcohol, wearing silk apparel, gold ring (for men) in line with the *Syariah* laws. Islam does not encourage excessive consumption but urge for moderation. Therefore,

what is needed is to determine whether the consumption levels prevailing in a society are under or above the modest levels.

In Islam, the essence of consumption is that it must result in positive gains and the goods must be fully utilised. In other words, Islam discourages wastage. Prohibition and the command on not to indulge in excessive food and beverage must be seen as part of the efforts to improve the properties of consumer behavior. By emphasizing on the need to reduce unnecessary waste, Islam stresses that the consumer should adopt moderate behavior towards consumption. Moderation in consumer behavior is then the logic of consumption style of Islam (Abd Mannan, 1997).

3.3 Past studies on Islamic banking

Febianto, (2012), stated in Islamic banking, depositor's share of the profit and loss is based on the bank's profitable use of the deposits. On the assets side of the balance sheet of an Islamic bank, a bank earns profits based on including partnership and profit sharing with the investors. Khan (2010) suggested that an Islamic bank is a bank that operates based on principles of Islamic Law covering funding, lending and services involving transfers, letters of guarantee, and other transactions. Khan (2010) explains the Islamic banking is a financial institution whose business provides financing and payment services and deposit taking in which the operations are entirely based on Islamic sharia principles.

Iqbal and Mirakhor (2011) explains that in Islamic banking, a customer uses the Islamic bank to obtain capital as a source of financing for their purposes. The financing comprises two categories that is equity financing (capital) and credit

financing (debt), but after the arrival of Islamic banking. Credit financing in the form of loans based on usury or interest was unlawful. Lending was acceptable in Islam only in the form of contractual property rights through the exchange between two parties.

Ismail, R (2011) and Ahmad Helda Rahmi Sina (2007) suggested the growth of Islamic banking in Indonesia is spurred by the demands and the strong desire of Muslims in Indonesia, to improve the quality of their economic life. In addition, those customers who could not get facilities with conventional banks become customers of Islamic banks. However, many challenges in the development of Islamic banking, among others are: 1) Law and regulation regarding saving and lending is not comprehensive. 2) the numbers of markets are limited 3) lack of knowledge and understanding of society on Islamic banking products and services and 4) lack of human resources expertise in the field of Islamic banking and 5) market perceptions about the true nature of Islami banking. These challenges put constraints on the operational efficiency of Islamic banking in Indonesia. Ibrahim (2003) stated that the government promotes the dual banking system using political will that enables conventional banking and Islamic banking to operate side by side.

Hassan and Driki (2010) showed the economic crises did not affect Islamic banking where there are no Islamic bank became victims. On the contrary, Bank Syariah in Indonesia showed remarkable performance with the increase in net profit to reach 134 percent, increase in assets of 14 percent (from 515,5 billion Rupiah in 1996, to 588,5 billion Rupiah in 1997), and the increase in savings of public funds by 11 percent (Sufian, F and Habibullah, 2010).

Ahmad Shamsul Abdul Azis *et al* (2008) concluded that government support in Malaysia towards Islamic banking is encouraging. Although many facilities offered by Islamic banking are in line with conventional banking, there yet to be an act to cater to the Syariah requirements in Islamic banking products and services.

Asharaf Ahmad Hamzah (2003) in his study found that the Islamic banking system carried out by Bank Rakyat Malaysia is in line with the will of the community. However this system which operates on a cooperative basis should be considered thoroughly in order to compete with and adjust to the current modernization of the conventional banking system.

Zulaiha (2006) concluded in her study that the practice of Islamic banking operations particularly in the south of Sumatera Indonesia has received strong support from the community in the region. This was proved by the increasing size of deposits and the number of Islamic banks customers in South Sumatera.

3.4 Islamic Banking Selection

Several past studies have reported significant results on the criteria for banking selection in general. These studies include among others; Ku Majdi, (2014); Sayani and Miniaoui (2013); Khattak (2010); Marimuthu, Wai Jing, Phei Gei *et al*, (2010); Rashid & Hassan (2009); Jahiruddin, ATM and Haque Rumana (2009); Dusuki and Abdullah (2007); Kaynak&Har (2005); Haron and Ahmad (2002); Almossawi, (2001); Triyuwono *et.al* (2000); Gerard and Cunningham, (1997); Khazeh and Decker, (1993); Kaynak *et. al* (1991); Kennington *et al.*, (1991); Erol *et al.*,(1991).

Ku Majdi, (2014) conducted an analysis of determinants of bank selection criteria in Thailand. Based on fifteen bank selection criteria, convenience was found to be dominant determinant, of bank patronage for many customers. Other dominant attribute analysis of bank selection comprising are 1) bank image, including friend's recommendation, reputation, and friendliness; and 2) critical financial consideration, including availability of credit, interest charged on loans, service charges on checking accounts, and overdraft privileges on checking account.

In the case United Arab Emirates (UAE), the study by Sayani and Miniaoui (2013), found that the customers' selection main criteria is religion, whereas bank reputation and expectation of profit on deposits are not determinants of bank selection. This study involved 246 respondents from UAE using selection criteria. However, this study did not examine any mediating effect relationship, only involved regression analysis.

Khattak and Rehman (2010) find that people select Islamic banks in Pakistan because they are satisfied with with some of the products and services of Islamic banks but they do not use some of those products although they are aware of them.

Marimuthu, M *et. al.* (2010) conducted a study to measure the level of acceptance of Islamic banking among the 450 respondents from the Klang valley, Malaysia. Their result showed that factors such as cost benefits, service delivery, convenience, and friends/relatives influence had significant correlation with the acceptance level. However, ethnic and religious were not significant factors.

Rashid & Hassan (2009), reported the factors which are given higher priorities by groups of customers in selecting Islamic banks in Bangladesh are corporate efficiency, syariah compliance, convenience in terms of strong local and global network and adequate transaction time; confidentiality of information, cost of services and products and services available.

Also, Jahiruddin, ATM and Haque Rumana (2009), investigate major factors influencing customer's perception and satisfaction on Islamic banking. The finding showed significant differences among the customers of different genders, education levels, and income levels with regards to their preference for different kind of banks in Bangladesh. A logit model is employed to anticipate the effects of the explanatory variables. Their study found that the most significant factor in customers' bank selection criteria is convenience followed by lower service cost. In contrast, Kennington *et.al* (1996) and Safakli (2007) identified that a bank's reputation is the main criteria in using conventional banks. The conflicting results are also found in Kaynak *et. al* (1991) whereby bank customers in Turkey vary their responses in terms of age, gender, and education level towards selection criteria for Islamic banks.

Dusuki and Abdullah (2006) relate customer's perception towards social responsibility factors to Islamic banking selection criteria in Malaysia. The new finding from this study is that customer's satisfaction of Islamic banks is generated from a combination of Islamic values and financial reputation and the quality of services provided by Islamic banks. Good social responsibility practices, convenience and product service are also perceived important. Both Dusuki and Abdullah (2006) suggest the need to educate public and create greater awareness of

unique features of Islamic financing and investment contracts in order to get more customers to use Islamic banking.

Almossawi (2001) study in Bahrain reveal that young customers (college students) view bank's reputation, availability of parking space near the bank, friendliness of bank personnel and those related to ATMs, such as their availability in several convenient locations and 24-hours availability of ATM service (convenience factors) as very important factors in selecting Islamic bank. His finding suggests that male and female students have different criteria and hence, banks should adopt different marketing approach to attract them to use Islamic banking.

Triyuwono *et.al* (2000) used factor analysis and logit/probit analysis, to study the decision making customer behaviour, customers' characteristics, marketing stimuli and other stimuli towards Islamic banking the respondents comprises two respondent types i.e, individual customers and corporate (group) customers. The study found Javanese or Maduranese Moslems who are mostly employees and live in urban areas are more incline to use Islamic banking. The results from the logit analysis show seven factors significantly influencing Islamic banking selection namely; location, information and rational consideration, age, reference group (family), life styles, religious and moral values and belief and attitude. Location factor is most significant as customers want a bank that is easily accessible, and convenient. The study highlights the need for information to enable customers to make decision.

The results also show that religious and moral factors are not the factors which significantly influence the bank selection decision. On the other hand, marketing

stimulant factors such as advertising and price have significant and positive influence on bank selection criteria.

Gerard and Cunningham, (1997) are equally important for customers when making decision for selecting Islamic bank for financial services. Also, Haron and Ahmad (2002) investigate the profile of Malaysian corporate customers of Islamic banks and their selection criteria. Their results show that corporate customers used current accounts for their daily transactions with only 11 percent of them maintained banking transactions with Islamic banks. 75 percent of the respondents had fixed deposit facility in the conventional system. Their study further reveals that Islamic banking products were not well received among corporate customers. More than 55 percent perceived both religion and economic reason were the main factors for the corporate customers to use Islamic banking. Other factors that Haron and Ahmad (2002) found that were important to Islamic banking patronage were cost, service delivery, convenience and friendliness of bank personnel. The study pointed out that Islamic bank could get more customers if they engage actively in promoting their products and services to corporate customers. Similarly, Kaynak and Harcar (2005) found that low service charges are vital for customer's selection of a particular bank.

Khazeh and Decker (1993), conducted a research on the determinants of consumer's bank selection decisions in USA. They found determinants which are important in choosing a bank. These are service charges, reputation, interest charge in loans, quick loan approval, friendly tellers, interest on checking account, interest on saving account, prompt loan approval, convenient hours, interest on CDs, ATMs on other areas, ATM availability, one-stop banking, overdraft protection, proximity to work

place, closeness to home, insured deposits, advise availability, drive-in windows, direct deposit, effective advertising. The results indicated service charge, reputation of the bank, the interest rate of loans, the time required for loan approval and having friendly tellers as important criteria in bank selection. On the other hand, factors of lower importance in the bank selection in USA during the time of the study were effective advertising, direct deposit, drive-in window, advises ability, and insured deposits.

Erol *et. al* (1990) study in Jordan provide evidence that customers prefer Islamic banks to have fast and efficient service, good banks reputation and image, friendliness of bank personnel and confidentiality of bank customers' information.

The study of Islamic banking selection, using Theory of Reasoned Action (TRA) was carried out by (T.Ramayah *et. el.*, 2009) and also add some variabel or construct derived from previous study like Amin et al (2011); Syah Alam *et al.*, (2011). The significant factors to measure customers selection criteria are: Attitude; Subjective norm/ Social influence, Religion, Knowledge/Awareness), Price, Government Support and Facilitating Condition. .

Literature on TRA related Islamic banking is sparse with few relevant studies located.

3.4.1 Attitude of Customer Behavior

Attitude is one of the main factors which influence customers' decision process (Youssef *et. al* 2011). Attitude is also described as the favourable or unfavourable feeling of an individual resulting in a specific behavior performed (Fishbein and

Ajzen, 1975). Abdul Razak and Abdoh (2012), study on the attitude of Malaysian bank customers towards Diminishing Partnership (DP) home financing and to determine the factors influencing their intention to use (DP) home financing based upon TRA model. The survey employed 504 respondents. Against TRA theoretical background and SEM method, the results show that attitude towards DP Home Financing and subjective norm are significantly influenced customers' intention to use DO Home financing.

In terms of attitude towards Islamic banking, Ramdhony (2013) found that bank customers in Kuwait are reluctant to use Islamic banking for fear that the bank might constantly interfere the running of the business which will disturb the entrepreneurs. This study employed survey questionnaire to 300 respondents, from which 30 percent comprises Muslims. This study used regression and factor analysis.

Tan and Teo, (2000), attitude is related to individuals' behavioral intention to do a specific behavior in the direction which they think they can get positive outcomes. Ajzen and Fishbein, (2000) explained that attitude is related to a person's like and dislike about an action to be taken.

Studies between attitude and adoption of new innovation, product or services were conducted by Davis *et. al.*, (1989); (Ramayah *et. al.*, (2005); Shih and Fang (2004) and Akurtan and Tezacan (2012).

Shih and Fang (2012) studies in Taiwan, have used TRA and TPB to examine effect of customers's attitude and subjective norms on intention to adopt Internet banking, with 425 respondents using SEM analysis. The finding shows attitude is significantly

related to intention and to adopt Internet banking, while Subjective norm is significantly related to intention only. The study supports the application of TRA and TPB.

Gopi and T. Ramayah (2007) study in Malaysia was to identify factors which influence investors' intention to use internet stock trading. Out of 300 questionnaires, only 144 questionnaires were useful. Using multiple regression and TPB theory, their findings show that attitude, subjective norm, and perceived behavior control have direct positive relationships with investors' intention to use stock trading using internet.

Akurtan and Tezacan (2012) provide evidence that attitude is a significant predictor of intention to adopt mobile banking. Amin *et. al.*, (2011) study about home financing of Islamic bank customers using PBT and TRA using 5 determinants of attitude such as awareness and knowledge, religion obligation, pricing, and government support. Attitude is found to be demand factor affecting customer's usage of personal financing (Amin *et. al.*, 2011). However, Taib *et. al.* (2008) discovered that attitude is not significant to Islamic credit card adoption in the case of bank customers in Malaysia.

3.4.2 Subjective norms (Social Influence)

Subjective Norms in TRA is defined by Fishbein and Ajzen (1975, p. 302) as:

“The person's perception that most people who are important to him think he should or should not perform the behavior in question”.

Subjective Norms in TPB was defined by Ajzen (1991, p. 188) as:

“The perceived social pressure to perform or not to perform the behaviour”.

A person's social norm refers to his views of environmental referents which influence his thinking into implementing or not the intended behaviour. Expectation from people which exert social pressure is seen as environmental factors influencing the behaviour. Ajzen (1991) suggest that social norms could be measured by asking respondents to rate the level of significant others would approve or disapprove of their doing a given behaviour.

Generally, the individual's perceptions on what behaviour are expected of them by their friends, family, mass media, referent group, and social to perform constitute the subjective norm (Ajzen, 1991). Taylor & Todd (1995) have identified several reference groups and peers who can exert social pressure on individuals to perform certain behaviour. These reference groups are friends, colleagues and relatives (Partasarathy and Bhattacharjee, 1998)

Tank and Tyler (2005), analyzed students decision making process in the selection of a retail bank in opening of their accounts. The findings of this study indicated that majority of students had accounts at well-known retail banks. However, family and friends have a greater influence on the decision process of students' choice of bank selection. The study nonetheless is limited to students from London as their respondents.

In their study of Muslim and non-Muslim selection of Islamic banking in Singapore, Gerrard and Cunningham (1997) found that there were lack of awareness about Islamic banking among non-Muslim customers. On the other hand, Muslims and

non-Muslims have no different on their banks selection although the non-muslims prefer to have higher interests paid on their deposits.

Haron *et. al* (1994) highlights the finding that 100 percent and 75 percent of Muslims and non-Muslims respondents respectively were aware of the existence of Islamic banks. However, the two groups differ in their selection criteria. While the Muslim customers prefer fast and efficient service, friendliness of bank personnel, reputation and image of the bank, the Non-Muslims customers' criteria in the order of importance were friendliness of bank personnel, fast and efficient service, reputation and image of bank.

Ozge Ozgen (2013) found the result that consumers have more unfavourable subject norm for buying purchase behaviour did whereas the true Islamic brand actual. The total respondents undergraduate University in Turkey.

Abduh *et.al.* (2011) study Islamic banking behaviour at Malaysia with 368 respondents. The finding indicates that subjective norm is significantly influence the decision of Islamic bank customers to or not withdrawl their fund.

Mahmoud and Abduh (2014) theirs paper examined the role of awareness and used TRA theory to predicting the intention to patronize IB in Mauritania Africa. Used the 227 respondents, the results showed that TRA is a valid model in predicting the intention of Mauritanian and subjective norm positive influence the intention to patronize Islamic bank.

3.4.3 Religion

Another empirical study on intention was carried out by Hati and Idris (2014) to investigate on the influence of extrinsic factors such as age, education, gender, marital status and income on customer's intention to support Islamic social enterprises. It also test the influence of religiosity on intention. The study found that socio economic and religiosity have no significant influence on the customers' intention.

Alam, S.S et al (2012) investigate whether religiosity is a significant predictor of intention to choose Islamic Home Financing of Islamic banks in Malaysia. The paper focuses on religiosity from Islamic perspective. The finding from the investigation is that religiosity has significant and positive influence on the intention. This result is different from Hati and Idris (2014) which found religion is not significant determinant of customers' intention to patronize Islamic banking products.

Religion largely influences social behaviour (Stavrova and Siegers, 2013). According to Brown and Ferris (2007), religion provides a cognitive framework for understanding humankind, giving behavior, also brings individuals into social network. Conroy & Emerson (2004) states that religiosity is expected to have a significant influence on customer trust and ethics which will be reflected in daily behavior and commitment. This is supported by Vitell & Paolillo (2003).

In Islam, there are many verses from the *Quran* that emphasize the relationship between having faith (*iman*) and the human conducts (*'amal*) (*Al Nur: 37, Al-Qaşaş: 77*). A more religious person will conduct himself in accordance to the teaching of Islam both in his economic and commercial activities.

Past studies on religiosity are mainly focus on Christianity with emphasis on rituals belief like religious attitudes and trust on the church; and mystical experiences (Tan, 2006, Caird: 1987 & Moorkherjee: 1993). Unlike Christianity, the teaching of Islam comprises three main elements namely *Iman* (faith), *Syariah* (includes ibadah and worldly conducts) and *Akhlaq* (virtues and vices) (*Al-Tawbah: 18 & 20*). Except for Rusnah (2005), Wilde & Joseph (1997) and Khashan & Kreidie (2001), few studies attempt to measure religiosity based on the ritual and belief of Islam, without looking at the components of attitudes or (*Akhlaq*) of the persons. This thesis will be different from past studies because it measures religiosity by not only looking at all of the components of Islam but relationship between religiosity and attitude, religiosity and intention.

Edris and Almahmeed (1997) study on 304 business firms in Kuwait find that they prefer to deal with commercial banks than Islamic banks. Size of banks asset is a significant determinant of bank patronage while Islamic banking practices were ranked fifth. This study indicates that despite Kuwait being a Muslim country, religion factor is not the only factor influencing *Syariah* bank selection. Erol & El-Bdour (1989) study in Jordan presents findings that profitability is a better motivation than religion in selecting Islamic banking. Besides that, other significant factors to bank selection are provision of fast and efficient services, bank's reputation and image, and confidentially.

In contrast, Bley & Kuehn (2004) found that religious beliefs drive the bank selection and not the financial knowledge. Naser *et al* (1999) on other hand found

Islamic bank customers in Jordan regard bank's reputation followed by religious reasons as the main motivations of their Islamic banking patronage.

Ahmad, WM, *et.al* (2007) investigated relationship between Muslims' state of religiosity and their choice of bank for financing. They found that preferences for Islamic Finance correlates with religiosity and a more religious person significantly received a higher formal religious education. They support electronic service, fast and efficient services.

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

Metwda and Almoossawi (1998) analysed selection criteria variables such as rate of return, convenience, services and other together with religiosity. Using profile analysis and non-parametric test, they found that the most important factors for the use of Islamic service are religion followed by profitability.

While Harlem (2007) found that the customers who made decision to become customers at the Syariah Banks based their decision on knowledge, service quality, product value and religion. To increase the level of awareness and acceptance of Islamic banking in Muslim communities, the research discovered that there is a need to translate Arabic terms used by Islamic banks.

According to Hamzah (2004), Islamic banking could facilitate giving working capital to businessmen to enlarge the nation's economic capacity. However, his study is not empirically tested. Nurhidayah (2002) suggested that the fatwas by the National Shariah Council can help Islamic banking operations but a comprehensive legal infrastructure regarding Islamic banking operations are much needed in Indonesia.

Mhd Daun bin Awang (2007) found that understanding Islamic banking system a Sistem Perbankan Islam (SPI) is one of the scopes of the Islamic worship and it is important to convince the Islamic ummah about Islamic banking. To enhance understanding in the SPI, the financial of bank customers need to be addressed not just the issue of usury alone. Efforts to improve the understanding highlighted by the research require three main aspects, which are: 1) education and more aggressive efforts in dissemination of SPI 2). The image of Islamic banking in all aspect need to be improved and 3). SPI products need to be flexible but within the shariah laws.

Rashid *et al.* (2008) found that religion is the most prominent factor for choosing Islamic banking in Bangladesh. This response from 371 respondents were analysed using multivariate regression and the result of the study shows that customers want to achieve highest return, convenient financial transactions system, consistency in service with uniformity, and higher cost-benefit trade off to select their intended services.

Wan Marhaini Wan Ahmad; Asmak Ab Rahman; Nor Aini Ali A; Azizi Che Seman, (2006) examined religiosity as a motivation factor among Muslims in Malaysia to use Islamic financing products. They measure how religious a person is based on the principles outlined in the teachings of Islam, which include not only the belief

(akidah) element, but also the practices that may reflect it, religiosity level and demographic background especially his/her formal religious education background, this study also attempts to examine Muslims' financing selection criteria which include some factors that captured the Islamic city of the products.

