

CUSTOMERS' PREFERENCE ON ISLAMIC BANKING PRODUCTS AND SERVICES: THE INFLUENCE OF KNOWLEDGE, AWARENESS AND SATISFACTION

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ABSTRACT

This study examines the impact of knowledge, awareness and satisfaction in influencing customers' preference on Islamic banking products and services. Lack of knowledge and awareness among the population hinders the prospect of expanding the Islamic banking business greater than its conventional counterpart. Misunderstanding on the Shariah contracts enfolds the users leads to confusion. A questionnaire survey among Islamic banking customers facilitates the study to substantiate the relationship amidst variables. The findings indicate that knowledge and awareness are significant in influencing the customers' preference on products and services whereas satisfaction shows a negative relationship. This study offers informative data to Islamic banks in identifying the critical success factors that will improve their productivity and enhance the Islamic

banks' performance. This research is both critical and relevant in giving a clear explanation of the underlying concepts and values, current practices and future opportunities of Islamic products and services.

Keywords: *Islamic banking; Customer's preference; knowledge; awareness; satisfaction*

Introduction

Although many Muslims want to invest in a banking system that upholds their religious obligations, there have been concerns with the level of understanding of how Islamic banking actually works. Lack of knowledge and awareness made Islamic banking less attractive to customers. What is the current status of customers' knowledge, awareness and satisfaction on Islamic banking products and services and what is the relationship between these variables and customers' preference for the products and services? This research attempts to address these two questions.

Most Muslims invest in Islamic banking products and services mainly because of religion without knowing the benefits in economic terms. They place full faith on the banks to handle their funds and to make sure their funds are free from undesirable activities. Thus, such banks have a moral obligation placed upon them as their foundation is based upon religious principles and their Muslim customers believe that they answer to a higher authority (Satkunasingam and Shanmugam, 2004). In Malaysia, banks offering Islamic products and services stress the fact that their activities are free of 'Riba' and Shariah-compliant, but there are still doubts on where the Islamic Banks invest their funds. A major problem in the accounting and operation of Islamic banks is the lack of precision in the application of Shariah principles for Islamic banking. Different banks operate and treat an issue differently even if it is the same Shariah member who sits on the board of different banks. (This practice has since been disallowed by BNM). The application of Shariah principles to the accounting and operations of Islamic banks is important because the customers establish relationship with Islamic banks based on the belief that these banks are Shariah compliant. The recent progress towards resolving these issues is encouraging to improve this sector which is still underexplored.

This research shows that beyond any reasonable doubt, the knowledge gap is holding the industry back and there is a continuing need to educate the market and consumers. This study hopes to overcome the shortage of research on Islamic banking and also to increase the marketability of these products and services not only to Muslim customers but also to non-Muslims. Customers, individuals and the public, especially the non-Muslims frequently have the misconception and unanimity in understanding Islamic banking principles and practices. This research hopes to provide them the right picture and comprehension towards Islamic banking in making the right decision and increase their satisfaction.

The general objective of this research is to provide knowledge, better understanding and insights into Islamic practices in order to offer trust and confidence in customers' decision making on Islamic banking products and services. Customers' decisions should be based on informed mechanisms, features and awareness of Islamic banking products and services to prevent doubts in their choice of products and services. The specific objectives are to assess the level of customers' knowledge, awareness and satisfaction on Islamic banking products and services and determine the relationship between customers' knowledge, awareness and satisfaction with customers' preference for Islamic banking products and services.

Overview of Islamic Banking in Malaysia

The offering of Islamic financing facilities was marked by the presence of the first Islamic banking institution during the eighties with the establishment of the first Islamic bank in Malaysia namely Bank Islam Malaysia Berhad (BIMB) in 1983. The aspiration of the Malaysian government to have a comprehensive Islamic banking and finance system would not be realised with the presence of a single Islamic bank. A complementary system, a wide range of products and instruments plus a large number of players are required. Thus, the Interest-free Banking Scheme was then introduced in 1993 whereby conventional banking institutions were allowed to offer Islamic banking products and services. A year later, the Ministry of Finance and BNM (Central Bank) set up the Islamic Inter-bank Money Market to allow inter-bank transactions on the basis of *shar'ah*. It was then followed by the introduction of Islamic Capital Market in 1994 and the establishment of more Islamic banks in the country.

After more than two decades of Islamic banking in Malaysia, a lot of progress and improvements had taken place. Many products are made available to various customers in the market, ranging from deposits facilities to financing and syndicating of bigger amount of financing. More local-based Islamic banks such as Bank Muamalat Malaysia Berhad (BMMB) and CIMB Islamic Bank and foreign-based banks such as Kuwait Finance House (KFH) and Al-Rajhi Bank are set up to provide wider alternatives of Islamic financing products. Their operation is even enhanced with the introduction of Islamic capital market and Islamic Offshore Financial Centre (IOFC) in Labuan through which the international funds could be tapped.