Religion obligation is the main factor cited by 80% of the Malaysian Muslim entrepreneurs in their intent to use Islamic financing. Gait and Worthington (2008) find that attitude is considered in Islamic financial products and services selection. The researchers studied 296 Libyan business firms' attitude towards Islamic finance system in 2009. The results indicate that 72.3% are interested to use Islamic finance due to religion.

According to Idris, A.R; Naziman, K.N.M; Januri, S.S (2011). The development of the Islamic bank is increasingly challenging with the participation of more conventional banks offering products and services based on Islamic principles. The study revealed that religious value appears to be the most important factor considered by academicians in public institutions of higher learning in selecting a particular bank.

3.4.4 Knowledge of Islamic banking

The effect of knowledge of Islamic banking on intention to select Islamic bank was investigated by Wahyuni, S. (2012). The study which involved responses from 198 Muslim respondents from Surakarta, Solo Indonesia also tested other variables such as attitude, social influence, pricing of Islamic banking products. The result from hierarchical regression shows that knowledge about Islamic banking moderates the relationship between attitude and social influence on the intention to use Islamic

banking. The result also shows a positive and significant relationship between knowledge and intention. This positive result as well as the moderation effect implies that Muslim with better knowledge has greater intention to use Islamic banking.

Haron *et.al* (1994) studied 301 respondents consisting of Muslims and non-Muslims in Malaysia on knowledge of Islamic banking. The study found that almost all respondents (99.3 percent) recognize the existence of Islamic banking, while 75 percent of non-Muslim customers also aware of the Islamic banking system. The study also found that 63 percent of Muslim customers to differentiate between Islamic and conventional banking. Meanwhile 12 percent of Muslim respondents consider that Islamic banking system is only for Muslims, while 32 per cent non-Muslim respondents had the same opinion.

Ahmad and Haron (2002) found corporate customers use few Islamic banking products. On average, the number of years of Islamic banking patronage is less than 5 years although Islamic banking in Malaysia has started since 1983. About two third of the respondents who were mostly non-muslims were not well-versed with Islamic banking profit and loss sharing concept.

Hamid and Nordin (2001) study in Malaysia found only fifteen percent of the respondents have good knowledge about Islamic banking. However, a greater number of customers is aware of the Islamic banking concept as evidenced by the result of (2007) in which 70 percent of the 128 respondents in Sabah, Sarawak, and Labuan knew the term Bai Bithaman and Al Ijarah Thumma Al Bay.

Studies related to knowledge about Islamic banking system are also done in other Islamic countries, for example, in Bahrain by Metawa and Almosawi, (1998). They studied 300 respondents to see the respondents' extent of knowledge about Islamic banking system. They found that 70 percent of the respondents are aware about the Islamic finance schemes in their country, Bahrain. Similarly, Bley and Kuehn (2004) study 677 of students in the UAE University. They found that students who have a good achievement in the academics have good knowledge of some concepts of Islamic banking.

Naser and Jamal (1999) study in Jordan found that the large majority of their respondents identify factors significant to Islamic banking are: name and image, banks ability to provide confidentiality and also reputation. Their results also indicate that the respondents are aware of a number of specific Islamic financial products like Murabahah and Mudharabah. However, they state that they do not deal with them.

Knowledge level of Muslims about Islamic banking in Pakistan and Bangladesh is found to be rather high especially in Pakistan. Hassan R (2007), conducted the study of the knowledge stage of Pakistani people about Islamic banking. He found more than 90 percent respondents know riba and Islamic banking concepts. Khan et al (2008) also has made a similar study in Bangladesh. About, 92 percent of 100 respondents were aware about Mudharabah account and 88 percent know Al-Wadiah account. While Sanka Ramuthukumar and Devamohan (2008), have made a study on the potential of Islamic banking in Ethiopia. The research showed that 48 percent of 50 respondents said they were aware of the concept of Islamic banking.

A study of bank customer's level of knowledge about Islamic banking system has also been done in non-Muslim's countries. Gerrard and Cunningham (1997) made a study of knowledge among the non-Muslim people of Islamic banking in Singapore. 190 respondents were selected in public LRT stations. Their results show that 20.7 percent of the respondents who were Muslim knew about the Riba concept, and only a few respondents or 0.6 percent non-Muslims know about it. Their study also found that 31 percent of Muslims and 2 percent of Non-Muslims know about the Sharia concept.

Hafas Nuddin (2008) found that most customers of Islamic banks do not understand the Islamic bank contract because the terminology of the concepts is largely in Arabic language. Besides not satisfied with delivery quality, customers have yet to trust, committed and loyal to Islamic banks.

Another study in Australia by Rammal and Zorbruegg (2007) was conducted on the awareness of Australian Muslims of Islamic banking products and concepts, especially the Profit-loss sharing concepts. A sample of 300 Australian Muslims surveyed showed that 55.7 percent of the respondents knew about Islamic banking and they were interested to buy halal products but were not well-informed on the basic rules and principles of Islamic financing. The study highlights the importance of financial institutions to develop effective communication plans and new Islamic banking products to meet the Islamic customer needs and demands.

Using TRA, Jyh-Shen Chiou (1998) investigated influences of attitude, subject norm, and perceived behavioral control on customers purchase intention. A sample of 300 students from seven universities around Northern Taiwan (three of them are Public

Universities and four are private Universities) were selected. The study used LISREL program for data analysis. Using knowledge as a moderating variable, the results shows different results in predicting the relationship between attitude, subjective norm, and perceived behavioral control with purchase intention.

Saini Yvonne et al., (2011), investigate the level of awareness and use of Islamic banking products in South Africa. They found that the majority of Muslims are aware of Syariah banks but do not use their products and services. According to Kotler et al., (2009), attitude of others and unanticipated situational factors influence purchase intention by creating awareness and imparting knowledge.

Study by Salamah Wahyuni (2012), which aims to determine the factors that influence the behavior of muslim community to use the Islamic banking service in Surakarta Indonesia found that the effect of the attitudes toward intention to use Islamic banks remains significant the contrast to social influence. That is knowledge and pricing were tested in the relationship, social influence is not significant. The relationship between attitude and social influence on intention to use Islamic banks are no moderated by knowledge and price. However, there is a positive relationship between intention and real behavior in using Islamic banks. The study used Hierarchical Regression over 220 questionnaire and 220 postgraduate student in three universities.

According to Toni Prasetyo Utomo (2013): His study aimed to analyze influencing factors of the decision in choosing Bank Syariah Mandiri Malang Branch. 100 customers surveyed to assess which factors that influencing their decision to do

transactions with banks. Based on the estimation using logistic regression resulted in finding that the service of the bank itself, the knowledge of sharia banking, and cost factors are significant factors in influencing the decision of the customers. And the factors of shariah banking characteristics, its location and promotion are insignificant to the decision making of the customers on choosing syariah bank.

Aside of that, based on the logistic regression coefficients, the knowledge factor of shariah banking characteristic has the biggest beta values. This indicates that the knowledge of shariah bank is a dominant factor that influence the preference of customers on choosing shariah banking. Thus, in order to increase and attract new customers, shariah banking must be focused on socializing shariah banking to the community, so that the community will understand more about the stuffs and matters regarding sharia banking.

3.4.5 The Price

Wahyuni (2012) examined pricing of Islamic banking product within the theoretical framework of Theory of Reasoned Action in Indonesia. Using hierachical regression analysis, the author found that Pricing does not moderate the relationship between social influence and attitude on intention. Pricing to intention is positive but not significant. This indicates that Muslim customers do consider pricing in their Islamic banking selection but does not give high importance compared to social influence.

Pricing is also used by Reni and Ahmad (2016) in assessing customers' intention and selection of Islamic banking in Indonesia. The finding shows similar impact of not significant to intention as that of Wahyuni (2012). However, the researchers found

pricing to be negatively related whereas Wahyuni (2012) found it positively related to intention to select Islamic bank. The result implies that present Islamic bank customers are more sensitive about pricing of Islamic banking products. The lower is the pricing, the higher is the intention among customers to choose Islamic banking in Indonesia.

Ali, Raza and Puah (2015) examined pricing as a predictor of Muslim customers intention to subscribe Islamic personal finance. The result shows that pricing has a negative but significant influence on the intention to use Islamic personal financing in Pakistan. Amin *et al* (2011) also found pricing to be negative, significantly influencing customers' intention to use Islamic personal finance in Sabah, Malaysia.

Pricing the banks products is not widely discussed as most bank will have almost the same pricing as pricing is regulated by the Central Bank. According to Mourinho & Meiden (1989), which studies on the price sensitivity to customers found that, interest rate that is too high will give negative impact on the usage rate of credits and decrease the loyalty of customers toward the bank. High interest rate based on loans will cause customers to look for other bank.

Khazeh and Decker, (1993), the study survey about the determinants of consumer's bank selection decisions in USA. There are 22 characteristics (factors) importance in choosing a bank, consist of; Service charges, reputation, interest charge in loans, quick loan approval, friendly tellers, interest on checking, interest on saving, prompt loan approval, convenient hours, interest on CDs, ATMs on other areas, ATM availability, one-stop banking, overdraft protection, closeness to work, closeness to home, insured deposits, advise availability, drive-in windows, direct deposit,

effective advertising. The results indicated the most important factors affecting bank selection decisions comprise are: service charge, the reputation of the bank, the interest rate of loans, the time required for loan approval and having friendly tellers and also these are factors seem lowest important to play in the bank selection process i.e.; effective advertising, direct deposit, drive-in window, advises ability, insured deposits.

These findings are similar to Hidayat and Nouf K (2012), and Abduh *et.al.* (2012) that the determination the cost of the bank became one of the reasons of customers choose to use Islamic banks. According to (Sukirno, 2008: 78) in the law of demand is explained the nature of the relationship between the demand for a good or service at the price level. The law of demand states that the lower the price of a good or service, the more demand for goods. Conversely the higher the price of a good or service the less demand for goods. A total of 54 respondents in this study expressed the application for a more just and favorable results, 50 respondents said the cost savings in the bank lower sharia, and 53 people expressed a monthly administration fee of Islamic banks are low.

Ta & Har (2000) and Kaynak & Harcar (2005) found that profit factor such as lower service payment and high rate return are most important choice criteria for banking. According to Reeves, C.A. and D.A. Bednar, (1996), in theirs study, found that customer service appears more important th than price and that customers use additional criteria beyond price, speed and access to evaluate and choose between banks. However, another study by Al-Ajmi, J., H.A. Hussain and N. Al-Saleh, (2009)

concluded that cost and benefit become two of the most important factors considered in bank selection decisions.

More recently, Huu, P.T. and Y.H. Kar, (2000a) study conducted at two local universities in Singapore found that undergraduates place high emphasize on the pricing and product dimension of bank services. The pricing strategy consists of high interest rate, low charges and low loan rate. Similarly, the importance of product pricing is also emphasized in the other studies like Devlin, J.F. and P. Gerrard, (2004); Dusuki, A.W. and N.I. Abdullah, (2006).

Devlin J.F. and P. Gerad, (2004), the desire to be paid higher interest for their deposits and investment was far stronger with the non-Muslims.

Dusuki and Abdullah (2006) highlighted by the study attempts to customer's perception Islamic banking selection criteria in Malaysia may profitably suit the interest of customers in their financial dealings.

Owushu, Frimpong 1999; Ta and Har 2000; Kaynak & Harcar, 2005; and Safakli, 2007, they are founded profitability factors and service quality such as low service charge and high interest rate, as the main reasons why customers choose a particular bank.

Haque *et. al.*, (2009), study found that significant differences among the customers of different genders, education levels, and income levels with regards to their preference for different kind of banks in Bangladesh. Their study found that the factors most important related to customers bank selection criteria are convenience followed by receiving banking services at low cost.

3.4.6 Government Support

Ahmad and Weir, (2005) cited that Western writers refer Islamic banking as “traditionalism” and “conservatism”. The major problem facing Islamic bank in United Kingdom is regulation. Regulators do not understand very well about Shariah rules and regulation. This causes difficulties between the regulators and the Islamic banks which hinders the government to support Islamic banking (Karbhari *et al*, 2004). Similarly, Mahmoud and Abduh, (2014), in Mauritania, North Africa have the lack of support from the government for such promising financial system.

Ullah, H. (2014). He has observed that Islamic banks cannot perfectly comply with Islamic Shari’ah due to economic systems, Government rules and regulations due to lack of knowledge and seriousness of the employees, lack of research and development and lack of sufficient rules and Regulations.

Tahir (2003) however, opined that government support and regulation are required for growth of Islamic banking. In Iran, Makiyan (2004) found government support played a crucial role in Islamic banking development.

In Malaysia, Islamic banking faces fewer problems on regulation issues because of the strong support from the government and the initiatives of the Bank Negara Malaysia such as the establishment of Malaysian International Financial Center (MIFC) and in the ninth Malaysia Plan. The government developed Malaysia as a leading country in Islamic finance. Since 2008 the government has provide tax incentives to those involve in Islamic financing products. There was no such tax rule for conventiona banks. Assurance from the Bank Negara Malaysia that every effort

will be made to make Islamic finance in Malaysia indicates strong government support to Islamic Banking (BIS Review, 2004). The Malaysian sound Islamic banking system and 60% of its population is Muslim making Malaysia a solid place for Middle East investors to invest their money in Islamic banks in Malaysia (Prystay, 2002).

Norafifah Ahmad & Sudin Haron, (2003) find that majority of the respondents who are in the decision-making positions in the corporate sectors believe that Islamic banking system provides another attractive avenue to conventional banking. Secondly, 65 percent of the respondents indicated that they had limited knowledge in this area which necessitate banks to give information and knowledge dissemination to customers. Lack of promotional and marketing efforts could be the fcator contributing to the smaller market share of Islamic banking in Malaysia compared to its conventional counterparts.

In Thailand, development of Islamic banking to a large extent, depend retail Muslim customers and Islamic instutions such as: Islamic private schools, zakat funds, Islamic savings cooperatives, Islamic centers, and mosques (Haron and Yamirudeng, 2003).

3.4.7 Technology Support (Facilitating Condition)

Clement ND Van Den Besselaar (1993) opined that technology support (TS) is a significant variable to increase user's confidence and competency to participate in a system process.

IT has enabled an organization to improve its performance and competitive edge with better information system (Tait et al, 1988). Computers and information technologies are rapidly becoming important components within societies and people's lives globally (Coffin & MacIntyre, 1999).

Goh (1995) described TS as "The effort of providing the suitable infrastructure, the needed appliances, internet access and software for using the technology". While Abou Shanab and Pearson (2007) in their study found that there is a strong support for technology acceptance in Islamic banking selection criteria.

Shih & Fang, (2004) find that TS increases flexibility and easiness for customers to use internet and e-commerce in handling their banking but Tan & Teo (2000) study in Singapore found that technology support did not affect user's usage internet banking. This finding is supported by Hernandez and Mazzon (2007) which showed TS is not significant in user's use of internet banking in Brazil. In contrast, Al-Hawari and Ward (2006) found that automatic banking is the important factor in the bank selection criteria.

Recent study by Yousafzai (2012) applied Theory of reasoned Action, Theory of Planned Behaviour and Technology of Acceptance Model to study the importance of technology support in internet banking. The result provide a critical review of the theories involved to predict internet banking behaviour.

3.4.8 Intention to Select (Use) Islamic banking

Reni dan Ahmad (2016) studied lecturers' intention to use Islamic banking in Indonesia based on Theory of Reasoned Action. With response rate of 75 percent

equivalent to 375 responses, they found through PLS-SEM analysis that attitude, subjective norm, religion, knowledge and government support are significantly and positively related to intention to select Islamic banking in Indonesia. The model generates R square of 49.9 percent. The result on religious obligation is in contrast to Ali,Raza and Puah (2015).

Another study on intention determinant using modified TRA model was carried out in Pakistan by Ali,Raza and Puah (2015). The authors used attitude, subjective norm,pricing of Islamic personal financing,religious obligation and government support to predict intention to use Islamic personal finance. The results show that pricing of personal financing and religious obligations are negatively linked to intention while attitude and social influence (subjective norm) were found to be positive but insignificant predictors.

Amin, H and Rahman (2011) used PLS-SEM to analyse the influence of attitude, subjective norm,pricing of Islamic personal financing, religious obligation and government support on intention of customers of Islamic banks for Muslim and Non-Muslim customers. The findings highlight 3 significant determinants that is attitude, social influence and pricing. These determinants exert positive and significant impact on intention to select Islamic personal financing in Malaysia.

Ellot, Armitage, and Baughan (2003) suggest that TPB, which is the predecessor of TRA, is more appropriate theory in explaining issue on the social behavior. The best predictor of behavior is intention. It is the cognitive representation of a person's

readiness and an immediate antecedent to perform a given behavior. (Ajzen, 1985; and 1991).

Review of past studies show that TRA, TPB. Besides examining the influence of TRA elements on intention and syariah bank selection, this research hopefully will be the first research to integrate theories in understanding the consumers' intention to choose Islamic banking with new variables included such as knowledge, religion, pricing, technology and government support.

TRA posits that attitudes and subjective norms are sufficient to predict intention. That is, other variables are expected to influence intentions only indirectly because intentions are hypothesized to mediate all of the effects of attitudes and subjective norms as well as other variables on behavior (Bagozzi and Yi, 1991).

According to Taylor and Todd (1995), the importance of intention as a mediating variable can be seen when intention is omitted, the prediction of behavior decreases substantially (Fishbein & Ajzen, 1975). The user's behavior is largely influenced by behavioral intention, which on its own explains almost 30% of the variance in behavior (Taylor & Todd, 1995). Although intention plays an important role in predicting behavior, it is however important to note that behavioral intention is more predictive of behavior when individuals have had prior experience with such behavior (Taylor & Todd, 1995).

3.4.9 Islamic banking selection as Actual Behavior

Selection refers to an individual's observable response in a given situation with respect to a given target. Selection behaviour is also a function of compatible intention (Ajzen and Fishbein, 1982., p.82).

3.4.10 Behavior Intention as Mediating Variable

The theory of Reasoned action (TRA) posits that attitudes and subjective norms are sufficient to predict intention. That is, other variable are expected to influence intentions only indirectly through their impact of attitude and/ or subjective norms on behaviour, because intentions are hypothesized of mediate all of effects of attitudes and subjective norms on behaviour, the influence of other variables on behaviour is also expected to be mediated by intentions (Bagozzi and Yi, 1991).

According to Taylor and Todd (1995) the path from behavioral intention to behaviour is significant in TPB and DTPB models. The importance of behavior intention as a mediating variable can be seen when behaviour intention is omitted the prediction of behavior decreases substantially (Fishbein & Ajzen, 1975). The user's behaviour is largely influenced by behavioral intention, which on its own explains almost 30% of the variance in behaviour (Taylor & Tod, 1995). Behavioral intention plays an important role in predicting of behaviour but it is important to note that behavior intentions is more predictive of behaviour when individuals have had prior experience with behaviour (Taylor & Tod, 1995).

3.5 Mediating Effect

Mediation test is conducted to find if a mediator variable can significantly carry the influence of an independent variable to a dependent variable (Ramayah *et al*, 2011). The other side, mediation test assess the indirect effect of the independent variable on the dependent variable through a mediator variable. According to Hayes and Preacher (2010), "mediation analysis in multivariate analysis is achieved through many techniques including: (1) simple techniques that consist of the causal steps approach (Baron & Kenney, 1986) or the Sobel test (Sobel, 1982); (2) newer approaches that demand just fewer unrealistic statistical assumptions. These include the distribution of the product method (MacKinnon, Lockwood, & Williams, 2004), and (3) re-sampling approaches such as bootstrapping (Bollen & Stine, 1990; MacKinnon et al, 2004; Preacher & Hayes, 2008).

Most important, the mediation test used for this study was based on the PLS approach, the hypotheses for the study were testing using the Partial Least Squares (PLS) structural Equation Modeling (SEM) technique (Wold, 1985). The PLS-SEM technique is increasingly gaining prominence and acceptance by researchers because it is suitable for testing complex multivariate main and indirect effects models like those in the present study. In the PLS, bootstrap procedure use in this study to evaluate the statistical significance of relevant path coefficients. In PLS analysis, bootstrapping represents a more exact calculation of measures (Chin, 2010).

Ramayah et al., (2011) explain that a mediator variable is one which significantly influences the relationship between an independent variable to a dependent variable. In this study, intention is set as a mediator in a relationship between attitude, pricing,

religions, knowledge, government support to Islamic banking selection. Partial Least Squares (PLS) structural equation modelling (SEM) technique is used in this study to test the mediation effects.

Justification for using The PLS-SEM technique for this research is that it is increasingly gaining prominence and acceptance by prominent research houses globally because of the following features: a) it is suitable for testing complex multivariate direct and indirect effects models, b) bootstrap procedure in PLS provide the required statistical significance of each of the relevant path coefficients. In PLS analysis, bootstrapping represents a more exact calculation of measures (Chin, 2010), c) PLS uses path analysis and treats direct and indirect effects simultaneously and d) It provides guidelines for determining if mediation among certain variable exists, and well suited technique for mediation study (Bontis et al., 2007; Chin, 1998b; Hair, Ringle, & Sarstedt, 2013; Hayes & Peacher, 2010; Kock, N. (2014).

3.5.1 Mediation Results Determintion

The actual mediation effect in PLS-SEM model is determined by means of bootstrapping analysis in tandem with formulated hypotheses (Hair et al., 2013). Specifically, mediation is determined by multiplying the average of paths (Kock, N, 2014) as shown in this formula:

$$T = \frac{axb}{s(axb)}$$

This formula was used to determine the mediating effects of intention to select IBS on all the six relationship of this study. In the formula, “a” represents the direct path

between predictor variables (attitude, subjective norm, religiosity, knowledge, pricing, and government support); and “b” represents the path between intention and the criterion variables (IBS). Both paths a and b must be obtained from the PLS bootstrapping to ascertain the significance of their coefficients and standard error (Hair et al., 2013; Kock, N, (2014). The last one “s” represents the standard error (standard deviation) of paths a and b. In PLS-SEM bootstrap mediation calculation, “T” represents the significance coefficient. Mediation is established if T- value is equal to or greater than 1.96 at 0.05 significance level using two-tail test, or 1.64 at 0.05 significance level using one-tail test, (Hair et al., 2010).

3.6 Chapter Summary

This chapter provides explanation about the underpinning theories to be used namely TRA, TPB, in the context of Islamic banking Selection framework. Besides the theories, this chapter reviews empirical evidences of the variables used in the research model. The independent variables consists of attitude, subjective norms, pricing of Islamic banking products, religion, government support and technology support. While intention and selection is the mediating variable and the dependent variable respectively. The literature reviews provide the background understanding and evidences to support the results of this study.

CHAPTER FOUR

RESEARCH METHODOLOGY

4.1 Introduction

This chapter describes research setting and design procedures of this study. It defines the independent variables and the dependent variable in the research framework and deliberate the ways these variables are operationalized and measured. A brief highlight of method used in the data collection followed by the sample selected for the study and further elaboration on the PLS-SEM method is included. The variables in this study are customers' attitude, subjective norm, religion, knowledge, pricing of products and services, government support, technology support, intention, and Islamic banking selection. The hypotheses to be tested are also included.

4.2 Research Philosophy

The research philosophy or research paradigm is defined by Guba and Lincoln (1994) as the “basic belief system that guides the investigation”. Research philosophy can be classified into two major categories, namely, positivist paradigm and interpretive paradigm (Bryman & Bell, 2007; Myers, 2009; 2013).

Positivist paradigm or also known as the scientific paradigm, is a philosophical contribution of a French philosopher Auguste Comte (1798-1857) and Koval, (2009); Mack, (2010); and Moore, (2010). The doctrine of positivism is the most widely practiced research paradigm in social sciences (Neuman, 2011). Positivist believes that social reality can be studied independent of the researcher (Scontland, 2012). Positivist can assume that social life can be represented quantitatively using

correlation and experimentation to determine cause and affect relationships between variables (Creswell, 2009).

In contrast, interpretive paradigm, also known as anti-positivist or constructivist, is a philosophical underpinning of a German philosopher and mathematician, Edmund Husserl (1859-. 1938) (Mack, 2010; Willis, 2007). Unlike the positivist paradigm, interpretive philosophical approach assumes that human social life can be qualitatively studied through an array of means including direct observation, interviews, and case studies, among others (Neuman, 2011). Furthermore, interpretivists view social reality as subjective and socially constructed, with both researchers and participants interacting to understand a phenomenon from an individual's perspective (Creswell, 2009; Guba & Lincoln, 1994).

Based on the research model developed, the present study focuses on theory testing and verification rather than developing a new theory, thus, employing a deductive research approach. Therefore, drawing on the philosophical assumptions discussed above, the present study largely adopts the positivist paradigm, based on objectivism as the underlying ontological and epistemological positions.

4.3 Research Framework

A framework is defined as “a conceptual model of how one theorise or makes logical sense of the relationship among several factors that have been identifying as important to the problems” (Sekaran, 2003). In this study, the proposed conceptual framework in (Figure 3.1 and 3.2) is developed based on TRA (1975), TPB by Ajzen (1991). This conceptual framework which serves as the research model postulates

that the intention to use Islamic banking and hence forth to select Islamic bank is resulted from the attitude, subjective norms, religion, knowledge, pricing, government support, and technology support.

Thus, the proposed conceptual framework integrates factors that are Attitude, subjective norm, Religion, Knowledge, Pricing, Government support and Technology Support in TRA - TPB model and how these factors have direct and indirect impact on consumers' behavior action, within the context of influencing customers' intention and selection of sharia banks in Indonesia. However, in this research framework, the researcher aims to study the effect of intention as a mediator between the predictors and Islamic banking selection.

The research framework supports the propositions presented in previous studies within the integration of TRA, TPB and is presented in Figure 4.1. 3 new variables are included in the model and they are religion, knowledge and government support. The hypotheses included intention as mediator to the relationship between the constructs and selection of Islamic banking.

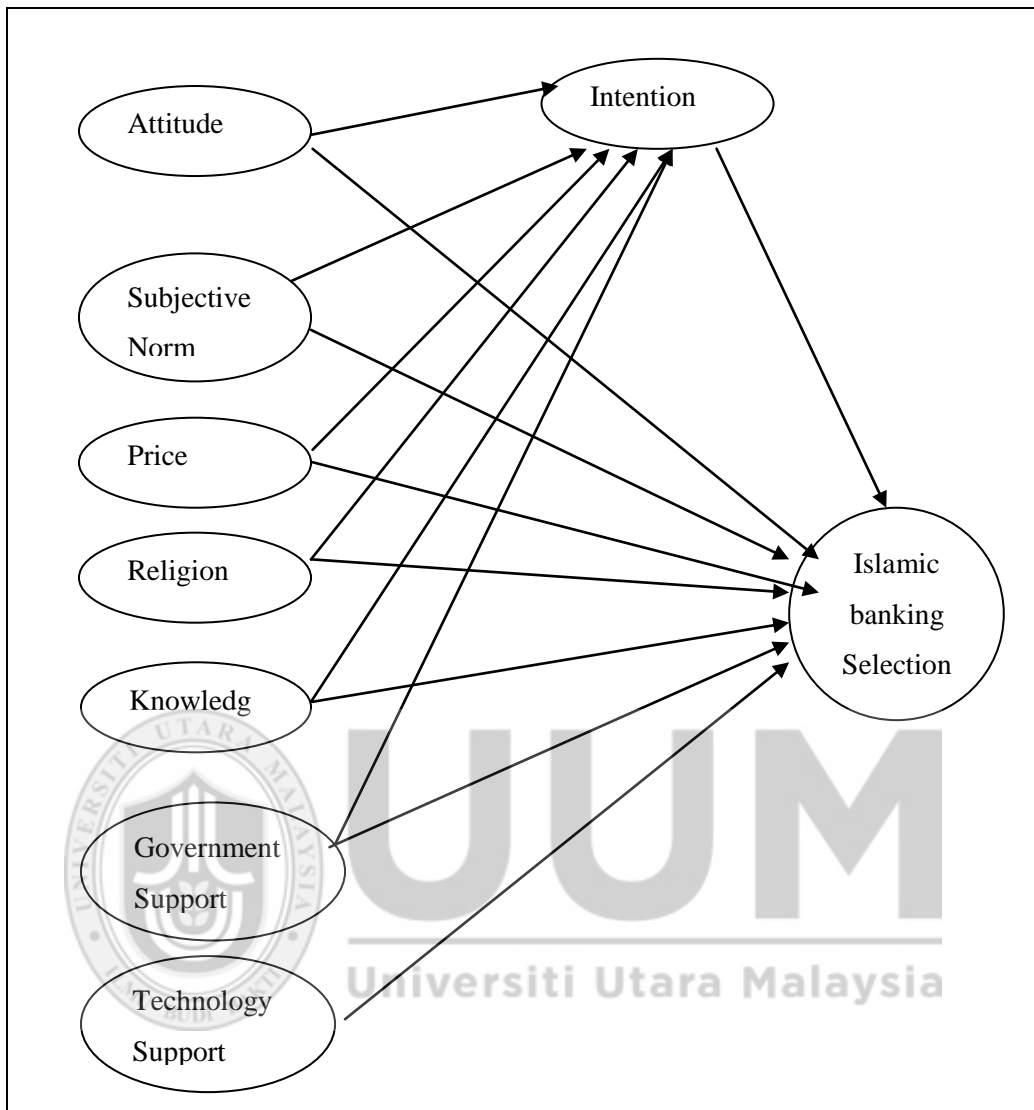


Figure 4.1
Research Framework / Conceptual Model

4.4 Hypotheses Development

This section outline the research hypotheses based on relationship of the factors independent to intention and linkage to Islamic bank selection in Indonesia. Seven independent variables are hypothesized to have significant relationship with the intention level of the bank customers to select Islamic banks ie: Attitude, Subjective Norm, Religion, Knowledge, Pricing, and Government support, Dependent Variable

is Islamic bank selection and Mediating variable is intention. The model will test the following hypothesis:

4.4.1 Attitude to Intention to Selection

Based on TRA, attitude predicts directly a customer's intention and it is the function of the customer's belief towards an object, and his subjective evaluation of the beliefs he/she holds towards the object such as Syariah bank selection as in this study. (Fishbein & Ajzein, 1975). The customer's attitude is driven by his perceived consequences of performing the behavior (selection of Syariah bank) his subjective evaluation towards the consequences the action (Fishbein & Ajzein, 1975).

Results from past studies shows attitude to be significantly and directly related to intention (Ramayah, 2002, 2003a, 2003b, 2004; Gopi & Ramayah, 2007; Ma'ruf *et al.*, 2003; May 2005; Rhodes & Courneya, 2003; Shih & Fang, 2004). A recent finding by Amin Amin *et al.* (2011) confirms the previous finding that attitude is positively and directly related to intention. In his study, the intention is towards adopting Islamic home financing.

Based on underpinnig theory and the previous findings, the proposed hypothesis is:

H1: Attitude significantly and positively influences intention of Islamic banking.

H9: Attitude significantly and positively influences selection of Islamic banking.

4.4.2 Subjective Norm to Intention and Selection

Ajzen & Fishbein (1980) and Fishbein & Ajzen (1975) posit that subjective norms directly influence intention. A customer's intention is a direct result of his motivation

to comply with his perception of an important person's or persons' expectation to behave (Fishbein & Ajzen; and Taylor & Todd, 1995).

The influence of subjective norm on behavioral intention is conflicting. Davis *et al.*, (1989); Mathieson (1991); Chau and Hu (2001); and Lewis, Agarwal, and Sambamurthy (2003) found subjective norm to be insignificant towards intention. However, Taylor and Todd (1995); Venkatesh and Davis (2000); Ramayah, Noor, Nasurdin, and Beng (2002); Ramayah *et al.*, (2003a, 2003b); Ma'ruf *et al.*, (2003); Eri (2004); Chan and Lu (2004), Ramayah, Ling, Norazah, and Ibrahim (2005); May (2005); Athiyaman (2002); and Gopi and Ramayah (2007) and Amin *et al* (2011) found that subjective norm has a positive direct relationship towards behavioral intention.

Although there are conflicting findings in past researches, this study is inclined to propose the following hypothesis:

H2: Subjective norm significantly and positively influences intention of Islamic banking.

H10: Subjective norm significantly and positively influences selection of Islamic banking.

4.4.3 Religion to Intention and selection

Haq and Smithson study in (2003) highlights that religion (Islam) is the main reason for choosing Islamic banks. This finding supports the result of Dusuki and Abdullah, (2007); Wilson, (1995) and Owen and Othman (2001). Although there are some other factors such as profit (Erol, C and El-Bdour, 1989), cost-benefit and efficiency

found to be significant to intention and selection of Islamic banking, recent studies provide empirical evidence that religion is a significant and positive factor in intention –selection relationship. See Wakhid and Efrita (2007).

Hence, the following hypothesis is proposed:

H3: Religion positively and significantly influences Intention of Islamic banking.

H11: Religion positively and significantly influences selection of Islamic banking.

4.4.4 Knowledge to Intention and selection

Results of previous researches have highlighted that Knowledge of a product can be a positive determinant in influencing an individual's intention to purchase Tang *et al* (2011) and Kaplan *et al*, (2007); (Brucks, 1985; Park, Mothersbaugh, & Feick, 1994). Salamah Wahyuni (2012) also found that syariah and product knowledge is a significant factor to intention in using Syariah bank in Indonesia.

Hence, the following hypothesis is stated as:

H4: Knowledge significantly and positively influences Intention Islamic banking

H12: Knowledge significantly and positively influences selection Islamic banking

4.4.5 Price to Intention and Selection

Amin (2008) found lower pricing was one of the motivators for customers to use with Islamic banks while (Ebert and Griffin, 1998) opine that a bank needs to balance between its margin and its cost of funds Olson. Hidayat and Nouf (2012) and Abduh *et al* (2012) show that the determination of the cost of the fund is one of the reasons for customers to choose Islamic bank.

Hence, the following hypothesis is proposed:

H5: Pricing of Islamic banks is significant and positively influences intention of Islamic banking.

H13: Pricing of Islamic banks is significant and positively influences and selection of Islamic banking.

4.4.6 Government Support to Intention and selection

Based on the literature review that regulations affect the growth of Islamic banking operations such as in the case of Malaysia and United Kingdom, it is hypothesized that there is a positive and significant relationship between government support and Intention to use Islamic banking. The main reason for studying this linkage is the fact that there are inconsistent results, some of these studies have found a positive and significant effect (Teo & Polk, 2003) while some studies found that were was an insignificant relationship (Tan & Teo, 2000; Hernandez & Mazzon, 2007). As such, the hypothesis is:

H6: Government Support significantly and positively influences Intention of Islamic banking.

H14: Government Support significantly and positively influences selection of Islamic banking.

4.4.7 Technology Support to Islamic banking Selection

The new technology enabled information system to improve the performance and competitive position of an organization (Tait et al, 1988). Computers and information technologies are rapidly becoming important components within

societies and people's lives globally (Coffin & MacIntyre, 1999). The emergency of IT is a somewhat significant variable in the system implementation. User's confidence and competency with the technology may increase user participation in the process (Clement ND Van Den Besselaar, 1993). Moreover, the technology support will positively affect the flexibility of the technology services, internet services, which in turn makes the client capable of using the Islamic banking system. The technology support plays an important role in allowing the users to utilize the technology services easily and in a more flexible manner by dealing with the e-commerce transaction and the internet (Shih & Fang, 2004).

On the organizational level, banks could also enhance their competitiveness with the use of new technology such as e-commerce or internet banking. Shih & Fang (2004) provide evidence that technology support benefited the customer more if he is familiar and has the skill to use the device. With modern technology and information system being widely used in almost all service providers, it is hypothesized that Syariah banks' usage of technology to support their banking operations and services would influence more customers to select Islamic banking. Hence, the hypothesis is stated as:

H7: Technology Support significantly and positively influences Islamic banking Selection

4.4.8 Intention to Islamic Banking Selection (Actual Behavior)

Most researchers have proven that intention to use is a close antecedent of willful behavior, and there is high correlation between willful behavior and intention (Ajzen, 1985). Intention to use is the perception of individuals that a particular

behavior will be performed (Fishbein & Ajzen, 1975). Thus, a specific behavior is performed,

An individual will form an intention, which is assumed to capture the motivational factors that exert the degree of impact on the behavior (Ajzen, 1985). Most existing theories of adoption use intention as an antecedent of behavior. This is the case of TRA model (Fishbein & Ajzen, 1975), decomposed of TRA (T.Ramayah, et al, 2009); decomposed of TRA and TPB (Shih and Fang, 2004), TPB (Theory of Planned Behavior) (Ajzen, 1985,1991), decomposition of TPB (Taylor & Todd, 1995), integrated TPB (Chau & Hu, 2001), and TAM (Davis et al., 1989). Another study by Sihombing (2003) shows partially that intention is determined by consumer's attitude toward behavior, and subjective norms. However, study of (Wagner et al, 2001) on 167 undergraduates support the claim Intention significantly influences the actual behavior in the use of pirated software but contrary with research (Limayem et al, 2004) on the use of pirated software found different results, intention not a determinant software piracy behavior. As well as the source of models used, the next hypothesis is:

H8: Intention to select IB significantly and positive relationship with Islamic banking selection in Indonesia

4.4.9 Intention as a Mediator

TRA, TPB, posit that attitudes and subjective norms are sufficient to predict intention (Fishbein & Ajzen, 1975; and Venkatesh, 2003). Hence, other variable are expected to influence intentions only indirectly through their impact on attitude and/or subjective norms on behaviour. Since intentions are hypothesized to mediate all

of the effects of attitudes and subjective norms on behavior, the influence of other variables on behavior is also expected to be mediated by intentions (Bagozzi and Yi, 1991),

Hence:

H15: Intention as mediate between attitude and Syariah Bank Selection

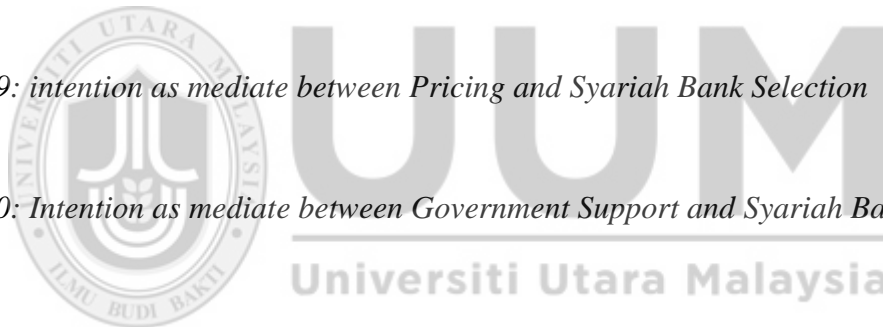
H16: Intention as mediate between subjective norm and Syariah Bank Selection

H17: Intention as mediate between Religion and Syariah Bank Selection

H18: Intention as mediate between Knowledge and Syariah Bank Selection

H19: intention as mediate between Pricing and Syariah Bank Selection

H20: Intention as mediate between Government Support and Syariah Bank Selection



4.5 Operational Definitions of Variables

- a) **Attitude:** In this study, attitude refers to a bank customer's feeling associated with him performing a specific behavior. This involves the customer to evaluate the outcomes of his behaviour. He will have a favorable attitude towards the behavior if he/she believes that by performing such an act/behaviour, it will lead him to gain positive outcomes (Ajzen and Fishbein, 1980).

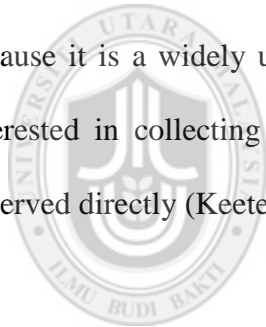
- b) **Subjective Norm:** It is the perceived social pressure from people (peers, families, friends) surrounding the bank customers to engage or not to engage in a behavior (Ajzen and Fishbein, 1980)
- c) **Religion:** is a key element to describe a group of beliefs (Haq and Smithson, 2003; Ahasanul Haque, 2010).
- d) **Knowledge:** In this research, it refers to information and data about Islamic banking products which provide a bank customer an understanding how the products function (Rogers, 2003).
- e) **Price:** Price refers to the sum of cost need to be paid to a bank for using the bank's product and services (Mourinho & Maiden, 1989); Al-Ajmi, J., H.A. Hussain and N. Al-Saleh, 2009).
- **Government Support:** Regulatory environment and physical infrastructure provided by a government to encourage clients and organizations to use and develop Islamic banking (Prystay, (2002)., Mahmoud and Abdouh, (2014)., Ullah, H, (2014).
 - **Technology Support:** Efforts provided for technology to work such as software systems, cable, broadband for internet access and electronic banking and also automatic banking (Shih & Fang, (2004)., Hawari and Ward (2006)., and Abou Shanab and Pearson (2007).
 - **Behavioral Intention:** It refers to a person's readiness to perform a given behavior as in this study, to select Islamic banking (Bagozzi, Baumgartner and Yi, 1998).

- **Islamic banking Selection:** refers to a decision by customers to select Islamic bank (Ajzen, 1980).