Today, Malaysia aims to become among the top international centres (hubs) of Islamic financial market in the offering Islamic banking and financial products. Known as Islamic Banking System (IBS or popularly known as Sistem Perbankan Islam [SPI]), they offer products not only to the Muslim customers but to the non-Muslims as well. Islamic banking is now growing at an impressive rate in recent years due to customers' perception that Islamic bank's interest free principle is in fact less risky than conventional banking (DiVanna and Sreih, 2009). Indeed, the Islamic banking instruments in Malaysia are becoming widely accepted by non-Muslim customers as they see the benefits from the usage (Hoq, Sultana and Amin, 2010).

Islamic Banking Principles

Islamic banks are operating based on Islamic principles derived from the Qur'an and the Sunnah. The Qur'an is Allah's revelations to the prophet Muhammad (Peace Be Upon Him [P.B.U.H]) that contain all basic principles, rules and regulations encompassing all human activities inclusive of business and finance. The *Sunnah* refers to the life of the prophet which reflects the way of life and behaviour as required by the Almighty Allah as prescribed in the Qur'an. Being the second source of Islamic law, the *Sunnah* explains the actual practice of the requirements in the Qur'an by way of giving true examples. In other words, the *Sunnah* contains the rules deduced from *hadith* (the sayings of the prophet), actions and approvals of the prophet (P.B.U.H) either in specific pronouncement or action or in his approval of someone else's action or practice.

The principles of business and finance outlined in the two primary sources are mostly general in nature, and certain rulings which are sufficient to explain issues and problems then may no longer be sufficient to handle the upcoming problems. In this connection, Islam recognises *ijtihad* (individual reasoning) through devout and careful procedures to derive appropriate rulings in order to solve the problem at hand. Thus, in addition to the two sources of law, there are secondary sources namely *ijma* (consensus) and reasoning by *qiyas* (analogy). This is where the flexibility and relevancy of Islamic law comes in and this is where business and finance find room for further enhancement and innovation within the ambit of Islamic law.

In Islam, man is a *khalifah* (vicegerent) of Allah as far as the management of wealth is concerned. The absolute ownership of wealth in the world belongs to Allah. In the Qur'an Allah says to the effect; "He is who created for you all that is in the earth...and when thy Lord said unto the angels; Lo! I am about to place a viceroy in the earth..." (Qur'an, *al-Baqarah*: 29 – 30). The wealth itself is *amanah* (trust) for mankind. Man has been endowed with mental and physical capabilities to function as *khalifah*. Hence, as trustee of Allah, man should thereby utilise and distribute the resources in conformity to His Prescriptions. The Islamic banks and other financial institutions, as the trustee of wealth too, should therefore manage the financial resources according to the rules and prescriptions of Allah. The resources should not be kept idle as it is a form of wastage which is prohibited by the Qur'an. Therefore, any excess in financial reserve should be channelled to the entrepreneurs for productive purposes and the utilisation should also be assured to lead to an efficient and equitable allocation and distribution of the resources.

Islam has advocated that the utilisation of the financial resources should consist of a balance between individual rights and the rights of the community. Therefore, financial institutions have to extend the financial resources under its care to finance projects and development for the betterment of the community. Besides, they are expected to perform their social responsibility in the form of promoting social welfare programs and allocating more contributions towards the needy and the poor. Allah says to the effect; "And in their wealth and possessions the right of the (needy), him who asked and him who (for some reason) was prevented." (Qur'an, *az-Zariyat*: 19)

Islamic teachings also promote the spirit of *ukhuwah* (brotherhood) among mankind (*hablumminan-nas*). Everyone is equal in the eyes of Allah and no one is having more privilege over the other, except of course those who are *muttaqin* (God-fearing). It is therefore implied that every individual has equal right and opportunity in the access, allocation and distribution of resources endowed by the Almighty. Everyone is also responsible to care and help each other. As such, one's attitude towards other human being is not to serve his own self interest (Chapra, 1992). Instead, the spirit of cooperation and mutual conducts are very much promoted and encouraged. Having this spirit of brotherhood would allow for the attainment of social equality and dignity of men as *khalifah*. Hence, within this framework of the concept of brotherhood, individual partner in business inclusive of bank and other financial institutions, should ensure that establishing justice in all conducts is upheld, the spirit of cooperation is inculcated, healthy competition is acknowledged and material well-being of the *ummah* (the people) is developed.