4.6 Research Design

Research design is a master plan which describe in specific terms the methods and procedures for collecting and analyzing data to test the hypotheses set in the study involving the relationship between the independent and dependent variables (Zikmund, 2003).

For this study, survey research method was used to collect data through self administered questionnaire. Survey research was considered the most appropriate because it is a widely used method adopted by organizational researchers who are interested in collecting information about a very large population that cannot be observed directly (Keeter, 2005; Tanur, 1982).



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4.7 Population and Sampling Method

This section provides a discussion on the population, sampling design, sample size, and distribution of questionnaire to respondents.

4.7.1 Population and Sample

The population of this study comprises of bank customers who are lecturers in the Public universities in Indonesia ie: University Syarif Hidayatullah & University Indonesia in Jakarta, University Sriwijaya in Palembang, and University of Hasanuddin in Makassar. The unit of analysis in this study is an individual. This sampling was selected based on the following criteria:

1. The respondents are distributed geographically in all the three main regions in Indonesia namely West, Center, and East regions of Indonesia.
2. They are lecturers in public universities from three metropolitan cities.
3. The lecturers are chosen because they are highly educated and are aware or knowledgeable in Islamic banking concept.
4. All lecturers who are respondents have bank accounts (lecturers' salaries in public universities in Indonesia are credited into licensed banks operating inside the public university).
5. Expected high response rate and reliable access.
6. Using universities as the sampling frame, the population list of the staff is readily available.

4.7.2 Sample Size

The respondents are those who keep their saving (deposits), as well as those who take financing from banks. The population of bank customers for the five universities totaled to 12,532 lecturers. In terms of sample size, this study adopts the statistics from Krejcie & Morgan (1970). Therefore, from the population range between 10,000, and 15,000, the number of respondents should be between 370-375 lecturers. This study selected 375 lecturers as the sampling size. Where, N = is population size; S = sample size.

Table 4.1
Sample Size Determination

N	S
10,000	370
15,000	375
20,000	377
100,000	384

Sekaran (2003,p, 278)

Hence, 375 repondents are targeted to be technically acceptable completed, and returned. However the recoded response rate for the universities employees in past studies is between 40-60% (Line, Sneed, 2007; Latifah & Sabeni, 2007). Based on this evidence, the researcher used 544 respondents which represent 68% of the respondents. This is to ensure that the 375 returned questionnaires are obtained from the respondents.

Before questionnaires are distributed, the determination of probably sampling for each university is needed. The probability sampling was calculated using the following formulation:

4.7.3 Probability sampling of lecture's = $NP * NS/T$

Where: NR= name of region, NL=number of lecture's in each region; NS= number of sample to be distributed; T= the total of the lecture's in all universities

Table 4.2

Proportion of the sampling universities and the percentage sampling

No.	Name of Region	% of sampling	Number of Lecture's	Number of Samples
1	West	11.5%	1,445	62
2	Center	64.9%	8,129	353
3	East	23.6%	2,958	130
	Total	100%	12.532	545

From the Table 4.2 the number of questionnaires distributed of each region is displayed. From the West region, 62 questionnaires will distributes in one university in Palembang. In Center region, 353 questionnaires distributed in two universities in Jakarta, and from the East region, 130 questionnaires distributed in two universities in Makassar. From West region and East region returned full and completed, but the center region returned only 183 and rejected 75 because the data uncompleted.

4.8 The Instrument

The instrument used for this study is adapted from several previous studies. In order to obtain better accuracy in the answers, several questions were modified so that they are easily understood by the respondents. The questionnaire was originally prepared in English and then translated into Indonesian language by using the translation method with the help of an assistant who is an expert in both languages in order to reduce translation bias and error. The answers to the questions used the Likert Ordinal Scale with five scales measures, adapted from (Perugini and Bagozzi (2001)

and Neuman (2003), who states that the use of Likert Scale of five dimensions (1 to 5) provides a more possible spread of the values of the respondents answer.

Although the questionnaires used in this study generally have been tested for the validity and reliability, the researcher felt the need to test them again to ensure that the questionnaire is properly or relevant to Islamic banking selection in Indonesia. Since several items have been modified, validity and reliability test need to be carried out. The questionnaire contains six sections: (A) Demography, (B) Bank Selection, (C) Intention to select Islamic banking, (D) Customers Internal Factors (Attitude), (E) Subjective Norm Factors/Social Factors, (F) Religion, (G) Knowledge, (H) Pricing, (I) Government Support, and (J) Technology Support.

The items in the instrument (questionnaire) were adopted from more than single authors. Below are the details of the items from the relevant authors by section.

4.8.1 Instruments Development

The details of each of the six sections developed are as follows:

Section A: Demography

See Appendix A.

Section B: Islamic Banking Selection (7 items taken from Raman, Stephenus Alam & Kuppusamy; 2008)

1. I believe Islamic banking is a way of my life
2. I select Islamic banks because people influenced and recommended me
3. I prefer Islamic banks because they follow Islamic law and principles
4. I select IB because I have knowledge about it
5. I select IB base on the price of product

6. I select IB because of the Government support
7. I select IB because they have Technology support

Section C: Intention (6 items adopted from Fishbein 1980)

1. I am eager to select Islamic banking
2. I plan to select Islamic banking
3. I intend to select Islamic banking
4. I expect to select Islamic banking
5. I want to select Islamic banking
6. I interest to select Islamic banking

Section D: Attitude (where 5 items were taken from Fishbein, 1980)

1. I feel Islamic banking is a wise idea
2. I feel Islamic banking is a good idea
3. I like the idea of selection Islamic banking
4. Islamic banking selection is a pleasant idea
5. Islamic banking selection is an appealing idea

Section E: Subjective Norm (in which 5 items were adopted from Fishbein, 1980)

1. People who influence my behavior think I should select Islamic banking
2. People who are important to me think that I should select Islamic banking
3. People who are close to me think that I should select Islamic banking
4. People who influence my decisions think that I should select Islamic banking
5. I am influenced by my close friend to select Islamic bank

Section F: Religion (4 items taken from Hanuddin Amin *et. al*, 2011)

1. Islamic banks is in line with an Islamic philosophy of doing banking business
2. An introduction of Islamic bank is based on Al-Quran and Hadist
3. Islamic banking system is free of riba (interest)

Section G: Knowledge (11 items were adopted from Erol, 1989)

1. Know the existence of Islamic banking system
2. Various sources of knowledge regarding Islamic banking system
3. Profit sharing motivates people to deposit their money at an Islamic Bank
4. Muslims are prohibited from associating themselves with the element of interest practice
5. The profit sharing principle replaces the riba element in the operations of IB system
6. Islamic banking enhances social equity, fair, and justice
7. The concept of Mudharabah and Musyarakah can create an entrepreneur in community
8. Islamic banking applies 4 sharia principles such as profit and loss sharing, fee or charge, free service, and avoid interest.
9. There are three sources of funds for Islamic bank, namely, (1) contributions made by the owners, (2) short term liabilities, and (3) depositors money
10. The first type of Islamic banking system in Indonesia was introduced by Bank Muamalat
11. Understand the differences between Islamic banking system and conventional system

Section H: Pricing (5 items adopted from Amin *et.al*, 2011)

1. Service charges are higher
2. Penalty for Islamic bank is higher
3. Fees obtained from Islamic bank are higher
4. Islamic bank offers unjust pricing
5. Monthly payments for Islamic bank are higher

Section I: Government Support (6 items adapted from Tan & Teo, 2000 and Amin *et al.*, 2011)

1. The Indonesian Government endorses Islamic Banking in Indonesia
2. The Indonesian Government is active in setting up Islamic Banking facilities.
3. The Indonesian Government actively promotes Islamic Banking
4. The Indonesian Government expects me to select Islamic Banking
5. The Indonesian Government actively Socialization the Islamic Banking
6. The Indonesian Government guarantee toward account/deposit of society in Islamic Banking

Section J: Technology Support (where 4 items adapted from Tan & Teo, 2000)

1. Advances of ATM technology security provide customer safer bank
2. Offering of technology resources make 3.Islamic bank more feasible
3. Technology support to Islamic bank make more easily to attack new customer
4. Online banking is one of kind technology support provide the customer make easy to transactions.

4.8.2 Data Collection Method

In order to obtain the necessary data in this study, the researcher personally travelled to the relevant universities to distribute the questionnaires as well as to interview the respondents. There were three methods used, (a) questionnaire survey, (b) interviews and (c) bank documentation review. The questionnaires were distributed according to the distribution sample as in Table 4.2.

The interviews were conducted in two forms. Firstly, the researcher used a structured written format that has been provided in the form of description of the questions relating to the intention and Syariah bank selection. The interview was done face to face. Second, the researcher used unstructured interviews with the respondents without the written format (Kerliger, 1986; and Miller, (1991). Documentation involves review on several important documents about Islamic banking in Indonesia.

4.9 Pilot Study

The researcher first conducted a pilot study. This is due to several reasons; (1) to test the adequacy of the research instruments, (2) to identify problems relating to logistics during data collection stage (3) to estimate sample size, (4) to assess suitability of the sampling frame (5) to collect data for early testing (Van Teijlingen, Rennie, Hundley and Graham, 2001).

In order to increase the accuracy of the results, the questionnaires were distributed to a sample of respondents who closely resemble the target population of this study that is lecturers who are bank customers. The method applied is random sampling in

which the questionnaire is self-administrated in each university. The researcher distributed sixty questionnaires to respondents from the universities. These respondents have to answer the questions in the questionnaire and were also requested to leave comments and suggestions about the questionnaire. The researcher had adequate time to perform analysis on the sample of the pilot study results and validate it. From the pilot study, the researcher conducted tests on reliability, validity and viability of the research instrument as well as gauged the time needed for conducting the main study. The results from the pilot test and suggestions from the feedback were beneficial to improve the questions for the final questionnaire.

4.9.1 Reliability Test of Pilot test

Cooper and Schindler (2003) state that reliability test is important to measure (validity) and consistency of measurement results (reliability).

Reliability test ensures internal consistency and stability of measurement items to measure a construct (Garver & Mentzer, 1999) and it is assessed by using Cronbach's alpha test. This test was commonly used in several past studies to assess reliability (Coakes & Steed, 2007; Garver & Mentzer, 1999; Sekaran, 2003; Shah & Goldstein, 2006) the internal consistency of a construct is higher if the alpha value is closer to 1 (Coakes & steed, 2007; Sekaran, 2003). Rules of thumb provided by George and Mallery (2003) stated the alpha values of greater than 0.5 were suggested as being adequate and acceptable for testing the reliability of constructs, while the values less than 0.5 were considered not acceptable.

Table 4.3
Summary of measure and reliability of Cronbach's Alpha from pilot test

Variables Items	No. of items	Cronbach alpha	Deleted
Attitude	5	.945	None
Subjective Norm	5	.950	None
Religion	4	.632	None
Knowledge	11	.911	None
Pricing	4	.804	None
Government Support	6	.924	None
Technology Support	4	.888	None
Intention	6	.969	None
Islamic Banking Selection	7	.881	None

As shown in Table 4.3, all constructs are acceptable since the values exceed .60 (Hair et al., 2006). That is ranged from 0.632 to 0.969 following the criterion of George and Mallery (2003) and greater than 0.5. Since all the constructs have high reliability values, the final questionnaires were distributed without any modification.

4.9.2 Validity Test of Pilot Test

Construct validity is the most complex and the most critical in theory testing (Bagozy et al., 1991). Factor analysis was used to analyse the validity on the constructs. Factors with loading of at least 0.45 were used (Hair et al, 2010. Table 4.4 shows the results of the Kaiser-Meyer-Olkin (KMO).

Table 4.4
Results of Factor Analysis

No	Construct	Number of Items	Deleted Items	Factor loading for Retained Items	KMO	Eigen Value	% of variance Explained
1	Attitude	5	None	0.954, 0.905, 0.882, 0.854, 0.817	.828	4.117	78.094
2	Subjective Norm	5	None	0.935, 0.913, 0.887, 0.869, 0.859	.892	4.187	79.743
3	Religion	4		0.841, 0.747, 0.493	.649	2.003	38.613
4	Knowledge	11	None	0.828, 0.791, 0.768, 0.762, 0.753, 0.720, 0.714, 0.699, 0.690, 0.684, 0.623	.862	5.899	53.625
5	Pricing	5	None	0.937, 0.918, 0.899, 0.848, 0.792	.828	4.090	77.474
6	Government Support	6	None	0.923, 0.893, 0.834, 0.823, 0.794, 0.657	.837	4.380	68.044
7	Technology Support	4	None	0.909, 0.812, 0.794, 0.765	.743	3.015	67.480
8	Intention	6	None	0.959, 0.955, 0.945, 0.927, 0.894, 0.875, 0.778	.898	5.922	82.220
9	Islamic Banking Selection	7	None	0.847, 0.828, 0.797, 0.777, 0.775, 0.765, 0.759	.754	7.136	37.555

The Kaiser-Mayer-Olkin is measure of sampling adequacy test whether the partial correlation among measurement items are small (Brown et al, 2007). In other words, the KMO is a test of the assumption whether items are sufficient for each factor (Leech, Barrett, & Morgan, 2005). The KMO statistic in Table 4.4 ranges between 0

and 1. The value of 0 indicates that factor analysis is likely to be inappropriate and the value close to 1 indicates that patterns of correlations are relatively compact, and factor analysis is reliable. KMO should be greater than 0.5 recommended by Hinton, Brownlow, Mc Murray and Cozens (2004) and Kaiser (1974). Furthermore, Hutcheson and Safroniou (1999) suggested the values between 0.5 and 0.7 are mediocre, values between 0.7 and 0.8 are good, values between 0.8 and 0.9 are great and values 0.9 are superb. Table 2 above, indicates that all shows that the KMO for each construct this test is the range 0.649 to 0.898, that is the values are greater than 0.5. Other than that, to ensure construct validity, Bartlett's test of sphericity should be large and significant (Coakes & Steed, 2007). In this analysis, the Bartlett's test of sphericity is significant at $\alpha = 0.05$ for all constructs. Thus, it can be concluded that all constructs are considered eligible for analysis.

4.10 Data Analysis

The data analysis process commenced with descriptive statistics, data screening, Exploratory Factor Analysis (EFA), and Smart Partial Least Structural Equation Modelling PLS-.SEM. Data screening consists of detecting and treating outlier, Cronbach Alpha and Composite reliability, univariate and multivariate normality, multicollinearity, linearity, and homoscedasticity analysis. The next step of validation process is through, EFA, and CFA for convergent validity and Average variance Extracted (AVE) for discriminant Analysis. The final step is running the PLS - SEM procedure to test the hypotheses formulated for the study. Since, this study intends to investigate causal and mediating between latent variables, Smart

Partial Least Square - Structural equation modelling (PLS - SEM) was the main analysis method used (Hair *et. al.*, 2010).

4.10.1 Descriptive Statistics

Analysis of data will produces statistics such as the minimum, maximum, mean, standard deviations, median, mode, standard error of mean, skewness and kurtosis for demographic and other variables variables. Standard deviation is the average total scores for each individual variable that is calculated from number of mean in scores set (Salkind, 2006). Besides, the descriptive statistics are concerned about mode and median as well as frequency and percentage.

4.10.2 Data Analysis Procedure

For this research, the procedure for data analysis started with the data entry of the responses followed by the screening of those data for addressing missing values, outliers, data entry errors, linearity and multicollinearity analysis (Churchill & Lacobucci, 2004; and Sekaran, 2003). Responses from 300 questionnaires were entered and they were being analysed using SPSS software version 20.0 followed by PLS version 3.0 to analyse direct and indirect relationships. No missing values were detected in this study.

4.10.3 Data Entry

The acceptable respondents (300) are entered to analysis using SPSS software version 20. This involves data editing and coding. According to Zikmund-William (2003), the purpose of data coding is systematic storage. In the present research, data coding is done with the help of SPSS software version 20.0. Data coding is done by

the appropriation of character symbols (mostly numerical symbols) on the data. For suitability, the data are then edited before it is typed into SPSS.

4.10.4 Outlier Detection (Mahalanobis Distance)

Outliers occur when there are extreme answers in the responses. These outliers in the data were detected using Mahalanobis Distance technique. In the present study, any item out of the total 300 items entered that has a Mahalanobis Distance (D2) score greater than the Chi-Square value of 73 items ($\chi^2 = 116.08$) was considered an outlier and subsequently deleted.

4.10.5 Assessment of Normality

Several data in this study underwent transformations to ensure they meet normality requirement using transform function in the SPSS 20. Normality is also assured when skewness and kurtosis values is less than 3(+/-) and 7 (+/-) respectively. Evidence of normality was also seen from the data normal distribution curve.

4.10.6 Linearity and Homoscedasticity

Linearity between variables is represented in the correlation (Hair *et.al.*2006). Through a scatter plot, the representation of the relation between two metric variables having a combined value of each observation in the two dimensional groups can be possible. Therefore, the aim of scatter plot is to show the dotted line that is linear. According to Ghozali *et. al* (2005), when the error terms variance is constant in all varieties of predictor variables, the data collected in this state is referred to as homoscedasticity. Concentration is drawn to dependent variables that

show equal variance in a transverse level in the predictor variables range. Homoscedasticity is characterized by a cloud of dots. In the country, non homoscedasticity can be accurately described as a funnel-shaped pattern that shows an increase in error in direct relation to an increase in the dependent variables.

4.10.7 Multicollinearity

When a variable is highly correlated to another variable, there exists multicollinearity. The higher the multicollinearity, the more complicated the interpretation of the variety because it is more difficult to identify the effect of any single variable due to their close association (Hair *et. al.* 2006). According to the multiple regression analysis, if the results of any study could show the tolerance value of >0.10 and the variance inflation factor (VIF) value of <10 , it can be concluded that multicollinearity among the variables is not a problem. Multicollinearity could also be indicated by the correlation coefficients (r) between variables. High value of $r > .8$ could mean the presence of multicollinearity.

4.10.8 Response Bias

Response bias test is an analysis that shows whether the respondents' answers are based on the researcher's idea because if it is the contrary, the findings will be affected through cognitive bias. In order to ensure that this does not happen, a T-test is conducted to examine whether or not there is any major difference between the early and the late response (Pallant, 2011). In this study, the researcher made use of the t-test to find out whether or not there was a statistically significant difference between the mean scores of the two groups of respondents.

4.11 Reliability & Composite Reliability

Two Types of reliability were conducted in this study. The first type is Cronbach's Alpha through the use of SPSS 20.0. The instrument reliability was revealed to be above 0.60, which is acceptable (Sekaran 2003; Hair *et al.* 2006).

The second type is composite reliability (Cr). According to Bagozzi & Yi (1989) and Holmes Smith (2001), composite reliability value should be more than 0.60. This test was developed by Fronell and Larcker (1981). This happens to be the most commonly used index for estimating reliability in PLS-SEM analysis. Fronell and Larcker (1981) made use a formula to calculate the composite reliability. This is shown by the following equation (Kearns & Lederer, 2003):

$$\text{Composite Reliability} = \frac{(\sum Li)^2}{(\sum Li)^2 + \sum Ej} \quad (1)$$

“Where (Li) is the standardized factor loadings for each indicator, and (Ej) is the error associated with the individual indicator variables”.

4.12 Validity Test

According to Hair *et al* (2006) Validity can be defined as the ability to define the concept through measurement, while reliability shows how consistent the measurement. The research instrument to be used in the survey may be reliable, but may not be valid. However, it cannot be valid if it is not reliable. Therefore, it is necessary to assess the validity of the instrument. A validity test is a step whereby a research instrument is used to measure the construct under study. Validity has two main types, namely content (face) and construct validity. Construct validity has also

two types: convergent and discriminant validity. Each type is defined in the following sections.

4.12.1 Content (face) Validity

Content validity assesses the degree of correspondence between the selected items to make a summated scale and its conceptual definition. It relates to the subjective agreement by the professionals that the purpose of the scale is to rationally reflect what is supposed to be measured.

4.12.2 Construct Validity

Construct validity refers to the extent to which a set of measured variables represent the theoretical latent construct, which it has been designed to measure. It reveals how well the process of achieving results are, by using the measure fit related to theories in which the test was originally designed (Malhotra & Grover, 1998). In other words, the researcher should check the construct validity of the research and tap the theorized concept, and in this case, the more construct validity is utilized the more validity is constructed (Malhotra & Stanton, 2004).

4.12.3 Convergent Validity

Convergent Validity validates the degree to which two measures, sharing the same concepts, are related and can be analyzed through Confirmatory Factor Analysis (CFA) to guarantee that the factor loading of constructs is more than .30 (Hair *et. al*, 2006). This type indicates a specific construct convergence, or those which share a high proportion of variance in common. It is one of the most important aspects that should be considered by the researcher while doing the research.

4.12.4 Discriminant Validity

It measures how far one variable is different from another. Variables which have low correlation value with each other show existence of discriminant validity (Nunnally, 1970). Average Variance Extracted (AVE) is commonly used to measure discriminant validity (Fronell & Larcker, 1981) whereby AVE values should not be less than 0.50 for each construct (Holms-Smith, 2001; and Bagozzi & Yi). However, in the case of small size sample, AVE is below 0.50 and reliabilities are acceptable (Hatcher 1994, p.331). The formula for calculating AVE is:

$$\text{Variance Extracted} = \frac{(\sum \text{Standardized SMC})^2}{(\sum \text{Standardized SMC})^2 + \sum \text{Measurement Error}} \quad (2)$$

Discriminant validity is performed on the final data and the result could be found in the finding section of this study (p. 179).

4.13 Justification for using PLS – SEM

The PLS – SEM path modeling is considered as the most suitable technique in this study for several reasons:

- PLS path modelling is similar to conventional Regression technique, it has advantage of estimating the relationship between constructs (structural model) and relationship between indicators and their corresponding between latent variable (measurement model) simultaneously (Duarte & Raposo, 2010; Chin, Marcolin, & Newsted, 2003; Lohmoller, 1989; Gerlach, Kowalski, & Wold, 1979).

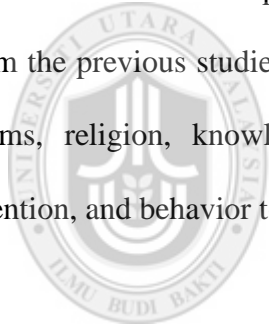
- The present research is explorative in nature by applying TRA theory, TPB theory, and UTAUT theory. This requires a path modelling approach to be employed because it has been suggested that if research is prediction oriented or an extension of an existing theory, PLS path modelling should be employed (Hair *et. al*, 2011; Henseler, Rinle, & Sinkovics, 2009; Hulland, 1999).
- If compare to other path modelling software e.g., AMOS (Analysis of Moment Structures), the Smart PLS 3.0 software was selected as a analysis because of it is friendly graphical user interface, which help users create mediating effect for path models with interaction effects (Temme, Kreis, & Hildebranth, 2010).

14.3.1 Steps in PLS analysis:

- 1) The data collected was clean using SPSS to ensure that it is suitable for the PLS – SEM analysis.
- 2) To ascertain the measurement model, individual item reliabilities, internal consistency reliabilities, convergent validity and discriminant validity was calculated using Smart PLS 3.0 software.
- 3) Standard bootstrapping procedure with a number of 5000 bootstrap samples and 275 cases was applied to evaluate the structural model. In particular, the significance of the path coefficients, level of the R-squared values, effect size and predictive relevance of the model was assessed (Hair *et. al*, 2011; Henseler *et. al*, 200; Hair, Hult, Ringle, & Sarstedt, 2014).
- 4) After the analysis of the main PLS path model was run, a supplementary PLS – SEM analysis (mediating analysis) was conducted.

4.14 Summary of Chapter

This chapter presented the methodology, and procedure used in this research such as data screening techniques (normality, reliability, and validity), pilot study methods and results, the instrument developed (questionnaire), data collection and data analysis process. The description of the procedures for data collection includes a discussion of population, sample size and the survey procedure. In the data analysis section, the statistical technique (PLS - SEM) used for data analysis was explained for the purpose and benefit of this study. The respondents comprises individual lecturer who is teaching in the selected Indonesian Universities located in the three regions. A random sampling technique was used in this study. Measurement scales from the previous studies were adapted to measure nine constructs: attitude, subject norms, religion, knowledge, pricing, government support, technology support, intention, and behavior to act.



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CHAPTER FIVE

RESULTS AND DISCUSSION

5.1 Introduction

This chapter presents the results on the analysis of the respondents' response toward Islamic banking selection in Indonesia using confirmatory factor analysis and PLS-SEM. This chapter begins with analysis of Response rate in section 5.2 followed by Data screening in section 5.3. Section 5.4 explains the result on correlation analysis followed by section 5.5 and 5.6 on Response Bias and Descriptive analysis respectively. Section 5.7 documents the results from PLS model on the direct and indirect relationships.

5.2 Response Rate

In this study, a total of 544 questionnaires were distributed to the lecturers in the public universities located in the West, Central, and East region of Indonesia as shown in Table 5.1.

Table 5.1
Distribution Sampling

No.	Name of University	Place	Number of Customer	Number of Samples
1	UNSRI	In Palembang	1.445	62
2	UI	In Jakarta	6.691	290
3	UIN Syarif Hidayatullah	In Jakarta	1.438	63
4	UNHAS	In Makassar	1.759	76
5	UIN Alauddin	In Makassar	1.199	54
	Total Population		12.532	375*
	Assume 45% are not returned			169**
	Total Samples			545

375 questionnaires were returned, out of 545 questionnaires that were distributed to the target respondents. This gives a response rate of 65%. Of these 375 questionnaires, 75 were unusable because a significant part of those questionnaires were not completed by the participants; and the remaining 300 useable questionnaires were used for further analysis. This accounted for 55% valid response rate which is adequate. Sekaran (2003) suggested that a response rate of 30% is sufficient for surveys. Table 5.2 shows the response rate analysis.

Table 5.2
Response Rate of the Questionnaire

	Response
No. of distributed questionnaires	545
Returned questionnaires	375
Returned and usable questionnaires	300
Returned and excluded questionnaires	75
Questionnaires not returned	169

Table 5.2 (Continued)

	Responses
Response rate	65%
Valid response rate	55%

5.3 Data Screening and Preliminary Analysis

Before performing the fundamental analysis, it is important to decide on a checklist for screening the data in order to find out the effects that the characteristics of the data may have upon the results. Data screening is very crucial in any multivariate analysis because it helps researcher identify any possible violations of the key assumptions regarding the application of multivariate techniques of data analysis (Hair *et al.*, 2007). Prior to data screening, all the 300 returned and usable were coded and entered into the SPSS 20.0. Subsequent to data coding and entry, the following preliminary data analysis, screening at this stage is important because decisions made at the earlier steps influence the decisions to be taken at next steps. The screening procedures conducted were the analysis: missing value analysis, outlier treatment, assessment of normality test, and multicollinearity test (Hair, Black, Babin, & Anderson; Tabachnick & Fidell, 2007). These steps will be discussed one by one.

5.3.1 Missing Value Analysis

The second step in the data screening process is to identify missing data (Hair *et. al.* 2006). As mentioned earlier, 375 survey instruments were collected from bank customers. Another 75 were rejected because the respondents did not complete the

questionnaire properly. Data from 300 hundred questionnaires were examined for missing tests, and no missing value detected.

5.3.2 Assessment of Outliers

The Outliers is another important step in the data screening process. These are extreme case scores (Table 5.2), which have a much higher effect on the outcome of any statistical analysis. Therefore, the use of any multivariate technique calls for the identification and the outliers in the responses (Hair et. al. 2010) and detected using Mahalanobis distance (D2). Tabachnick and Fidell (2007) defined Mahalanobis distance (D2) as the distance of a case from the centroid of the remaining case where the centroid is the point created at the intersection of the means of all variables (p. 74).

The criterion for identification of multivariate outliers is Mahalanobis distance at $p < 0.001$. Mahalanobis distance is compared with the X^2 with a degree of freedom of 73 items, which is the number of variables (constructs) used in this study. Any cases with a Mahalanobis distance greater than $X^2=116.08$ (see table 4.2) were considered as multivariate outliers distance identified 25 cases as multivariate outliers; these were excluded in further analysis. The total usable response remained at 275 (300-25) respondents. Any value more than (X^2) will be deleted, which are considered outliers (Hair et. al, 1998, 2006; Tabachnick & Fidel, 2001).

Table 5.3

List of deleted items after the application of Mahalanobis Distance.

Number	Observation cases	Mahalanobis d -square
1	4	154.325
2	6	156.6791
3	13	145.2879
4	17	137.2722
5	48	258.3012
6	54	164.6556
7	57	177.7614
8	71	167.548
9	91	136.5095
10	93	133.5626
11	94	128.8717
12	96	136.5573
13	102	139.0582
14	122	166.7973
15	165	264.6714
16	197	128.8852
17	206	139.1949
18	207	138.767
19	208	147.8603
20	230	132.3008

Table 5.3 (Continued)

Number	Observation cases	Mahalanobis <i>d</i> -square
21	246	161.6872
22	267	153.7284
23	277	137.9401
24	282	172.7105
25	297	133.4895

5.3.3 Normality Test

Hair, Sarstedt, Ringle and Mena (2012) suggested that researchers should perform a normality test on the data. Highly skewed or kurtosis data can inflate the bootstrapped standard error estimates (Chernick, 2008), which in turn underestimate the statistical significance of the path coefficients (Dijkstra, 1983; Ringle, Sarstedt, & Straub, 2012a).

For most analysis to work properly, the data should follow a normal distribution. If normality of the data exists, even, in situations which do not necessitate normality, it will make for a stronger assessment (Ghozali & Fuad, 2005).

The present study employed a graphical method to check for the normality of data collected (Tabachnick & Fidell, 2007). Field (2009) suggested that in a large sample of 200 or more, it is more important to look at the shape of distribution graphically rather than at the value of the skewness and kurtosis statistics. Hence, this justified

the reason for using a graphical method for normality test rather than the statistical methods.

Following Field's (2009) suggestion, a histogram and normal probability plots were examined to ensure that normality assumptions were not violated. Figure 5.1 depicts that data collected for the present study followed normal pattern since all the bars on the histogram were closed to a normal curve. Figure 5.1 indicates that normality assumptions were not violated in the present study.

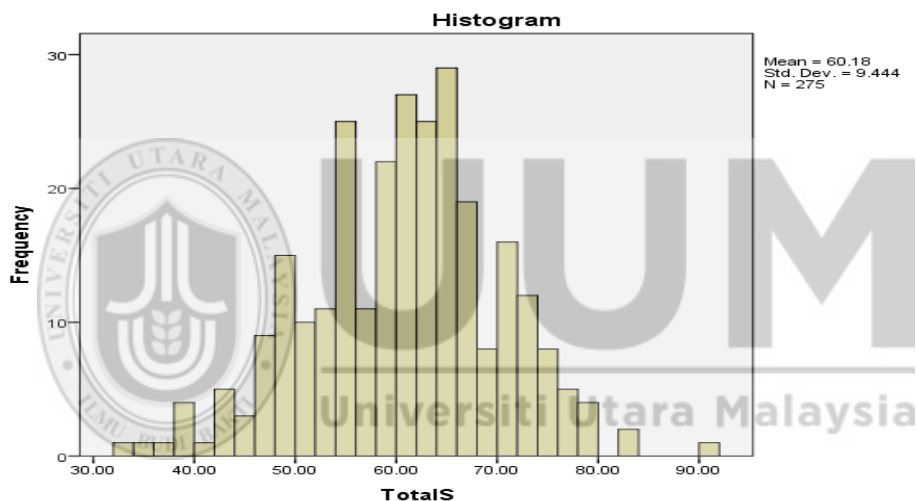


Figure 5.1
Histogram and Normal Probability Plots

5.3.4 Multicollinearity Tests

According to the multiple regression analysis, if the results of any study could show the tolerance value of >0.10 and the variance inflation factor (VIF) value of <10 , it can be concluded that multicollinearity among the variables is not a problem. Multicollinearity could also be indicated by the correlation coefficients (r) between variables. High value of $r > .8$ could mean the presence of multicollinearity. High

multicollinearity will also be shown in analysis of PLS-SEM through the problems of non-positive definite, where are the presence of factor loadings of more than one.

To detect multicollinearity, two methods were used in the present study (Chatterjee & Yilmaz, 1992; Peng & Lai, 2012). First, the correlation matrix of the exogenous latent constructs was examined. A correlation coefficient of 0.90 and above indicates multicollinearity between exogenous latent constructs. Table 5.4 shows the correlation matrix of all exogenous latent constructs.

Table 5.4
Correlation Matrix of the Latent Construct

NO	Latent Construct:	1	2	3	4	5	6	7
1	ATD	1						
2	SN	.095	1					
3	RLG	.379**	.490**	1				
4	KNL	.555**	.132*	.327**	1			
5	PRC	-.011	.222**	.216**	.017	1		
6	GS	.340**	.177**	.220**	.366**	.079	1	
7	TS	.363**	.195**	.331**	.328**	.065	.275**	1

Note: ** significant at 0.01 level (1-tailed).

As shown in Table 5.4, the correlations between latent construct were sufficiently below the suggested threshold values of .80 or more, which suggests that Exogenous Latent variable were independent and not highly correlated or is no multicollinearity between all the exogenous variables (Cooper & Schindler, 2003; Sekaran, 2003).

Secondly, following the examination of correlation matrix for the exogenous latent constructs, variance inflated factor (VIF), tolerance vale and condition index were

examined to detect multicollinearity is a concern if VIF value is higher than 5, tolerance value is less than .20 and the condition index is higher than .30. Table 5.5 shows the VIF values, tolerance values, and condition indices for the exogenous latent variable.

Table 5.5
Variance of Inflation Factors (VIF)

	ATD	GS	IBS	INT	KNL	PRC	RLG	SN	TS
ATD			1.944	1.803					
GS			1.314	1.290					
IBS									
INT			1.986						
KNL			1.792	1.705					
PRC			1.120	1.077					
RLG			1.828	1.722					
SN			1.133	1.119					
TS			1.300	1.298					

Table 5.5 indicates that multicollinearity did not exist among the exogenous latent constructs as all VIF values were less than 5, as suggested by Hair *et. al.* (2011). Thus, multicollinearity is not an issue in the present study.

5.4 Response Bias

Response bias test is an analysis that shows whether the respondents' answers are based on the researcher's idea because if it is the contrary, the findings will be affected through cognitive bias. Lambert and Harrington (1990) defined non-

response bias as “the differences in the answers between non-respondents and respondents”. In order to estimate the possibility of non-response bias, Amstrong & Overton (1977) suggested a time-trend extrapolation approach, which entails comparing the early and late respondents (i.e., non-respondents). They argued that late respondents share similar characteristics with non-respondents. Meanwhile, to further minimize the issue of non-response bias, Lindner & Wingenbach (2002) recommended that a minimum response rate 50% should be achieved.

In order to ensure that this does not happen, a T-test is conducted to examine whether or not there is any major difference between the early and the late response (Pallant, 2011). In this study, the researcher made use of the t-test to find out whether or not there was a statistically significantly difference between the mean scores of the two group of respondents.

In particular, an independent sample t-test was conducted to detect any possible response bias on the main study variables including attitude, subject norms, religion, knowledge, pricing, government support, and technology support. Table 5.6 presents the results obtained.

Table 5.6
Results of Independent-Sample T-test for Response Bias

Variables	Group	N	Mean	SD	Lavene's test for Equity of Variances	
					F	Sig
Attitude	1	81	3.93	.727	.273	.602
	2	194	3.73	.655		
Subjective Norm	1	81	2.70	.807	1.118	.291
	2	194	2.66	.853		
Religion	1	81	3.42	.625	2.694	.102
	2	194	3.37	.561		

Knowledge	1	81	3.79	.588	.141	.708
	2	194	3.61	.616		
Pricing	1	81	2.74	.799	.650	.421
	2	194	2.98	.726		
Government Support	1	81	3.56	.614	.338	.561
	2	194	3.50	.583		
Technology Support	1	81	3.64	.607	3.493	.063
	2	194	3.63	.719		
Intention	1	81	4.15	.567	1.162	.282
	2	194	3.88	.710		
IB Selection	1	81	3.40	.519	.162	.688
	2	194	3.32	.527		

As presented in Table 5.6, the results of independent-samples t-test revealed that the equal variance significance values for each the nine variables were greater than the 0.05 significance level of Levene's test for quality of variances as suggested by Pallant (2011) and Field (2009). Hence, this suggest that the assumption of equal the variances between early and late respondents h has not been violated. As such, it can be concluded that non-response was not a major concern in the present study.

5.5 Demographic Profile of Respondents

The demographic profile of the respondents included in this study comprised of the following five major items: (1) gender, (2) age, (3) religion, (4) region, (5) education, (6) income, (7) years of use the bank services, and (8) frequency to use bank. The results obtained from analyzing the above mentioned variables are shown in Table 5.7. The results are presented as frequency and percentage.

Table 5.7
Demographic Profile of respondents.

	Frequency	Percentage
Gender		
Male	130	43.3
Female	170	56.7
Age		
20-29 years	45	15.0
30-39 years	106	35.3
40-49 years	76	25.3
50-59 years	70	23.3
60 years and above	3	1.0
Religion		
Islam	291	97.0
Kristen	5	1.7
Hindu	3	1.0
Budha	1	0.3
Region		
West	49	16.3
Centre	178	59.3
East	73	24.3
Education		
Bachelor	46	14.3
Master	194	64.7
Doctor	60	20.0

Table 5.7 (Continued)

	Frequency	Percentage
Income		
>Rp 1,000,000 – 3,000,000	83	27.7
>Rp 3,000,000 – 5,000,000	106	35.3
>Rp 5,000,000 – 7,000,000	78	26.0
>Rp 7,000,000 – 10,000,000	23	7.7
>Rp10,000,000 – 13,000,000	7	2.3
>Rp 13,000,000	3	1.0
Years for using Islamic Bank		
Services		
< 1 year	25	8.3
1-5 years	189	63.0
6-10 years	73	24.3
>10 years	13	4.3
Frequency to using Islamic Bank		
1-3 times	54	18.0
4-6 times	92	30.7
7-9 times	66	22.0
More 10 times	87	29.0

The number of total respondents are 300 (43.3%) of the respondents or 130 respondents were male and 56.7% were female. Previous studies have different

distribution regarding the gender of the respondents. For example de-Lara and Tacorante (2007) found the majority of teachers at a Spanish University were males (64.6%) compared to their female counterparts (35.4%).

Regarding the age group, the participants in the group of 30-39 years were 35.3%. This is followed by those in the age group of 40-49 years with 76 respondents, which accounted for 25.3% of the sample. Representing 24.3% of the samples were in the age group of 50 years and above, there were 73 respondents. The smallest age group ranged between 20-29 years, which accounted for 15% or 45 respondents. Most of the lecture's hold the Master degree (64.7%), and Doctor degree (34.3%). This reflects knowledgeable and highly educated respondents who are aware about Islamic banking.

Additionally, in terms of Religion, almost all lecturers (97 percent) are Muslim, Christian 1.7 percent, and Hindu- Budha 1.3 percent. In terms of Income of the respondents, 27.7 percent is the range Rp 3,000,000-5,000,000 , Rp.5,000,000-7,000,000 are 35.3 percent, Rp. 7,000,000-10,000,000 are 26 percent, and more than Rp.10,000,000 are 3.3 percent.

Table 5.7 also shows that the respondents came from diverse region backgrounds, namely, west region, center region, and east region. Approximately lecturers of West region are 16 percent, Center region are 59.3 percent, and East region are 24.3 percent.

Lecturers with their experience using Islamic bank less than 1 year are 8.3 percent, 1-5 years are 63 percent, 6-10 years are 24.3 percent, and more than 10 years are 4.3

percent. Numbers of frequency using Islamic bank per month in 1-3 times are 18 percent, 4-6 times are 30 percent, 7-9 times are 22 percent, and more than 10 times are 29 percent. The distribution indicates that the majority of the respondents, have been using Islamic banking services in the last 1-5 years with 4-6 times frequency per month.

5.6 Descriptive Analysis

For Descriptive statistics, means and standard deviations for the latent variables were computed. All the latent variables used in the present studies was measured using a five-point scale anchored by 1= strongly disagree to 5= strongly agree. The results are showed in Table 5.7. For easier interpretation, the five-point scale used in the present study was classified into three categories, namely, low, moderate, and high. Scores of less than 2 ($3/3 + \text{lowest value} = 1$ is considered as low; scores of 3 (highest value $4 - 3/3$) are considered high, while those between low and high scores are considered moderate (Sassenberg, Matschke, & Scholl, 2011).