As the Islamic financial system is operating within the framework of Islamic law, it is expected that the system should have the philosophy different from that of the existing conventional system. The philosophy should therefore, be in line with the divine guidance of the Qur'an and the Sunnah. The Qur'an has made it very clear that *bay'* (trade and commercial activities) are permitted and encouraged while *riba* (interest) is prohibited (Qur'an, *al-Baqarah*: 275-81). These revelations serve a very clear philosophical foundation of Islamic finance; that *al-'adalah* (justice) and virtue must be upheld in managing business affairs whereas any form of unjustified enrichment such as *riba* (interest) must be avoided by all means.

Riba is an Arabic word which literally means an increase, addition, expansion or growth. In shari'ah (Islamic laws) term, *riba* refers to the premium that must be paid by the borrower to the lender along with the principal loan as a condition for the loan or an extension on its maturity (Chapra, 1985). *Riba* in shari'ah context is classified into *riba al-nasi'ah* and *riba al-fadl*. The term *nasi'ah*, which comes from the root word *nasa'a*, means postponement or delay. Therefore, *riba al-nasi'ah* refers to the additional time allowed to repay the loan by the borrower in return for the additional repayment on top of the loan. This addition can be in the form of fixed or variable percentage of the principal or absolute amount to be

paid in advance or on maturity or any other positive return as a condition for the loan (Al-Omar and Abdel Haq, 1996).

Riba al-fadl occurs when there is unjust exchange of commodity with commodity involving the six *ribawi* items as covered in the *hadith* namely gold, silver, wheat, barley, dates and salt. Of the six commodities, gold and silver represent money while the other four represent staple foods. There are differences of opinion by Muslim jurists as to whether *ribawi* items are restricted to only the six items covered in the *hadith*.

The strict prohibition of *riba* in Islam is a way to establish justice in economic system and to eliminate any form of exploitation and unjust practices. In a *riba*-based debt financing, the financier is assured of getting the principal loan and the positive return from the lending without sharing any risk of lost while the entrepreneur, in spite of the hard work, is not assured of getting such return. This positive return on loan has no element of risk-sharing as the financier has the right to sell the collateral to recover the loan in the case of default payment. It is therefore a compulsion for the Islamic financial system to avoid any such element of injustice to happen in the system.

On top of that, financial institutions are expected to conduct all their financing activities within the framework of the law of *fiqhul-mu'amalat* (Islamic business transaction). This is to ensure the establishment of justice in contracts and the avoidance of unjust exploitative elements such as *riba*, elements of *gharar* (uncertainty), *maysir* (gambling) and speculation. In this regard, the Qur'an emphasises the demand to uphold justice; "O ye who believe! Stand out firmly for justice, as witness to Allah, even against yourself or your parents or your kin and whether it be (against) the rich or poor for Allah can best protect both.." (Qur'an, *an-Nisa*: 135). In another verse, Allah reveals that; "Allah commands justice, the doing of good and liberality to kith and kin, and He forbids all shameful deeds and injustice and rebellion. He instructs you that ye may receive admonition." (Qur'an, *an-Nahl*: 90). These verses enforce the philosophy to uphold justice irrespective of status or blood relationships among man. In the context of business, these verses mean that the Islamic financial institutions must treat their customers equally and impose banks to distribute income and wealth equitably when fixing profit-sharing ratios with their investors and business partners (Sudin and Shanmugam, 1997).

Above all, Islam as a system that differs fundamentally from the prevailing conventional systems has its *maqasid al-shari'ah* (goals) to be attained through the practice and implementation of shari'ah so as to realise *falah* or success of man's life in this world and the world hereafter. These *maqasid* or goals are the safeguarding of our *al-daruriyyah al-khams* (essential needs) comprising *hifz al-deen* (the safeguarding of faith), *hifz al-nafs* (the safeguarding of life), *hifz al-'aql* (the safeguarding of intellect), *hifz al-nasb* (the safeguarding of progeny) and *hifz al-mal* (the safeguarding of wealth) (Chapra, 1992; Al-Omar et al., 1996; Mohd. Daud, 2007; Abdulazeem and Asyraf, 2007). The safeguarding of faith is the utmost ingredient of *shari'ah* as faith puts human being to behave on a proper foundation (the straight path or *sirat al-mustaqim*). It also provides moral filter (Chapra, 1992) for the utilisation, allocation and distribution of resources thereby the goals of Islamic finance that is to have a broad-based economic well being with full employment and optimum rate of economic growth, to attain socio-economic justice and equitable distribution of income and wealth, to have stability in the value of money, to have mobilisation and investment of savings for economic development in an equitable manner, and to have effective rendering of services normally expected from the banking system (Chapra, 1985) can be materialised. In the context of business conduct, this manifestation of faith may become a powerful mitigating system against all sorts of misconducts or moral hazards in contractual business relationship.

Rarick and Han (2010) proposed that a financial system based on Shariah or Islamic law is a better approach than conventional finance. They argued that Islamic finance is a safer approach and less vulnerable than the questionable conventional financial transactions which may have led to the global recession in 2008. It is caused by the conventional financial system that had become too complex, too greedy, non-transparent, and under-regulated (Rarick and Han, 2010). Another principle of Islamic banking and finance in accordance with *Shariah* or Islamic law is that it has to be free from fraud and financial crimes. The Quran as well as the *Sunnah* are emphatic that a true Muslim has to be honest and upright in his business and monetary transactions, keeps his word and fulfill his promises, avoids fraud and deceit, encroaches not upon the rights of others, nor takes part in wrongful litigation, does not give false evidence, and abstains from making dishonest money as from usury and *riba*. Whoever is not free from these vices is, according to the Quran and the *Sunnah*, not a true believer but a traitor and a worthless transgressor.

Shariah Supervisory Board (SSB) or the Islamic bank's in-house religious adviser and auditor cannot authenticate an Islamic financial institution's operations and activities as *Shariah* compliant when the banks are involved, either directly or indirectly, in a financial crime because financial crimes are prohibited in Islam (Jabbar, 2010). In line with its objectives, the most important difference between Islamic and conventional banking is that Islamic banking must follow the Shariah principles by avoiding *Riba* activities, dealings in alcohol, gambling and other non-permissible activities.

Review of Literature

Islamic banking products and services are gaining popularity among customers around the world. However it is known that there has been lack of knowledge on the principles of the system among the population at large. As a result, not all Muslims choose Islamic products and services. Lack of marketing and publicity have also prevented customers from acquiring information and awareness on Islamic banking. There is a gaping hole in Islamic banking public relations and marketing and it is getting larger. Governments, regulators, financial institutions, law firms and the media must work together in order to close the gap in the industry.

Previous studies on customers' preference indicated that knowledge, awareness and satisfaction have significant influence in determining the choice of customers on products and services. The following sub-sections discuss in detail on the relationships among the variables.

Knowledge and Customers Preference

Spender (1996) explained that knowledge can sometimes be treated as a simple asset, non-rivalrous or public good, one whose quantity and value is not diminished by sharing it with others. Many formal organisational activities are intended to acquire information or knowledge through customer surveys, research and development activities. The individuals or organisations that create new organisations have to have knowledge about the new organisation's initial environment and about the processes the organisation can use to carry out its creator's intentions, and they make this knowledge available to the new organisation's members. Information distribution therefore leads to more broadly based organisational learning.

Knowledge on Islamic banking products and services is still lacking among users. They sometimes cannot differentiate between Islamic and conventional products and services. The main difference between both is that Islamic banking practices interest free products and services striving for accountability, justice and fairness as pictured by Islamic economics. Fairness in Islam is to put something at its place and in the case of Islamic banks is to be in line with *Shariah* principles. Gray (2001) defined accountability as identifying what one is responsible for and then providing information about that responsibility to those who have rights to that information. It is vital for customers to have the knowledge in order for them to prefer and purchase the products and services. To test the relation, the following hypothesis is proposed:

Hypothesis 1: Customers knowledge will have a significant relationship with customers' preference for Islamic banking products and services.

Awareness and Customers Preference

Islamic banks should disclose all information necessary to advise the community about their operations even if such information would work against the firm itself (Maali, Casson & Napier, 2006; Lewis, 2006). The concept of disclosure is thus related to the concept of accountability by spreading the knowledge and awareness of the bank's information i.e. performance. As accountability to God implies accountability to society, the duty to disclose truth is owed to the community as well as to God. Everyone should recognise the word 'Islam' is not only a term that can be applied in Islamic banking but it is a way of life and attitude.

Ethics and compliance with Islamic *Shariah* principles are highly regarded as pillars in running Islamic banking activities. Haniffa & Hudaib (2007) expect Islamic banks to communicate clearly the following in their annual reports: (i) commitment to operate and provide returns within *Shariah* principles/ideals; (ii) any involvement in non-permissible activities; (iii) if involved in non-permissible activities, the reason for involvement, the percentage of profit from such activities and how gains from such activities have been handled; (iv) commitment to engage in investment and financing activities that comply with *Shariah* principles; (v) commitment to fulfil contractual relationships with various stakeholders via 'contract (*uqud*) statements; (vi)

current and future directions in serving the needs of Muslim communities; (vii) statements of appreciation to stakeholders.

Islamic banking should be engaged in efforts to establish an independent, true and fair Islamic banking system where all aspects are *Shariah* compliant and all facts about the products and services are disclosed (Haque, Ahmed and Jahan, 2010). These aspects are crucial to ensure that customers are aware and knowledgeable of the bank's affairs which will then affect their preference. By increasing the awareness among customers on the matters related to Islamic banking products and services, customers will be more informed and responsive to their own preference. The following hypothesis thus arise:

Hypothesis 2: Customers' awareness will have a significant relationship with customers' preference for Islamic banking products and services.