Table 5.8
Descriptive statistics for Latent variables

Latent Constructs	No of items	Mean	Standard Deviation
Attitude	5	3.786	.636
Subject Norm	5	2.674	1.011
Religion	4	3.385	.968
Knowledge	11	3.664	.855
Price	6	2.910	.996

Table 5. 8 (Continued)

Latent Constructs	No of items	Mean	Standard Deviation
Government Support	6	3.518	.763
Technology Support	4	3.633	.812
Intention	6	3.962	.728
Islamic Baking Selection	6	3.343	.961

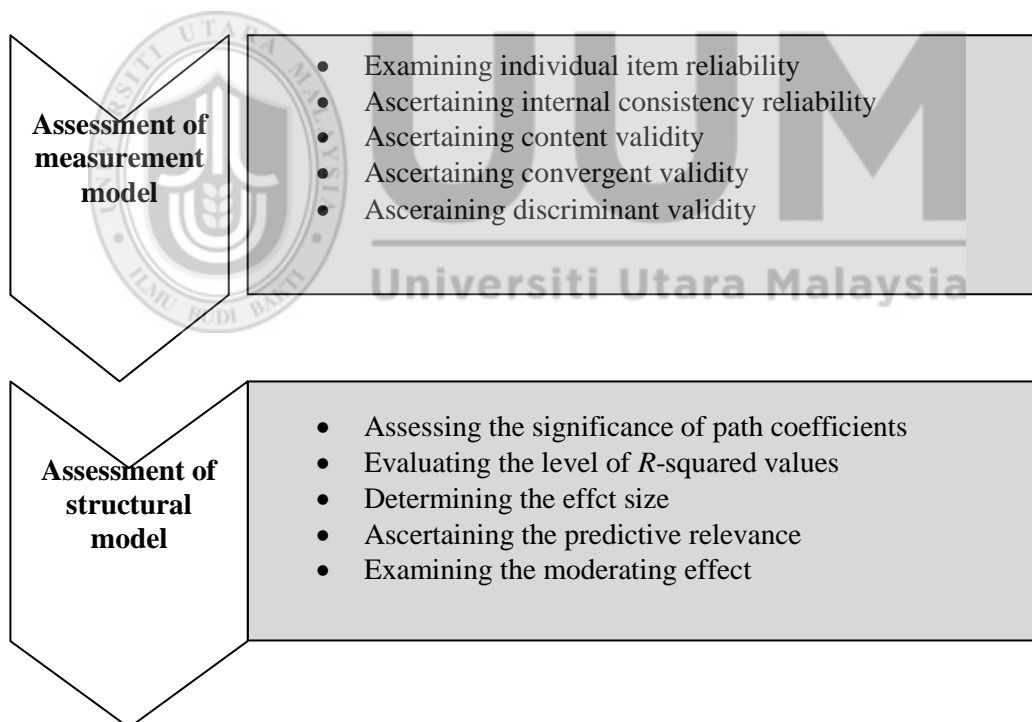
Table 5.8 shows that the overall mean for the latent variables ranged between 2.674 and 3.786. In particular, the standard deviation and mean for the attitude were 3.786 and .636, respectively. This suggests tend to have high level of attitude to select Islamic banking. Table 5.8 also indicates that the mean for the subject norm was 2.674, with a standard deviation of 1.011, suggesting that the respondents perceived the level of subject norms as moderate. The results show a high score for the perceived religion (Mean = 3.385, Standard deviation = .968) and also a high score for perceived knowledge with mean and standard deviation of 3.664 and .855, respectively.

The descriptive statistics also show a moderate score for pricing (Mean = 2.910; standard deviation = .996). In terms of government support and technology support, the means and standard deviations are as follows: for government support (Mean = 3.518; standard deviation = .763) and for technology support (Mean = 3.633; standard deviation = .812), suggesting that the respondents perceive government support and technology support. Further, the results show the high score for intention to select Islamic bank with mean and standard deviation of 3.962 and .728,

respectively. The descriptive statistics show a moderate score for Islamic banking selection with mean 3.343 and standard deviation .961.

5.7 Assessment of PLS-SEM Path Model Results

The present study adopted a two-step process to evaluate and report the results of PLS-SEM path, as suggested by Henseler, Ringle and Sinkovics (2009). This two-step process adopted in the present study comprises (1) the assessment of a measurement model, and (2) the assessment of structural model, as depicted in Figure 5.2.



A Two-step Process of PLS Path Model Assessment
Source: Henseler et al., 2009

5.8 Assessment of Measurement Model

An assessment of a measurement model involves determining individual item reliability, internal consistency reliability, convergent validity, content validity, and discriminant validity (Hair *et al.*, 2014; Hair *et al.*, 2011; Henseler *et al.*, 2009).

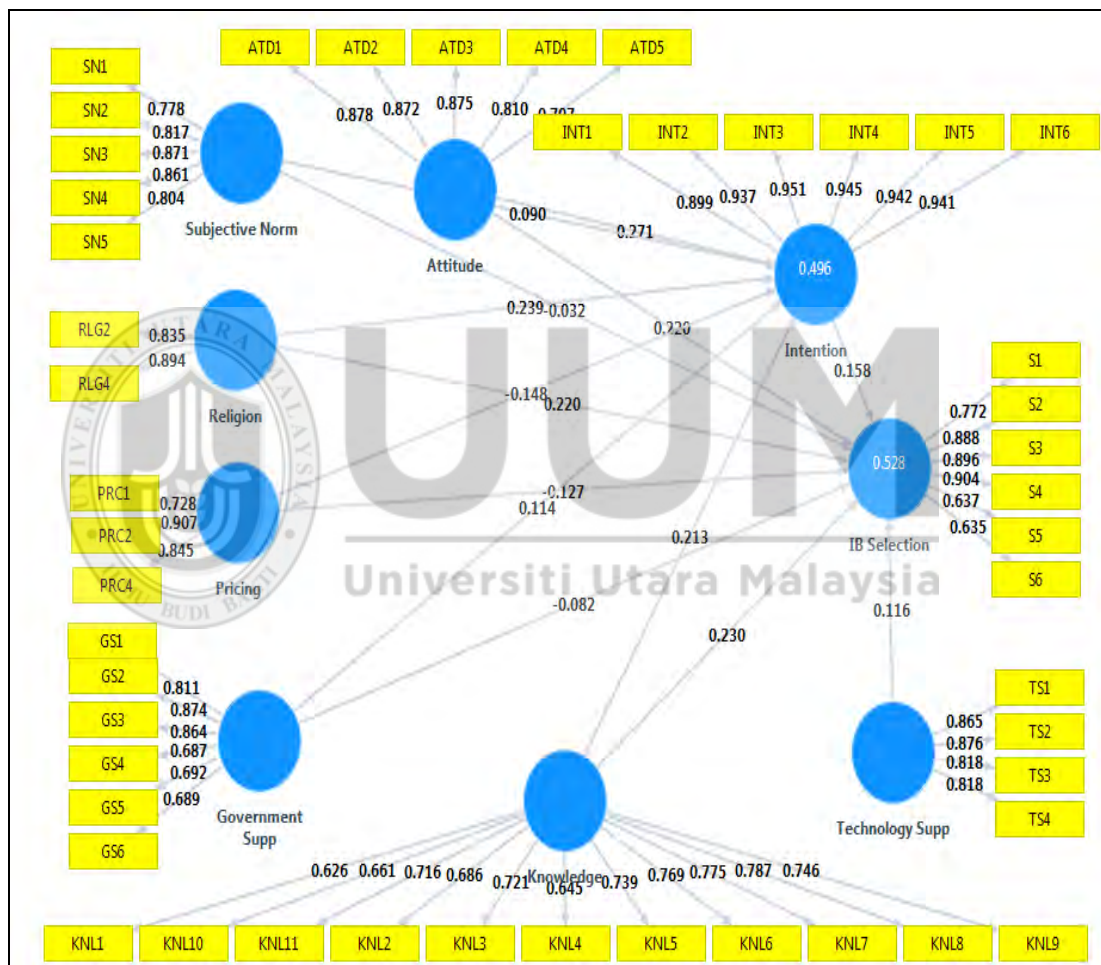


Figure 5.3
The measurement model.

5.8.1 Individual Item Reliability

Individual item reliability was assessed by examining the outer loadings of each construct's measure (Duarte & Raposo, 2010; Hair et al., 2014; Hair et al., 2012; Hulland, 1999). Following the rule of thumb for retaining items with loadings between .40 and .70 (Hair et al., 2014), it was discovered that out of 65 items, 15 were deleted because they presented loadings below the threshold of 0.40. Thus, in the whole model, only 50 items were retained as they had loadings between 0.626 and 0.951 (see Table 5.9).



5.8.2 Internal Consistency Reliability

Internal consistency reliability refers to the extent to which all items on a particular (sub) scale are measuring the same concept (Bijttebier et al., 2000; Sun et al., 2007). Cronbach's alpha coefficient and composite reliability coefficient are the most commonly used estimators of the internal consistency reliability of an instrument in organizational research (e.g., Bacon, Sauer, & Young, 1995; McCrae, Kurtz; Peterson & Kim, 2013). In this study, composite reliability coefficient was chosen to ascertain the internal consistency reliability of measures adapted.

Two main reasons justified the use of composite reliability coefficient. Firstly, composite reliability coefficient provides a much less biased estimate of reliability than Cronbach's alpha coefficient because the later assumes all items contribute equally to its construct without considering the actual contribution of individual loadings (Barclay, Higgins, & Thompson, 1995; Gotz, Liehr-Gobbers, & Krafft, 2010).

Table 5.9
Loadings, Composite Reliability and Average Variance Extracted

Latent Indicators	Constructs and Standard Loadings	Composite Reliability (CR)	Average Variance Extracted (AVE)
Attitude		0.917	0.691
ATD1	0.878		
ATD2	0.872		
ATD3	0.875		
ATD4	0.810		
ATD5	0.707		
Subjective Norms		0.915	0.684
SN1	0.778		
SN2	0.817		
SN3	0.871		
SN4	0.861		

SN5	0.804		
Religion		0.856	0.748
RLG2	0.835		
RLG4	0.894		
Knowledge		0.921	0.514
KNL1	0.626		
KNL2	0.686		
KNL3	0.721		
KNL4	0.645		
KNL5	0.739		
KNL6	0.769		
KNL7	0.775		
KNL8	0.787		
KNL9	0.746		
KNL10	0.661		
KNL11	0.716		
Price		0.847	0.587
PRC1	0.728		
PRC2	0.907		
PRC4	0.845		
Government Support		0.898	0.599
GS1	0.811		
GS2	0.874		
GS3	0.864		
GS4	0.687		
GS5	0.692		
GS6	0.696		
Technology Support		0.909	0.713
TS1	0.865		
TS2	0.876		
TS3	0.818		
TS4	0.818		
Intention		0.977	0.876
INT1	0.899		
INT2	0.937		
INT3	0.951		
INT4	0.945		
INT5	0.942		
INT6	0.941		
Islamic banking Selection		0.911	0.513
S1	0.772		
S2	0.888		
S3	0.896		
S4	0.904		
S5	0.637		
S6	0.634		

Secondly, The composite reliability takes into account that indicators have different loadings and can be interpreted in the same way as Cronbach's α (that is, no matter which particular reliability coefficient is used, an internal consistency reliability value above .70 is regarded as satisfactory for an adequate model, whereas a value below .60 indicates a lack of reliability). Cronbach's alpha may over or underestimate the scale reliability. Nevertheless, the interpretation of internal consistency reliability using composite reliability coefficient was based on the rule of thumb provided by Bagozzi and Yi (1988) as well as Hair et al (2011), who suggest that the composite reliability coefficient should be at least .70 or more.

As shown in Table 5.9, the composite reliability coefficient of each latent constructs ranged from .847 to .977, with each exceeding the minimum acceptable level of .70, suggesting adequate internal consistency reliability of the measures used in this study (Bagozzi & Yi, 1988; Hair *et al.*, 2011).

5.8.3 Convergent Validity

Convergent validity refers to the extent to which items truly represent the intended latent construct and indeed correlate with other measures of the same latent construct (Hair et al., 2006). Convergent validity was assessed by examining the Average Variance Extracted (AVE) of each latent construct, as suggested by Fornell and Larcker (1981). To achieve adequate convergent validity, Chin (1998) recommends that the AVE of each latent construct should be .50 or more. Following Chin (1998), the AVE values in Table 5.9 exhibited high loadings ($> .50$) on their respective constructs, indicating adequate convergent validity.

5.8.4 Discriminant Validity

Discriminant validity refers to the extent to which a particular latent construct is different from other latent constructs (Duarte & Raposo, 2010). In the present study, discriminant validity was ascertained using AVE, as suggested by Fornell and Larcker (1981). This was achieved by comparing the correlations among the latent constructs with square roots of average variance extracted (Fornell & Larcker, 1981). Additionally, discriminant validity was determined following Chin's (1998) criterion by comparing the indicator loadings with other reflective indicators in the cross loadings table. First, as a rule of thumb for evaluating discriminant validity, Fornell and Larcker (1981) suggest the use of AVE with a score of .50 or more. To achieve adequate discriminant validity, Fornell and Larcker (1981) further suggest that the square root of the AVE should be greater than the correlations among latent constructs.

As indicated in Table 5.10, the values of the average variances extracted range between .513 and .876, suggesting acceptable values. In Table 5.9, the correlations among the latent constructs were compared with the square root of the average variances extracted (values in bold face). Table 5.10 also shows that the square root of the average variances extracted were all greater than the correlations among latent constructs, suggesting adequate discriminant validity (Fornell & Larcker, 1981).

Table 5.10
Latent Variable Correlations and Square Roots of Average Variance Extracted

	ATD	GS	IBS	INT	KNL	PRC	RLG	SN	TS
ATD	0.831								
GS	0.373	0.774							
IBS	0.584	0.245	0.797						
INT	0.587	0.385	0.565	0.936					
KNL	0.565	0.399	0.568	0.558	0.717				
PRC	-0.071	0.034	-0.232	-0.206	-0.095	0.766			
RLG	0.571	0.327	0.585	0.563	0.521	-0.130	0.865		
SN	0.101	0.176	0.040	0.150	0.137	0.208	0.066	0.827	
TS	0.371	0.291	0.386	0.344	0.338	-0.015	0.398	0.199	0.845

Source: Entries shown in bold face represent the square root of the average variance extracted

Discriminant validity can be ascertained by comparing the indicator loadings with cross-loadings (Chin, 1998). To achieve adequate discriminant validity, Chin (1998) suggests that all the indicator loadings should be higher than the cross-loadings.

Table 5.11 compares the indicator loadings with other reflective indicators. All indicator loadings were greater than the cross-loadings, suggesting adequate discriminant validity for further analysis.

Table 5.11
Cross Loading

	ATD	GS	IBS	INT	KNL	PRC	RLG	SN	TS
ATD1	0.878	0.335	0.555	0.519	0.459	-0.055	0.555	0.079	0.335
ATD2	0.872	0.408	0.541	0.586	0.491	-0.059	0.592	0.081	0.336
ATD3	0.875	0.282	0.481	0.489	0.455	-0.030	0.463	0.060	0.346
ATD4	0.810	0.255	0.433	0.410	0.505	-0.059	0.375	0.079	0.244
ATD5	0.707	0.238	0.389	0.404	0.453	0.003	0.335	0.129	0.265
GS1	0.379	0.811	0.267	0.399	0.401	-0.019	0.351	0.099	0.260
GS2	0.378	0.874	0.248	0.352	0.420	0.048	0.337	0.192	0.314

GS3	0.265	0.864	0.160	0.277	0.268	0.043	0.221	0.106	0.210
GS4	0.206	0.687	0.103	0.236	0.216	0.174	0.185	0.225	0.135
GS5	0.215	0.692	0.130	0.177	0.163	0.069	0.167	0.157	0.168
GS6	0.193	0.689	0.153	0.254	0.262	0.004	0.155	0.072	0.201
INT1	0.542	0.327	0.516	0.899	0.495	-0.166	0.483	0.137	0.265
INT2	0.550	0.360	0.551	0.937	0.525	-0.192	0.570	0.098	0.318
INT3	0.555	0.369	0.555	0.951	0.534	-0.160	0.534	0.143	0.344
INT4	0.555	0.360	0.500	0.945	0.517	-0.142	0.498	0.146	0.336
INT5	0.544	0.382	0.539	0.942	0.523	-0.166	0.552	0.165	0.326
INT6	0.550	0.364	0.509	0.941	0.538	-0.159	0.523	0.152	0.340
KNL1	0.243	0.245	0.262	0.249	0.626	-0.053	0.208	0.119	0.102
KNL10	0.399	0.187	0.380	0.388	0.661	-0.084	0.399	0.061	0.246
KNL11	0.420	0.251	0.419	0.420	0.716	-0.045	0.329	0.090	0.222
KNL2	0.275	0.219	0.288	0.285	0.686	-0.045	0.247	0.192	0.209
KNL3	0.411	0.350	0.372	0.396	0.721	0.001	0.325	0.126	0.339
KNL4	0.337	0.213	0.407	0.339	0.645	-0.069	0.418	0.023	0.260
KNL5	0.456	0.254	0.496	0.427	0.739	-0.091	0.468	0.027	0.256
KNL6	0.490	0.337	0.451	0.537	0.769	-0.106	0.512	0.121	0.303
KNL7	0.427	0.372	0.455	0.439	0.775	-0.066	0.402	0.124	0.239
KNL8	0.483	0.315	0.474	0.442	0.787	0.007	0.351	0.085	0.252
KNL9	0.409	0.373	0.381	0.371	0.746	0.031	0.338	0.161	0.186
PRC1	0.004	0.101	-0.124	-0.049	0.016	0.728	-0.069	0.149	0.101
PRC2	-0.035	0.066	-0.212	-0.193	-0.066	0.907	-0.061	0.230	0.026
PRC4	-0.077	-0.007	-0.182	-0.151	-0.086	0.845	-0.145	0.157	-0.075

Table 5.11 (Continued)

	ATD	GS	IBS	INT	KNL	PRC	RLG	SN	TS
RLG2	0.403	0.243	0.444	0.443	0.362	-0.123	0.835	0.028	0.293
RLG4	0.571	0.317	0.560	0.526	0.525	-0.073	0.894	0.081	0.388
S1	0.429	0.111	0.772	0.429	0.380	-0.137	0.403	-0.057	0.314
S2	0.543	0.210	0.888	0.540	0.477	-0.187	0.513	0.030	0.342
S3	0.473	0.169	0.896	0.466	0.470	-0.253	0.505	0.005	0.307
S4	0.470	0.221	0.904	0.496	0.465	-0.220	0.539	0.060	0.331

S5	0.428	0.218	0.637	0.390	0.497	-0.082	0.389	0.104	0.203
S6	0.437	0.246	0.635	0.355	0.426	-0.129	0.426	0.053	0.341
SN1	0.062	0.092	0.004	0.078	0.030	0.215	0.075	0.778	0.139
SN2	0.110	0.177	0.090	0.149	0.149	0.145	0.132	0.817	0.177
SN3	0.135	0.136	0.041	0.143	0.137	0.171	0.026	0.871	0.190
SN4	0.045	0.169	0.016	0.095	0.104	0.215	-0.012	0.861	0.137
SN5	0.021	0.130	-0.030	0.118	0.096	0.208	0.018	0.804	0.159
TS1	0.321	0.280	0.352	0.312	0.305	-0.002	0.359	0.151	0.865
TS2	0.334	0.239	0.343	0.327	0.326	-0.025	0.388	0.208	0.876
TS3	0.326	0.235	0.339	0.250	0.281	0.014	0.323	0.138	0.818
TS4	0.261	0.224	0.254	0.267	0.214	0.037	0.258	0.182	0.818

5.9 Assessment of Significance of the Structural Model

Having ascertained the measurement model (Figure 5.3) next, the present study assessed the structural model Figure 5.4. The present study also applied the standard bootstrapping procedure with a number of 5000 bootstrap samples and 275 cases to assess significance of the path coefficients (Hair *et al.*, 2011, 2012, 2014; Henseler *et al.*, 2009). Figure 5.4 and Table 5.12 therefore show the estimates for the full structural model, which includes mediator variable.