Satisfaction and Customers Preference

Dusuki and Abdullah (2006) suggested that it is not impossible to achieve an ideal model of Islamic banking which is a balance between profit-orientation and a manifestation of social-welfare commitment. The social welfare can take into account customers' awareness and satisfaction for Islamic banking products and services. This necessitates an active involvement and co-operation of those behind the veil of Islamic banking including the practitioners, policy-makers, and regulators to ensure Islamic banks stay in focus towards becoming a perfect model of Islamic institutions. Without doubt, the government also plays a major role in formulating and promoting necessary strategies and appropriate policies to ensure the realisation of an ideal Islamic banking system.

Islamic banks have to be accountable to their customers in any transactions between them. Lewis (2006) clarified that in a business enterprise, both management and the providers of capital are accountable for their actions both within and outside their firm. Accountability in this context means accountability to the community or society at large. In order for Islamic banks to create a collective accountability and transparent condition, views from customers, users and shareholders through surveys and studies should be undertaken and the results included in their annual report. This concept

of accountability can spread the knowledge to the stakeholders and thus increase their satisfaction of utilising Islamic banking products and services. By increasing the satisfaction of the customers, their preference for the products and services will also improve. In line with this argument, the following hypothesis is constructed:

Hypothesis 3: Customers satisfaction will have a significant relationship with customers' preference for Islamic banking products and services.

Proposed Research Framework

The framework illustrates the relationship between the independent variables which are knowledge, awareness and satisfaction elements with the dependent variable which is the customers' preference towards Islamic banking products and services. These elements will determine the possibility of enhancing the customers' preference for Islamic banking products and services thus improve the system. This framework is illustrated in Figure 1:

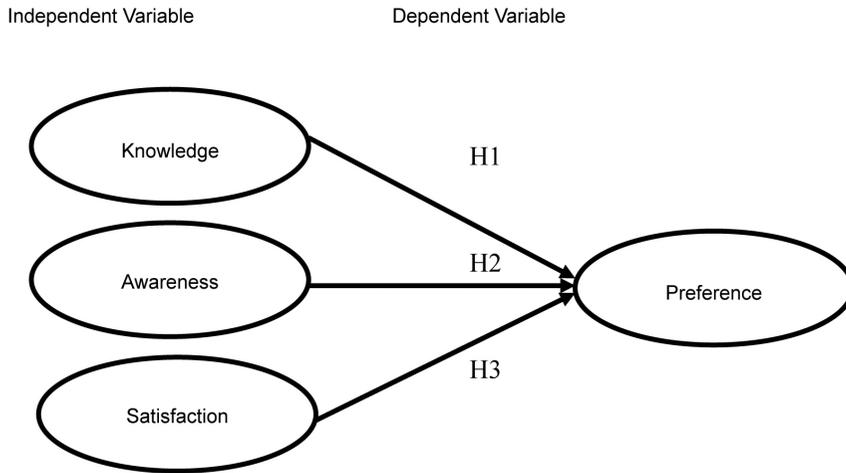


Figure 1: The Relationship between Knowledge, Awareness and Satisfaction with Customers Preference

Methodology

The research design of this study was descriptive and analytical. Descriptive study was undertaken to describe the characteristics of the samples. Analytical study was conducted to identify the relationship among the variables of the study. Primary data was collected in the Klang Valley area via the distribution of questionnaires to Islamic bank customers such as depositors, housing and car loans applicants. The distributed questionnaire elicited information about the customers' demographic background such as gender, ethnic background, education level and customers' age. Using Statistical Package for Social Science (SPSS), the profile of the customers was analysed descriptively in the form of simple statistic such as frequencies, percentages and means.

In the second part, a set of Likert-scale questionnaires were posed to the samples to capture their preference on Islamic banking products and services. The items used to measure the variables were developed from focus group discussion and random interview with Islamic banks' customers to match the objective of this study. Statements relating to each variables namely knowledge, awareness, satisfaction and preference were expected to be responded by circling the chosen scale of 1 = Strongly Disagree up to 5 = Strongly Agree. A total of 300 respondents (18 years and above) were chosen to answer the questionnaire. Out of the 300 questionnaires, only 235 were returned and usable for the study. The data collection was carried out in October till December 2010. Reliability and factor analysis of independent and dependent variables were later conducted using three types of components namely Composite Reliability (CR), Average Variance Equation (AVE) and Cronbach Alpha. This was then followed by correlation and regression analysis of independent and dependent variables. The data analysis will be further explained in the results section.

The selection criteria for customers were narrowed down to ensure that the respondents were those who currently owned a bank account in Malaysia, preferably an Islamic bank account and were interested in *Shariah* compliant products. The target group was categorised into four types based on the banks' background and nature of business. The first group was full-fledged local bank i.e. Bank Islam and Bank Muamalat. Secondly, local bank which converted from conventional bank with Islamic window to full-fledged

Islamic bank (subsidiary) i.e. Maybank Islamic and CIMB Islamic. Third group was international bank with Islamic window i.e. HSBC Amanah and fourth was a full-fledged international bank i.e. Al-Rajhi Bank. The purpose of this classification is to know the different decision making process, criteria and preferences from different customers of different Islamic banks. This will widen the scope of the respondents' opinion and will represent the customers from major Islamic banks in Malaysia. This will also assist the customers in their choice of the Islamic banking products and services.

Results

Table 1 shows the demographic data of the 235 Islamic banking customers who responded to the survey. 139 out of the 235 respondents (59.1 percent) are females. 45.5 percent of the respondents are below 30 years of age. Government employees are the highest among the respondents. Most of the respondents are Muslims and Malays because of the chosen research area which is located in Shah Alam, populated mainly by Malays. Most of the respondents' highest education level is undergraduate degree (32.3 percent). The sample might not reflect the entire population and customers of Islamic banks, but it can be assumed to indicate the common preference of Islamic banking customers by referring to the current sample selection.

Table 1: Demography of Customers

Category	Selection	Frequency	Percentage
Gender	Male	96	40.9
	Female	139	59.1
Age Range	<30	107	45.5
	30 - 39	67	28.5
	40 - 49	33	14.0
	50 - 59	26	11.1
	60 and above	2	0.9
Place of Work	Government	150	63.8
	Private	57	24.3
	Self-employed	15	6.4
	Others	13	5.5
Place of Residence	Shah Alam	65	27.7
	Others	169	71.9

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Religion	Islam	216	91.9
	Christianity	7	3.0
	Buddhism	6	2.6
	Hinduism	6	2.6
Ethnic Group	Malay	210	89.4
	Chinese	10	4.3
	Indian	8	3.4
	Others	7	3.0
Highest Education Level	Primary/Secondary	36	15.3
	Diploma/	72	30.6
	Matriculation	76	32.3
	Bachelor	45	19.1
	Postgraduate	6	2.6
	Professional		

Reliability. There are three types of components to measure reliability and validity of data: Composite Reliability (CR), Average Variance Equation (AVE) and Cronbach Alpha. According to Sekaran and Bougie (2010), the reliability of a measure indicates the extent to which it is without bias and hence ensures consistent measurement across time and across the various items in the instrument.

Composite reliability should be 0.7 or higher to indicate adequate convergence or internal consistency (Gefen *et al.*, 2000). The CR value of each variable (0.902 for Knowledge, 0.893 for Awareness, 0.873 for Satisfaction and 0.861 for Preference) follow the rule of thumb and the minimal cut off point required.

Average Variance Equation should exceed 0.5 to suggest adequate convergent validity (Bagozzi & Yi, 1988). The AVE value of each variable (0.607 for knowledge, 0.806 for awareness, 0.648 for satisfaction and 0.607 for preference) exceed the 0.5 cut off point required.

Nunnally (1978) recommended that instruments used in basic research have reliability of about 0.7 or better. He also stated that increasing reliabilities much beyond .80 is a waste of time with instruments used for basic research. Cronbach alpha values should be 0.7 or higher to indicate adequate convergence or internal consistency (Nunnally, 1978). The Cronbach Alpha of this study are all above 0.7 cut off point set by Nunnally

(1978) thus shows that the results are reliable (0.868 for knowledge, 0.757 for awareness, 0.813 for satisfaction and 0.780 for preference). One item has been deleted for independent variable 'Awareness' to ensure that the Cronbach Alpha is above 0.7.

In summary, the value of each variable exceeds the minimum cut off point required by CR, AVE and Cronbach Alpha to test for reliability.

Factor Analysis. The loading for each independent variable as well as dependent variable are presented in Table 2. The first independent variable, Knowledge, item named 'Prohibitions' has the highest factor loading (0.849) followed by item named 'Shariah' (0.822), 'Defaulters' (0.817), 'Zakat' (0.801), 'System' (0.71) and lastly 'FC/FF' (0.657).

Under 'Awareness', the factor loading for both items are the same which is 0.898. The last independent variable, 'Satisfaction', item named 'Customer' has the highest factor loading (0.878) followed by 'Relationship' (0.865), 'Timeliness' (0.812) and 'Service' (0.644).

For the dependent variable Preference, item named 'Type_Bank System' has the highest factor loading which is 0.798 followed by 'Type_Preference' (0.778), 'Type_Product' (0.771) and lastly 'Type_Source' with loading of 0.769.