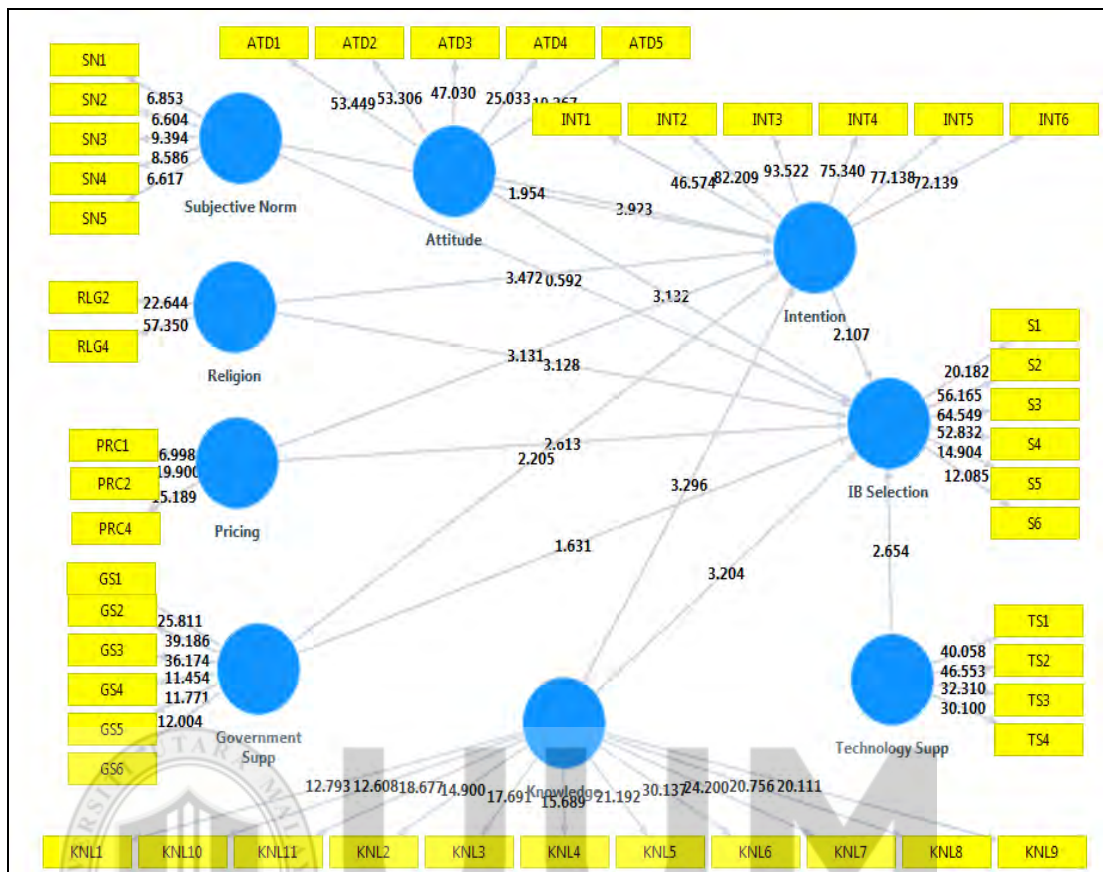


Figure 5.4
Structural Model with Mediating Variable (Full Model)

At the outset, Hypothesis 1 predicted that attitude is significantly and positively related to INT. Result (Table 5.12, Figure 5.4) revealed a significant positive relationship between attitude and IBS ($\beta = 0.271$, $t = 3.930$, $p < 0.00$), supporting Hypothesis 1.

Table 5.12

Results of Structural Model (Including Mediating Effect of Intention)

H	Direct Result	Beta	SE	T -Value	P- Values	Result
H1	ATD -> INT	0.271	0.069	3.930	0.000	Support
H2	SN -> INT	0.091	0.047	1.943	0.026	Support
H3	RLG -> INT	0.236	0.069	3.443	0.000	Support
H4	KNL -> INT	0.209	0.064	3.269	0.001	Support
H5	PRC -> INT	-0.159	0.069	2.290	0.011	not support
H6	GS -> INT	0.113	0.051	2.198	0.014	Support
H7	ATD -> IBS	0.220	0.072	3.079	0.001	Support
H8	SN -> IBS	-0.034	0.054	0.636	0.263	not support
H9	RLG -> IBS	0.220	0.070	3.146	0.001	Support
H10	KNL -> IBS	0.229	0.071	3.228	0.001	Support
H11	PRC-> IBS	-0.122	0.059	2.070	0.019	not support
H12	GS -> IBS	-0.084	0.050	1.659	0.049	not support
H13	TS-> IBS	0.115	0.044	2.637	0.004	Support
H14	INT -> IBS	0.157	0.074	2.112	0.017	Support
	Indirect Result (Mediating)					
H15	ATD-INT-IBS	0.043	0.0234	1.822	0.030	Mediating
H16	SN -INT-IBS	0.014	0.0106	1.351	0.089	Mediating
H17	RLG-INT-IBS	0.030	0.0212	1.750	0.041	Mediating
H18	KNL-INT-IBS	0.033	0.0190	1.723	0.043	Mediating
H19	PRC-INT-IBS	-0.025	0.0168	-1.487	0.069	Not- Mediating
H20	GS -INT-IBS	0.018	0.0122	1.457	0.073	Mediating

Note: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$ (one -ailed test)

Hypotheses 2 predicted that subjective norm is positively related to intention. Result (Table 5.12, Figure 5.4) indicated that subjective norm had a significantly and positively relationship with intention ($\beta = 0.091$, $t = 1.943$, $p = 0.026 < 0.05$), supporting Hypotheses 2. Similarly, in examining the influence of religiosity to intention, result indicated that religiosity had significant and positive relationship with Intention ($\beta = 0.236$, $t = 3.443$, $p < 0.00$), the result supported Hypothesis 3.

Hypotheses 4 positive relationship between knowledge and intention, the result showed significant (β 0.209, $t = 3.269$, $p = 0.001 < 0.05$), this hypotheses was supported.

Hypotheses 5, pricing has significant but negative relationship with intention. The result is significant with ($\beta = -0.159$, $t = 2.290$, $p = 0.011 < 0.05$), Hence, this hypotheses was not supported. With respect to Hypothesis 6 on the influence of Government support on Intention, the result in Table 4.11 showed significant and positive relationship between government support and Intention ($\beta = 0.113$, $t = 2.198$, $p = 0.014 < 0.05$), this hypothesis was supported.

Hypothesis 7 predicted that attitude is significantly and positively related to IBS. Result (Table 5.11, Figure 5.4) revealed a significant positive relationship between attitude and IBS ($\beta = 0.220$, $t = 3.079$, $p = 0.001 < 0.05$), supporting Hypothesis 7. In examining the influence of subject norms on IBS, the result indicated that subject norms had a not significantly and negatively relationship with IBS ($\beta = -0.034$, $t = 0.636$, $p = 0.263 > 0.05$), was not support Hypothesis 8.

Hypotheses 9, which predicted a positive relationship between religiosity and IBS, the result showed significant positive influence between religiosity with IBS was supported ($\beta = 0.220$, $t = 3.146$, $p = 0.001 < 0.05$). Similarly, Hypothesis 10, which predicted a positive relationship between knowledge and IBS was supported since the result showed a significant positive influence between Knowledge with IBS was supported ($\beta = 0.229$, $t = 3.228$, $p = 0.001 < 0.05$). The influence Pricing on Islamic banking selection, the result showed significant negative relationship between pricing and IBS ($\beta = -0.122$, $t = 2.070$, $p = 0.019 < 0.05$). As such, Hypothesis 11 was

not supported. With respect to Hypothesis 12 on the influence of Government support on IBS, result (Table 4.11) showed significantly but negatively relationship between government support and IBS ($\beta = -0.084$, $t = 1.659$, $p = 0.049 < 0.05$). Hence, this hypothesis was not supported.

Hypotheses 13, the influence Technology Support on IBS, result showed significant and positive relationship between technology support and IBS ($\beta = 0.115$, $t = 2.637$, $p = 0.004 < 0.05$), this hypotheses was supported.

Regarding the influence of Intention on IBS, the result in Table 5.11, Figure 5.4 indicated that the intention had a significant positive relationship with IBS ($\beta = 0.157$, $t = 2.112$, $p = 0.017 < 0.05$). Hence, Hypothesis 14 was fully supported.

5.10 Assessment of Variance Explained in the Endogenous Latent variable

The important criterion for assessing the structural model PLS- SEM is the *R*-squared value, also known as the coefficient of determination (Hair *et al* 2012; Henseler *et al*, 2009). The *R*-squared value represents the proportion of varians in the dependent variables that can be explained by one or more predictor variable (Elliot & Woodward, 2007; Hair *et al*, 2010). Even though the acceptable level of *R*² value depends on the research context (Hair *et al*, 2010). Falk and Miller (1992) propose an *R*-squared value of 0.10 as a minimum acceptable level. Chin (1998) suggests that the *R*-squared values of 0.67, 0.33, and 0.19 in PLS-SEM can be considered as high, moderate, and weak, respectively. Table 5.13 presents the *R*-squared values of two endogenous latent variables.

Table 5.13
Variance Explained in the Endogenous Latent Variables

Latent Variables	Variance Explained (R²)
Islamic banking Selection	52.8%
Intention	49.6%

Table 5.13 shows the model of research which explains 52.8 % of the total variance in Islamic banking selection and 49.6% of the total variance in Intention to select IB. The suggest that the seven sets of exogenous latent variables (i.e., attitude, subject norms, religion, knowledge, pricing, government support, and technology support) collectively explain 51.3% and 48.8% of the variance of Islamic banking selection and intention to select IB respectively. Hence, based on Falk and Miller’s (1992) and Chin (1998); criteria, the two endogenous latent variables showed acceptable levels of *R*-squared values, which were considered as moderate.

5.11 Assessment of Effect Size (f^2)

Effect size indicates the relative effect of particular exogenous latent variable on endogenous latent variables by means of change in the *R*-squared (Chin, 1998). It is calculated as the increase in *R*-squared of the latent variable to which the path is connected, relative to the latent variables proportion of unexplained variance (Chin, 1998). The effect size could be expressed using the following formula (Cohen, 1998; Selya, Rose, Dierker, Hedeker, & Mermelstein, 2012; Wilson, Callghan, Ringle, & Henseler, 2007):

$$\text{Effect size: } f^2 = \frac{R^2_{\text{included}} - R^2_{\text{excluded}}}{1 - R^2_{\text{included}}}$$

f^2 value of 0.02, 0.15 and 0.35 indicates weak, moderate and strong effects respectively (Cohen, 1988). Table 5.14 shows the latent variables and their effects.

Table 5.14
Effect Sizes of the Latent Variables on Cohen's (1988) Recommendation

Exogenous variables	Effect Size on:	
	IBS	Intention
Attitude	0.066	0.078
Subjective Norms	0.001	0.013
Government Support	0.006	0.018
Intention	0.018	
Knowledge	0.068	0.051
Pricing	0.021	0.041
Religion	0.049	0.061
Technical Support	0.131	0.002

As indicated in Table 5.14, the effect sizes for the attitude, subjective norms, religion, knowledge, pricing, government support, and technology support on Islamic banking selection, were 0.066, 0.001, 0.006, 0.018, 0.068, 0.021, 0.049, and 0.131, respectively. Hence, following Cohen's (1998) guideline, the effect sizes of these seven exogenous latent variables on Islamic banking selection can be considered as small, none, small, small, small, small, and moderate respectively. Furthermore, Table 5.14 indicated that the effect sizes for the attitude, subjective norms, religion, knowledge, pricing, and government support on Intention, were 0.078, 0.013, 0.018, 0.051, 0.041, and 0.061, respectively. Similarly, on the basis of Cohen's (1998) guideline for interpretation of the effect size, the

result suggest that the effects sizes of these seven exogenous latent variables on intention can be considered as small for all.

5.12 Assessment of Predictive Relevance

The present study applied by Stone-Geisser test of predictive relevance of the research model using blindfolding procedures (Geisser, 1974; Stone, 1974). The Stone-Geisser test of predictive relevance used a supplementary assessment of goodness-of-fit in partial least squares structural equation modelling (Duarte & Raposo, 2010). Although this study used blindfolding to ascertain the predictive relevance of the research model, it is worth nothing that according to Sattler, Volckner, Riediger and Ringle (2010), blindfolding procedure is only applied to endogenous latent variables that have a reflective measurement model operationalization, (p.32).

Reflective measurement model specifies that a latent or unobservable concept causes variation in a set of observable indicators (McMillan, & Conner, 2003, p. 1). Hence, because all endogenous latent variables in the present study were reflective in nature, a blindfolding procedure was applied mainly to these endogenous latent variables.

In particular, a cross-validated redundancy measure (Q^2) was applied to assess the predictive relevance of the research model (Chin, 2010; Geisse, 1974); Hair et al., 2013; Ringle, Sarstedt, & Straub, 2012b; Stone, 1974). The Q^2 is a criterion to measure how well a model predicts the data of omitted cases (Chin, 1998; Hair et al., 2014). According to Henseler *at al.*, (2009), a research model with Q^2 statistic (s) greater than zero is considered to have predictive relevance. Additionally, a research

model with higher positive Q^2 values suggests more predictive relevance. Table 5.15 presents the results of the cross-validated redundancy Q^2

Table 5.15
Construct Cross-Validated Redundanc

Total	SSO	SSE	1-SSE/SSO
<i>Islamic banking Selection</i>	2,200.00	1,576.86	0.28
<i>Intention</i>	1,650.00	940.14	0.43

As shown in Table 5.15, the cross-validation redundancy measure Q^2 for all endogenous latent variables were above zero, suggesting predictive relevance of the model (Chin, 1998; Henseler *et al.*, 2009).

5.13 Testing Mediating Effect

Mediation test is conducted to find if a mediator variable can significantly carry the influence of an independent variable to a dependent variable (Ramayah *et al.*, 2011). Generally, the mediation tests for this study were conducted to: (1) find of intention to select IBS could mediate the relationship between six exogenous variables (attitude, subjective norm, religiosity, knowledge, pricing, and government support) and Islamic banking Selection (IBS) as an endogenous variables.

For this study, the mediation test used for this study was based on the PLS approach, the hypotheses for the study were testing using the partial least squares (PLS) structural equation modelling (SEM) technique (Wold, 1985).

Meanwhile, the PLS-SEM technique has been reporting to be a particularly well suited technique for mediation study (Bontis *et al.*, 2007; Chin, 1998b; Hair, Ringle, & Sarstedt, 2013; Hayes & Peacher, 2010; Kock, N, (2014).

5.13.1 Mediation Results

Accordingly, the results of the six mediation effects relationship model detail was discussed as follow:

Table 5.16
Mediating Results

Indirect Results	Beta	SE	T Value	P Values	Result
Attitude-Intention-IBS	0.043	0.0234	1.822	0.030	Mediating
Subjective Norm-Intention-IBS	0.014	0.0106	1.351	0.089	Mediating
Religion-Intention-IBS	0.030	0.0212	1.750	0.041	Mediating
Knowledge-Intention-IBS	0.033	0.0190	1.723	0.043	Mediating
Pricing-Intention-IBS	-0.025	0.0168	-1.487	0.069	NotMediating
Government Support-Intention-IBS	0.018	0.0122	1.457	0.073	Mediating

Note: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$ (one tailed test)

5.13.1.1 The mediating effect of Intention: Attitude and IBS

The results of mediating effect of intention between attitude and Islamic bank selection is a mediating because the beta estimate ($\beta=0.043$ P-value= 0.030) of attitude continue to be significant after intention was introduced, this result support

H15. This is illustrated in Table 5.17

Table 5.17
Mediation result of Intention on attitude and Islamic banking selection

Inputs		Decision
<i>N</i>	275 (Sample size)	
<i>A</i>	0.2710 (Path coefficient calculated by WarpPLS)	
<i>B</i>	0.1580 (Path coefficient calculated by WarpPLS)	
<i>Sa</i>	0.0690 (Standard error calculated by WarpPLS)	
<i>Sb</i>	0.0750 (Standard error calculated by WarpPLS)	
Outputs		
<i>Sab</i>	0.0216 (Sobel's standard error for mediating effect)	

Ab	0.0378	(Product path coefficient for mediating effect)	
Tab	1.7475	(T value for mediating effect)	
Pab	0.0408	(P value for mediating effect, one-tailed)	
Pab	0.0817	(P value for mediating effect, two-tailed)	Supported

** : P<0.01; * : p<0.05

5.13.1.2 The mediating effect of Intention: Subjective Norm and IBS

Intention was mediate the relationship between subject norms and Islamic bank selection, where $\beta = 0.014$, p-value = 0.089 with significant value. The possible reason for mediation effect of intention between subject norms and bank selection is the influence of the people or social influence, H16 supported.

Table 5.18
Intention Mediating the relationship between subjective norm and Islamic banking selection

Inputs		Decision	
<i>N</i>	275	(Sample size)	
<i>A</i>	0.0900	(Path coefficient calculated by WarpPLS)	
<i>B</i>	0.1580	(Path coefficient calculated by WarpPLS)	
<i>Sa</i>	0.0460	(Standard error calculated by WarpPLS)	
<i>Sb</i>	0.0750	(Standard error calculated by WarpPLS)	
Outputs			
<i>Sab</i>	0.0105	(Sobel's standard error for mediating effect)	
<i>Ab</i>	0.0142	(Product path coefficient for mediating effect)	
<i>Tab</i>	1.3540	(T value for mediating effect)	
<i>Pab</i>	0.0884	(P value for mediating effect, one-tailed)	
<i>Pab</i>	0.1768	(P value for mediating effect, two-tailed)	Supported

** : P<0.01; * : p<0.05

5.13.1.3 The mediating effect of Intention: Religion and IBS

The result is mediation effect when intention is introduced in the relationship between religion and Islamic bank selection. The Beta estimate of religion is significant ($\beta=0.030$ to $p\text{-value}=0.041$), H17 Supported. The possible explanation for this result is that lecturers' intent to select Islamic banking due to high Religion motives, as they observe that the operations of Islamic bank in Indonesia follow the Syariah law.

Table 5.19

Mediating Result of Intention on Religion and Islamic banking selection

Inputs		Decision
<i>N</i>	275 (Sample size)	
<i>A</i>	0.2390 (Path coefficient calculated by WarpPLS)	
<i>B</i>	0.1580 (Path coefficient calculated by WarpPLS)	
<i>Sa</i>	0.0690 (Standard error calculated by WarpPLS)	
<i>Sb</i>	0.0750 (Standard error calculated by WarpPLS)	
Outputs		
<i>Sab</i>	0.0216 (Sobel's standard error for mediating effect)	
<i>Ab</i>	0.0378 (Product path coefficient for mediating effect)	
<i>Tab</i>	1.7475 (T value for mediating effect)	
<i>Pab</i>	0.0408 (P value for mediating effect, one-tailed)	
<i>Pab</i>	0.0817 (P value for mediating effect, two-tailed)	Supported

** : $P < 0.01$; * : $p < 0.05$

5.13.1.4 The mediating effect of Intention: Knowledge and IBS

In term of the relationship between knowledge and Islamic bank selection, intention has mediation effect with the beta estimate is significant ($\beta=0.033$, $p\text{-value}=0.043$). Hence, H18 is supported.

The intention has significant effect in influencing the relationship between knowledge and bank selection. This result suggests that the more knowledge the

respondents have on Islamic banking, the greater is their intention to select Islamic banking.

Table 5.20
Intention Mediating the relationship between knowledge and Islamic banking selection

Inputs		Decision
<i>N</i>	275 (Sample size)	
<i>A</i>	0.2130 (Path coefficient calculated by WarpPLS)	
<i>B</i>	0.1580 (Path coefficient calculated by WarpPLS)	
<i>Sa</i>	0.0650 (Standard error calculated by WarpPLS)	
<i>Sb</i>	0.0750 (Standard error calculated by WarpPLS)	
Outputs		
<i>Sab</i>	0.0196 (Sobel's standard error for mediating effect)	
<i>Ab</i>	0.0337 (Product path coefficient for mediating effect)	
<i>Tab</i>	1.7164 (T value for mediating effect)	
<i>Pab</i>	0.0436 (P value for mediating effect, one-tailed)	
<i>Pab</i>	0.0872 (P value for mediating effect, two-tailed)	Supported

** : P<0.01; * : p<0.05

5.13.1.5 The Mediating effect of Intention in: Pricing and IBS

Intention does not mediate the relationship between pricing and Islamic bank selection, where the Beta estimate of pricing to be insignificant $\beta = -0.025$, p-value= 0.069 with no significant value.

The possible reason for no mediation effect of intention between pricing and bank selection is that the lecturers might not select Islamic bank or do not have intention to select Islamic bank's due to high pricing motives of product. Hence, H19 unsupported.

Table 5.21
Mediating Result of Intention on Price and Islamic banking selection

Inputs		Decision
<i>N</i>	275 (Sample size)	
<i>A</i>	-0.1480 (Path coefficient calculated by WarpPLS)	

<i>B</i>	0.1580	(Path coefficient calculated by WarpPLS)	
<i>Sa</i>	0.0470	(Standard error calculated by WarpPLS)	
<i>Sb</i>	0.0750	(Standard error calculated by WarpPLS)	
Outputs			
<i>Sab</i>	0.0138	(Sobel's standard error for mediating effect)	
<i>Ab</i>	-0.0234	(Product path coefficient for mediating effect)	
<i>Tab</i>	-	(T value for mediating effect)	
	1.16930		
<i>Pab</i>	0.0458	(P value for mediating effect, one-tailed)	
<i>Pab</i>	0.0916	(P value for mediating effect, two-tailed)	No-supported

****:** P<0.01; *****: p<0.05

15.3.1.6 The mediating effect of Intention: Government Support and IBS

The result is mediation effect when intention is introduced in the relationship between government support and Islamic bank selection. The Beta estimate of government support to be significant ($\beta=0.018$ to p-value=0.091), H20 supported.

Lecturers intention to choose Islamic bank's is the respondents view that government support is important to enhance Islamic banking in Indonesia, which would increase people's intention to select Islamic banking.

Table 5.22

Intention Mediating the relationship between Government support and Islamic banking selection

Inputs		Decision
<i>N</i>	275	(Sample size)
<i>A</i>	0.1140	(Path coefficient calculated by WarpPLS)
<i>B</i>	0.1580	(Path coefficient calculated by WarpPLS)
<i>Sa</i>	0.0520	(Standard error calculated by WarpPLS)
<i>Sb</i>	0.0750	(Standard error calculated by WarpPLS)

Outputs			
Sab	0.0125	(Sobel's standard error for mediating effect)	
Ab	0.0180	(Product path coefficient for mediating effect)	
Tab	1.4430	(T value for mediating effect)	
Pab	0.0751	(P value for mediating effect, one-tailed)	
Pab	0.1502	(P value for mediating effect, two-tailed)	Supported

****:** P<0.01; *****: p<0.05

5.14 Summary of Findings

The results all hypotheses including mediating effects, can showed in the Table 5.23

This table summarizes the results of all hypotheses tested.

Table 5.23
Summary of Hypotheses findings

Hypotheses	Statement	Finding
H1	Attitude significantly and positively influences intention to select Islamic bank.	Supported
H2	Subjective norm significantly and positively influences intention to select Islamic Bank.	Supported
H3	Religion significantly and positively influences to Intention	Supported
H4	Knowledge significantly and positively influences to Intention	Supported
H5	Pricing significantly and negative influences to Intention	Not Supported
H6	Government Support significantly and positively influences to Intention	Supported
H7	Technology Support significantly and positively influences to Islamic banking	Supported
H8	Intention to select IB significantly and positively influences to Islamic banking	Supported
H9	Attitude significantly and positively influences to	Supported

Islamic banking Selection		
H10	Subjective Norm significantly and negative influences to Islamic banking Selection	Not-Supported
H11	Religion significantly and positively influences to Islamic banking Selection	Supported
H12	Knowledge significantly and positively influences to Islamic banking Selection	Supported
H13	Pricing significantly and negative influences to Islamic banking Selection	Not Supported
H14	Government Support significantly and negative influences to Islamic banking Selection	Not-Supported

Table 5.23 (continued)

Hypotheses	Statement	Finding
H15	ATD -> INT -> IBS	Mediating
H16	SN -> INT -> IBS	Mediating
H17	GS -> INT -> IBS	Mediating
H18	KNL -> INT -> IBS	Mediating
H19	PRC -> INT -> IBS	Not-Mediating
H20	RLG -> INT -> IBS	Mediating

5.15 Chapter Summary

The PLS-SEM analysis reported significant evidence on the relationship between attitude, subject norm, religion, knowledge, pricing, government support, and technology support to Islamic Banking Selection in Indonesia. Attitude is found to be positive and significantly related to intention and banking selection. This result supported H1 and H9. On the other hands Subjective Norm indicated significant and positif influence on intention but it showed negative but significant influence on

banking selection. The result support H2 but H10 unsupporting. Religion also found significant and positif influence to intention and Islamic banking selection, this result supported H3 and H11. The Knowledge factor have significant and positif influence to intention and Islamic banking selection. This result support H4 and H12. The pricing factors significant and negative influences to intention and Islamic banking selection. The results werenot support H5 and H13. Government support also found positive and significant to intention and Islamic banking selection. This result support H6 and H14. Tecnology factor is found to be positive and significantly related to Islamic banking selection. The result support H7, while the intention also found sinificand and positively influences Islamic banking selection, and the result support H8. Intention with Attitude, subjective norm, Religion, Knowledge, and Government support were mediated betwee Islamicbanking selection and the resuts support H15, H16, H17, H18, and H20. Intention is not mediating between Pricing and Islamic banking selection and H19 is not support.

In addition, the PLS-SEM result reported that three is strong evidence on the relationship between factors attitude, religion, knowledge, pricing, government support, technology support, and lecturer's intention to select Islamic banking in Indonesia. On other hand, PLS-SEM failed to support the link between subject norms and Islamic banking selection; also PLS-SEM failed again to support the relationship between price and intention lecturers to select Islamic banking selection in Indonesia. Finally, PLS-SEM results indicate that the underpinning theory, the TRA is applied in the Indonesian setting and it is good strong theory to test the Islamic banking selection in Indonesia.

CHAPTER SIX

CONCLUSION AND RECOMMENDATION

6.1 Recapitulation

Indonesia is the largest populated Muslim region in the world and ideally Islamic banking in Indonesia should occupy a large share of the country's financial system. Contrary to the expectation, Islamic banking only occupies 5 percent of the Indonesian total banking system. Hence, the main objective of this thesis is to investigate the factors which could increase the market share of Islamic banking in Indonesia. Theory of Reasoned Action and Theory Planned Behavior are used as underpinning theories by examining the influence of attitude and subjective norms on intention and bank selection. In addition to these two founding variables, this study aims to extend the theoretical framework by testing the influence of five new variables (identified from the literature gaps) on customers' intention and Islamic banking selection.

This chapter presents major findings from the analysis of the factors influencing intention followed by the result on the mediating effect of intention on selection of Islamic banking. The findings were obtained from PLS-SEM analysis. To recapitulate, the major findings are presented based on the study's objectives. Pertinent explanations on the findings are included to highlight the theoretical and practical implications of the findings. Last but not least, the contribution from this study and recommendation for future research conclude the chapter.

6.2 Main Findings

6.2.1 Profile of Islamic banking customer

The results of the study are based on data obtained from questionnaires completed by 300 public lecture's in the public universities in Indonesia. This chapter presents the results on perceptions of the lecture's toward Islamic banking selection in Indonesia, using factor analysis and PLS-SEM (Partial Least Square-Structural Equation Modelling). The number of total respondents are 300 (43.3%) of the respondents or 130 respondents were male and 56.7% were female. Previous studies have different distribution regarding the gender of the respondents. For example de-Lara and Tacorante (2007) found the majority of teachers at a Spanish University were males (64.6%) compared to their female counterparts (35.4%).

Regarding the age group, the participants in the group of 30-39 years were 35.3%. This is followed by those in the age group of 40-49 years with 76 respondents, which accounted for 25.3% of the sample. Representing 24.3% of the samples were in the age group of 50 years and above, there were 73 respondents. The smallest age group ranged between 20-29 years, which accounted for 15% or 45 respondents. Most of the lecturer's hold the Master degree (64.7%), and Doctor degree (34.3%). This reflects knowledgeable and highly educated respondents who are aware about Islamic banking.

Additionally, in terms of Religion, almost religions of lecturer's are Islam 97 percent, Kristen are 1.7 percent, and Hindu- Buda are 1.3 percent. In terms of Income of the respondents, 27.7 percent is the range Rp 3,000,000-5,000,000 ,

Rp.5,000,000-7,000,000 are 35.3 percent, Rp. 7,000,000-10,000,000 are 26 percent, and more than Rp.10,000,000 are 3.3 percent.

Table 5.7 also shows that the respondents came from diverse region backgrounds, namely, west region, center region, and east region. Approximately lecturers of West region are 16 percent, Center region are 59.3 percent, and East region are 24.3 percent.

Lecturers with their experience using Islamic bank less than 1 year are 8.3 percent, 1-5 years are 63 percent, 6-10 years are 24.3 percent, and more than 10 years are 4.3 percent. Numbers of frequency using Islamic bank per month in 1-3 times are 18 percent, 4-6 times are 30 percent, 7-9 times are 22 percent, and more than 10 times are 29 percent. The distribution indicates that the majority of the respondents, have been using Islamic banking services in the last 1-5 years with 4-6 times frequency permonth.

6.2.2 Objective One: What are the significant factors (attitude, subjective norms, religion, knowledge, pricing, and government factors) influencing Intention to select IB?

The present study predicted that six factors significantly influencing intention to select Islamic banking: attitude (H1), subjective norm (H2), religion (H3), knowledge (4), Pricing (H5), and Government Support (H6). There are five paths found to support and one path does not support the hypotheses Therefore, the next paragraphs these findings.

6.2.2.1 The relationship between attitude and Intention (H1)

Empirical evidence from this study shows that there is a significantly influence and positively relationship between the bank users' (lecturers') attitude and intention to select Islamic banking. Thus, hypothesis H1 is supported. Accordingly, there are a number of past studies that have obtained similar results, and indicate that perception of lecturers attitude is good predictor, and palys a very significantly on intention to select Islamic bank (Ajzen and Fishbein (2000), Amin H (2001), Zhang (2007), Taib *et al.*, (2008), Salamah W (2009), Lada *et al.*, (2009), Ozge Ozgen (2013), and Ramayah *et al.*, (2004). This result is consistent with the TRA theory by Ajzein and Fishbein (1975, 1981, and 2000).

This result indicates that the lecturers in Indonesia have high intention to select Islamic banking or already become customers of bank. The results show that the majority of the respondents, (around 63%) have been using Islamic banks for more than five years, which means that they could encourage others to have intention to select Islamic banks for their banking activities. This result indicates that the lecturers have positive feelings and favorable attitudes toward intention to select IB.

6.2.2.2 Relationship between subjective norm and intention (H2)

The relationship between subjective norm and intention to select IB is significant and positive. Hence, hypothesis H2 was supported.

This result is similar with that of past studies which found that subjective norms influence the intention, among others in Ajzen and Fishbein, (1975, 1980, 1991);

Kaynak *et al* (1991); Tank and Tyler (2005); Venkatesh *et al*, (2003); Marimuthu, M *et al*. (2009);

6.2.2.3 The relationship between Religion and intention (H3)

The result shows a positively and significantly relationship between religion and intention to select Islamic banking. This finding which support the findings of Al-Sultan (1999), and Haq and Smithson (2003) suggest that religion as Islam is very important in intention to select Islamic banking.

6.2.2.4 The relationship between Knowledge and intention (H4)

Majority of respondents are well educated and the finding indicate the greater is the knowledge customers have about Islamic banking, the higher is the intention. The result supports the findings of Nawi *et.al* (2013), Abdullah *et.al* (2012), and Haron (1994).

6.2.2.5 The relationship between Price and intention (H5)

Pricing is significant but negative relationship to intention. This studies result suggests that if Islamic banks charge higher pricing, it might decrease the customers' intention to use the banks. According to Mourinho & Meiden (1989), which studies price sensitivity to customers' found that higher interest rate charged would give negative impact on the usage rate of credits and decrease the loyalty of customers toward the bank.

However, Al-Ajmi, J., H.A. Hussain and N. Al-Saleh, (2009) found that cost and benefit become two of the most important factors considered in bank selection

decisions. On the other hand, C.A. and D.A. Bednar, (1996), found that customer service appears more important than price and that customers use additional criteria beyond price such as speed and easy access to choose banks.

6.2.2.6 The relationship between Government Support and Intention (H6)

The relationship between government support and intention to select IB in Indonesia is found to have an insignificant effect. Thus, hypothesis H6 is unsupported. This finding is consistent with the results reported in previous studies (Haron and Yamirudeng, 2003; Carlson, 1986; Tan & Teo, 2000; Hernandez & Mazzon, 2007); Ahmad and Weir, 2005).

6.2.3 Objective two: What are the significant factors (attitude, subjective norm, religion, knowledge, pricing, government support, and technology support) influencing Islamic banking selection?

The present study predicted seven factors influencing Islamic banking selection: attitude (H8), subjective norm (H9), religion (H10), knowledge (H11), Pricing (H12), Government Support (H13), and Technology Support (H7). Five paths are found to support the hypothesis; H7, H8, H10, H11, and H13 and two paths do not support (H9, H12). The subsequent paragraphs reported each result separately.

6.2.3.1 The relationship between Attitude and IBS (H7)

Hypothesis 7 predicted that attitude is significantly and positively related to IBS. Result (Table 4.11, Figure 4.4) revealed a significant positive relationship between attitude and IBS ($\beta = 0.220$, $t = 3.079$, $p = 0.001 < 0.05$), hence supporting Hypothesis 7.

6.2.3.2 The relationship between Subjective norm and IBS (H8)

In examining the influence of subject norms on IBS, the result indicated that subject norms had negative but no significant relationship with IBS ($\beta = -0.034$, $t = 0.636$, $p = 0.263 > 0.05$), hence Hypothesis 8 was not supported.

6.2.3.3 The relationship between Subjective Norm and IBS (H9)

Hypotheses 9 predicted a positive relationship between religion and IBS. The result showed significant positive influence between religion with IBS. Hypothesis 9 was supported ($\beta = 0.220$, $t = 3.146$, $p = 0.001 < 0.05$).

The religious factor is perceived as one of the most important criteria for the selection of Islamic banking. The findings of the study have many similar results with Omer (1992), Hegazy (1995), Metawa & Almosawi, Al-Sultan (1999), Bley & Kuehn (2004), and Okumus (2005)

6.2.3.4 The relationship between Knowledge and IBS (H10)

Hypothesis 10 predicted a positive relationship between knowledge and IBS. The result showed significant positive influence between Knowledge with IBS. Hypothesis 10 was supported ($\beta = 0.229$, $t = 3.228$, $p < 0.05$), the result is consistent with Gerard & Cunningham.

6.2.3.5 The relationship between Price and IBS (H11)

The influence of Pricing on Islamic banking selection was significant but negative relationship ($\beta = -0.122$, $t = 2.070$, $p = 0.019 < 0.05$). As such, Hypothesis 11 was not

supported. The result however, suggested that the lower are the prices (profit rate) of Islamic banks products and services, the higher would be the customers' selection of Islamic Banks

6.2.3.6 The relationship between Government Support and IBS (H12)

With respect to Hypothesis 12 on the influence of Government support on IBS, the result (Table 4.11) showed that government support is significantly and negatively related to IBS ($\beta = -0.084$, $t = 1.659$, $p = 0.049 < 0.05$). Hence, this hypothesis was not supported

6.2.3.7 The relationship between Technology Support and IBS (H13)

The influence of Technology Support on IBS showed significant and positive relationship between technology support and IBS ($\beta = 0.115$, $t = 2.637$, $p = 0.004 < 0.05$). Hence, hypotheses 13 was supported. This finding is consistent with the result of past studies like, Tait et al, 1988; Coffin & MacIntyre, 1999; Clement ND Van Den Besselaar, 1993; Shih & Fang, 2004).

This result suggests that technology could strongly support the Islamic banking and the customers to conduct their banking work easily and conveniently using e-commerce and the internet which could affect customers to engage Islamic banking selection.

6.2.3.8 The relationship between Intention and IBS (H14)

Regarding the influence of Intention on IBS, result (Table 4.11, Figure 4.4) indicated that the intention had a significant positive relationship with IBS ($\beta = 0.157$, $t = 2.112$, $p = 0.017 < 0.05$). Hence, Hypothesis 14 was fully supported.

6.2.4 Objective three: To establish the mediating effect of intention as mediator between the factors influencing intention and selection of Islamic banking.

The results from the PLS-SEM show that customers' intention as mediator has generated five positive and significant and one negative and insignificant affects on Islamic banking selection.

The five hypotheses namely H15, H16, 17, H18, and H20 were found to be positive and significant. All the results from the PLS-SEM analysis show that intention mediates positively and significantly the relationship between attitude, subjective norm, religion, knowledge, and government support to Islamic banking selection were positively. On the other hand, intention does not mediates the relationship between pricing and IBS.

6.3 Implications of the Results

Indonesia with the largest Muslim world population faces the problem of having a very small Islamic banking market share. As at 2014, the Islamic banking market share was only less than 5% of the Indonesian banking system. The gap addresses in this study is the lack of studies on how to increase the market share by studying the

consumers intention and selection criteria based on Theory of Reasoned Action (TRA) and Theory of Planned Behavior (TPB).

The result shows that intention is significantly and strongly related to selection of Islamic banking, which appears to imply strongly that Islamic banks must create (among potential customers) or enhance (among existing customers) their intention to select Islamic banking to do their banking transactions. Factors such as attitude, subjective norms, religion, knowledge and technology support which exert positive and significant influence on intention and bank selection have to be the important elements revealed by this research that bank management and other stakeholders should optimize the potentials of these factors in promoting Islamic banking and finance among the Indonesian people.

On the other hand, the negative but significant result on pricing suggests practical implication for Islamic banks to review their pricing strategies, specifically the profit rate charged to the financing products and the fees levied on their banking services. The lower of the price, the intention of customer's to select Islamic banking is the higher. Hence, pricing of Islamic banks' products and services in Indonesia has to remain competitive if not lower than their conventional counterparts to attract more customers to use Islamic banking.

Another new evidence from this study is the significant mediation effect of intention in the relationship between the predictors and Islamic banking selection, particularly in terms of attitude, subjective norm, religion, knowledge and technological support. This result implies precedes selection, thus intention which could be originated from Islamic regions. Attitude in terms of seeking an alternative syariah based banking

system together with positive experience of family, friends, peers (subjective norms) could be further enhanced with the use of information technology and technology support in making Islamic banking transactions easy and convenient for customers to operate.

Chapter 4 provided a general analysis regarding the hypotheses that were designed in this research. Furthermore, since the findings from the quantitative analysis have supported several hypotheses, this section extends the argument by presenting the results from the hypotheses testing. As shown in Figure 5.1, eleven hypotheses in this study are significant; these hypotheses include the significant relationships between attitude, religion, knowledge, pricing, technology support, and intention and Islamic banking selection. Another set of results indicate the significant relationships between attitude, subjective norm, religion, knowledge, and pricing toward intention to select Islamic banking in Indonesia.

In contrast, three hypotheses are insignificant. The results failed to support the significant relationship between subjective norm, and government support toward Islamic banking selection and intention to select Islamic bank.

6.4 Contribution of the Study

6.4.1 Academic Contributions

The statistical results provide new information regarding Islamic banking selection:

This thesis includes religion, knowledge, price, government support, and technology support as the new primary variables which are imbedded among the main variables

of attitude and subjective norm in the TRA and TPB conceptual framework. An extension of theoretical understanding on the relationship between these variables (e.g., religion, knowledge, price, government support, and technology support) and intention as well as bank selection is deliberated and their significant results proved that these variables to be important and strategic variables in increasing the market share and acceptance of Islamic banking in Indonesia.

In general, the current study demonstrated that the TRA. TPB models suitable in western and non- western cultures could be utilized to examine intended consumer behavior or actual behavior (Islamic banking selection) in diverse cultures such as Indonesia. The TRA and TPB which come from the psychology discipline could be applied in banking discipline.

Unlike other past studies in Indonesia which commonly use Factor Analysis and descriptive analysis in studying Islamic banking; this study applied Partial Least Square structure Equation Modelling (PLS-SEM). The application of PLS-SEM is a methodological contribution because it produces a better quality research, especially in modelling multivariate relations. PLS-SEM technique also confirmed a simultaneous evaluation of the direct and indirect relationships model.

The methodological contribution of this study related to using PLS path modelling to assess the psychometric properties of each latent variable in terms of convergent validity, as well as discriminant validity. The results of the cross loadings matrix were also examined to find support for discriminant validity in the conceptual model. The applications of measurement and structural models contribute a more robust analysis and result.

6.4.2 Practical Contributions

The result of the study highlights knowledge as one of the significant factors influencing intention as well as selection of Islamic bank. Hence, it is relevant in the case of direct and indirect relationship in creating intention leading to bank selection. This finding contributes to the fact that consumers need knowledge and information about Islamic banking. An establishment of a knowledge portal and an information centre like Malaysian Islamic Finance Centre (MIFC), a knowledge-based portal attached to the Central bank is highly desirable to be set up in Indonesia.

6.5 Limitations and Recommendations

Firstly; this research confines to lecturers in selected public universities in Indonesia. Since the findings are based on responses from the lecturers, one should not use these findings to conclude the opinions of all Indonesians.

Secondly; this study focused on the investigations of the components of TRA influencing Islamic banking selection with intention as a mediating variable in Indonesia.

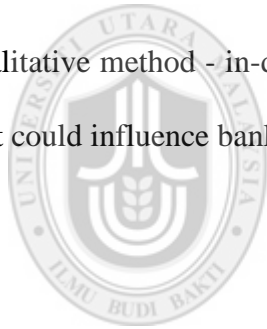
6.6 Recommendation

Limitations of this study could create opportunities for future research. By increasing the sample size to others sectors, such as private sector employees in Indonesia, a more comprehensive set of results.

Future research could examine more factors influencing intention to select Islamic banking selection in Indonesia; by including other market-based and economic variables such as competition and GDP respectively.

New studies in Islamic banking in Indonesia may test new factors such as macro economic factors and marketing elements. Investigation can be done in other Muslim countries using the same model to identify any cultural and behavioral differences between them.

Other technology acceptance theories and behavioral theories are recommended to be tested in Islamic banking research. In addition, the researcher suggests that the qualitative method - in-depth interview, could be a suitable way to find more factors that could influence bank customers toward Islamic banking selection in Indonesia.



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