Table 2: Reliability and Factor Analysis of Independent and Dependent Variables

Construct	Item	Item Name	Loading	CR	AVE	CRONBACH ALPHA
Knowledge				0.902	0.607	0.868
	Q5	System	0.71			
	Q6	FC/FF	0.657			
	Q7	Shariah	0.822			
	Q8	Zakat	0.801			
	Q9	Defaulters	0.817			
	Q10	Prohibitions	0.849			
Awareness				0.893	0.806	0.757
	Q11	Benefit	0.898			

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	Q12	Function	0.898			
Satisfaction				0.879	0.648	0.813
	Q14	Service	0.644			
	Q15	Customer	0.878			
	Q16	Relationship	0.865			
	Q17	Timeliness	0.812			
Preference				0.861	0.607	0.780
	Q1	T y p e _ BankSystem	0.798			
	Q2	T y p e _ Product	0.771			
	Q3	T y p e _ Preference	0.778			
	Q4	T y p e _ Source	0.769			

The descriptive statistics in Table 3 show the mean and standard deviation of the sample. Mean measures the central tendency reflecting the average selection of the respondents. The mean for all four variables ranges from 3.3 to 3.8. The mean shows that the answers are more on the positive side rather than negative. Satisfaction has the highest mean which is 3.8245 while 'Preference' has the lowest (3.3122). All four variables have a standard deviation less than their mean and below than 1 meaning that the variables are normally spread.

Table 3: Descriptive Statistics of Independent and Dependent Variables

Descriptive Statistics			
	Mean	Std. Deviation	N
Knowledge	3.4106	.73710	235
Awareness	3.8043	.76095	235
Satisfaction	3.8245	.61219	235
Preference	3.3122	.73192	235

Davis (1971) suggested the analysis of correlation strength should be based on these depictions; if r is 1.0, the magnitude is perfect; if r is 0.70 – 0.99, the magnitude is very high; if r is 0.5 – 0.69, the magnitude is substantial; if r is 0.30 – 0.49, the magnitude is moderate; if r is 0.10 – 0.29, the magnitude is low; and if r is 0.01 – 0.09, the magnitude is negligible. The correlations between variables are showed in Table 4. The correlation between Knowledge and Awareness is 0.621 meaning the magnitude is substantial and significant at $p \leq 0.01$. The correlation between Knowledge and Satisfaction is 0.186 which means that the correlation strength is low but significant at $p \leq 0.01$. The correlation between Knowledge and Preference is 0.969 which means that the correlation strength is very high and significant at $p \leq 0.01$. The correlation between Awareness and Satisfaction is 0.236 which is low yet significant at $p \leq 0.01$. The correlation between Awareness and Preference is 0.563 meaning that the magnitude is substantial and significant at $p \leq 0.01$. The correlation between Satisfaction and Preference is 0.167 which is low but significant at $p \leq 0.05$. In summary, any correlation between variables in relation to Satisfaction will give a low magnitude and correlation strength. This will be explained further under regression analysis.

Table 4: Correlations of Independent and Dependent Variables

		Knowledge	Awareness	Satisfaction	Preference
Knowledge	Pearson Correlation	1	.621**	.186**	.969**
	Sig. (2-tailed)		.000	.004	.000
	N	235	235	235	235
Awareness	Pearson Correlation	.621**	1	.236**	.563**
	Sig. (2-tailed)	.000		.000	.000
	N	235	235	235	235
Satisfaction	Pearson Correlation	.186**	.236**	1	.167*
	Sig. (2-tailed)	.004	.000		.010
	N	235	235	235	235
Preference	Pearson Correlation	.969**	.563**	.167*	1
	Sig. (2-tailed)	.000	.000	.010	
	N	235	235	235	235

** . Highly significant at the 0.01 level (2-tailed).

* . Highly significant at the 0.05 level (2-tailed).

The model summary in Table 5 shows that the R-Square is 0.941 meaning that the variability of the Y values around the regression line is 1-0.941 times the original variance. In other words the results have explained 94.1 percent of the original variability, and are left with 5.9 percent residual variability. Ideally, it is best to explain most if not all of the original variability. The R-Square value is an indicator of how well the model fits the data. R-Square close to 1.0 indicates that the result has accounted for almost all of the variability with the variables specified in the model. The R-Square of 0.941 in this study which is close to 1.0 indicates that the model fits well with the data. On the other hand, adjusted R-Square measures the proportion of the variation in the dependent variable accounted for by the explanatory variables. Unlike R-Square, adjusted R-Square allows for the degree of freedom associated with the sums of the squares. Therefore, even though the residual sum of squares decreases or remains the same as new explanatory variables are added, the residual variance does not. For this reason, adjusted R-Square is generally considered to be a more accurate goodness of fit measure than R-Square. The adjusted R-Square for this study is 0.940 which is slightly lower than R-Square by 0.001. This normally means that most of the explanatory variables are included and the model fits well with the data.

Table 5: Regression Analysis of Independent Variables

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. Change
1	.970 ^a	.941	.940	.17948	.941	1220.210	3	231	.000

a. Predictors: (Constant), Satisfaction, Knowledge, Awareness

From the regression analysis shown in Table 6, hypothesis one and two are supported meaning that knowledge and awareness have a positive relationship with customers' preference. While on the other hand, hypothesis number three is not supported with p-value or significant value of 0.693

indicating that satisfaction is negatively related to customers' preference. Among the reasons why hypothesis three is not supported are maybe because firstly in this research area with the given population and sample, satisfaction is not a contributing or determining factor to the preference of customers. Knowledge and awareness are the main contributing factors to customers' preference or other factors not included in this study. Maybe the relationship works otherwise with preference as the factor influencing satisfaction. Customers who already chose Islamic banking products and services from their knowledge and awareness will be satisfied with the products after using them. Customers who are satisfied with Islamic banking products and services will definitely continue to prefer and stick with the products and services. Thus, customers' satisfaction will be dependent on their preference to purchase these products and services.

Table 6: Summary of Regression Analysis of Independent Variables

Hypothesis	Relationship	Beta	t-value	p-value	Result
H1	Knowledge → Preference	1.008	49.221	0.000	Supported
H2	Awareness → Preference	-0.062	-3.001	0.003	Supported
H3	Satisfaction → Preference	-0.007	-0.396	0.693	Not Supported

Discussion

Respondents' knowledge and awareness on Islamic banking influenced their preference to purchase these products and services under various conditions. The knowledge and awareness of Islamic banking products and services will have the capability not only to increase confidence and trusts of customers, but also to help them exercise informed decision making based on better understanding of Islamic banking concepts. A broad variety of Islamic products and services from a large number of players will build up the profitability and success of the Islamic industry particularly the Islamic money market not only in Malaysia but also worldwide.

Conclusion

Islamic banking has become a force to be reckoned with in the global economic scenario. Its significance has grown over the years and is now available in over 60 countries. The Malaysian Islamic banking sector is

seen as one of the most progressive and attractive in the world given the numerous incentives planned and further liberations in the coming years. The international banking community has taken note of Malaysia's strategic direction in developing and nurturing Islamic banking. With this, they have acknowledged Malaysia as the foremost leading Islamic banking centre.

This research aims on gauging the opinion and understanding about the overall performance and operation of Islamic banking in Malaysia among the customers. Feedbacks from them are important in order to lay down new guidelines and principles to improve Islamic banking products and services in Malaysia. From this research, it is hoped that Islamic banks will be able to identify the problems encountered by their products and services and will try to overcome these problems. Enriching the customers with knowledge and awareness of Islamic banking products and services is deemed important as seen and supported by the data analysis for hypothesis one and two. Customers with better knowledge and awareness will lead them to a better preference on the products and services that they have acquired. This will in turn give them satisfaction of their purchases and investments which is the negative relationship of the third hypothesis.

Although Islamic finance is less than 40 years old, the time has arrived for the industry to have a dedicated well-financed body to send a coherent and consistent message about the industry (Siddiqui, 2012). This is an investment and not a cost. It is crucial to ensure that the Malaysian Islamic banking system and its products and services can achieve the objective of being accountable and highly preferable. The Islamic banking industry will probably continue to grow and satisfy the market for those who want or need to comply with the requirements of Shariah.

Limitations

Normal limitations are expected in the process, for example lack of cooperation from banks and customers which were later excluded from the sample. In certain cases, customers were unwilling to give full disclosure of products and services that they acquired. Since the Islamic *Shariah* principles are so broad, the absence of a well defined set of procedures and rules based on generally accepted Islamic principles will more likely result in Islamic banks proceeding differently on similar transactions based on differing advice from their *Shariah* advisors.

Future Research

This study is an initial step for improving the preference for Islamic banking products and services. It explores a path along which future researchers can travel. Future research can focus on other variables that are significantly improving the customers' preference which are not included in this study. Efforts on further research would lead to improve Islamic banks and make it a role model for other banks to follow.

Many other aspects should be taken care of in maintaining and improving the customers' preference towards Islamic banks. Lack of enforcement for good corporate governance will affect Islamic banks greatly and thus, jeopardizing the accountability of its products and services. While there may not be in Islam official juristic recognition of the concept of corporate governance as such, an examination of the principal legal sources of the Holy Quran and *Sunnah* reveals clear guidelines about decision-making processes in an Islamic context (Lewis, 2006). The corporate governance is not only one of the main principles in running Islamic banks successfully but it also ensures security and confidence by monitoring and controlling the operation of the firm (Abu-Tapanjeh, 2007).

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