

INVESTIGATING CRITICAL FACTORS INFLUENCING ACCEPTANCE AND MARKETING STRATEGIES OF ISLAMIC BANKING SERVICES IN MALAYSIA

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Abstract:

The Islamic banking system is known as a new banking method that provides different types of Islamic based principles services. This new banking method must compete with the conventional banking scheme in Malaysia as well as different parts of the world. Therefore, Islamic banking system has attempted to provide new services to fulfill its customers' needs. However, these services have not been vastly accepted and used by its end users. This study tries to identify and introduce the main factors that influence as well as enhance adoption of Islamic banking services among different clusters of users in Malaysia.

Keywords: Islamic banking system, Islamic banking services, acceptance, Islamic finance, Malaysia, Islamic marketing

Introduction

The most important mission of Islamic banks refers to establishing developed social and economic environment through the distribution of financial product and services that is in line with principle of Islam and Shariah (Metawa and Almossawi, 1998). These products and services should be presented to society and simultaneously be used by different clusters of customers. Since this banking system is stable in its nature, it would be able to improve economic growth of the countries that use this banking method (Jamshidi and Hussin, 2013). For adoption of Islamic banking services, it would be necessary the banks that offer this service make their customer

aware regarding availability and usability of such Islamic product and make clear how this service adds value compared to other type of products or competitors services.

Islamic banking in Malaysia has to compete with international banks and dominant long run established conventional banking system. Furthermore, market share for Islamic deposits and different financing schemes seems to be still low despite of being active for more than twenty eight years compared to conventional financing and deposit system. In spite of the best efforts of related authorities in Malaysia such as Malaysian government, financial institutions and Bank Negara Malaysia, there has been slow rated of acceptance of Islamic banking products and services in Malaysia.

In addition, numerous studies have been conducted related to Islamic banking but less effort have been carried out related to adoption and the usage intention of Islamic retail banking products and services specifically in environment of Malaysia (Thambiah et al., 2011b). Based on these literature related to using of Islamic banking product and services, there seems to be a problem about the usage rate of Islamic banking product and services and more study is needed to fill this gap by identifying factors which influence adoption and increasing usage rate of Islamic banking products and services.

Review of previous studies

In Islamic banking discipline, Yusof (1999) has conducted a study related to adoption of Islamic banking and the area of study is Singapore by using Innovation Diffusion Theory. In order to identify the factors that influence adoption of Islamic banking services in Morocco, Echchabi and Aziz (2012) conducted the study, but they only considered religious perspective of customers and its linkage with Islamic banking services adoption.

Thambiah et al. (2010) have considered Malaysian bank customers as a sample to identify important factors of Islamic retail banking product and services adoption which the basic model of study has been Innovation Diffusion Theory. In another study by Thambiah et al. (2011b) adoption and usage of Islamic retail banking in Malaysia were investigated by applying Innovation Diffusion Theory as the base framework of study in Rural and urban area of Malaysia. Echchabi and Olaniyi (2012) have tried to use the Theory of Reasoned Action (TRA) in order to determine the factors that influence intention to adoption of Islamic banking services in Malaysia between different bank customers and the study specifically mentioned that future research in the area of adoption of Islamic banking services by using other models.

Therefore, based on past literature the current study would try to identify most important factors which influence adoption and usage of Islamic banking product and services and fill this gap in Malaysia. In this study the perceived attributes of innovation derived from (Rogers, 2003) Innovation Diffusion Theory (IDT) would be based and some other variables also would be added to provide more insight in identifying factors which lead to usage and adoption of these products. These measures would be attitude, awareness, and perceived financial cost which are discussed in detail in subsequent sections.

The research aims and objectives

Currently, most research on banking and information technology concentrated on conventional and its technological products. Less literature has examined the Islamic banking products, consequently current study would consider Islamic banking services by applying perceived attributes of innovation diffusion theory and some added measures to establish a research model for customers' usage and this method of banking services. This study would attempt to offer answersto questions like what are the factors that motivate bank customers in Malaysia to use Islamic banking services and what factors they typically rely on.

In point of fact, banking sectors have a positive influence on economic growth of Malaysia (Jamshidi et al., 2012). Actually, accessibility of new markets supports growth and provide opportunities to expand Islamic banking services which lead to establish a higher market share of Islamic banking system. In this regard, Echchabi and Aziz (2012)have noted that consumers are eager to adopt Islamic banking services and products. However, although some numbers of bank customers in Malaysia use Islamic banking services and products, apparently the majority of them have not adopted the system and its services (Thambiah et al., 2010).

In other words, a minimal empirical academic study pertains to understanding customers' preferences for Islamic banking services. On the other hand, despite the availability of Islamic banking services in Malaysia, scarce study has been conducted to examine the factors that cause adoption and usage of this Islamic banking facility among Malaysian bank customers. Besides, Amin et al. (2010)have encouraged and recommended more studies in the context of Islamic banking and its financial products.

Therefore, objectives of this study could be categorized as(1) what are the factors that influence the customers' tendency to accept and use Islamic banking services? (2) What is the relative importance of these factors? By considering a fewnumbers of studies, the inconclusive status of using and adoption of Islamic banking services and lack of sufficient evidence from Malaysia, the current study would inspect the potential facilitators of Islamic banking service usage and adoption by implementing innovation diffusion theory (Rogers, 2003).

In fact, how do perceived attributes of innovation diffusion theory at the individual level influence the usage and adoption of Islamic banking services would be the main concentration of this study. In other words, the purpose of this study would be investigating how Islamic banking services are adopted or perceived and whether the perceived attributes innovation of innovation diffusion theory is capable of predicting adoption and continuance usage among retail bank customers in Malaysia. The finding of this research would be beneficial for both bank managers to formulate and implement their marketing strategies to enhance Islamic banking service usage and adoption as well as researchers in Islamic retail banking services studies in general.

Theoretical basis of study

Since Islamic banking is an innovative way of banking for most people, it was appropriate to consider using diffusion of innovation (DOI) theory in the study of Islamic banking services. A major focus of previous studies on innovation adoption/diffusion was how potential adopters' perceptions of the innovation attributes affect their adoption (Moore and Benbasat, 1991). One of the most often cited reviews of the perceived innovation attributes literature is that of Rogers (2003). Actually, this model has been variously used to explain IT, technology, business and new product adoption in multiple contexts, is in particularly attractive due to its persistent appropriate predictive record.

In fact, many researchers in their study have agreed that five constructs of perceived attributes of innovation (relative advantage, complexity, compatibility, trialability and observability) are useful and valid in comprehending and understanding individuals' adoption and usage intention, however depending on the study context, additional constructs are needed in order to provide better and more comprehensive and deeper results. Therefore, in this study other construct which can influence the acceptance of Islamic banking services have been justified in order to provide more appropriate outcome.

In point of fact, innovation adoption studies have applied these five attributes amongst others in their search for identifying the factors influencing innovation adoption (Hameed et al., 2012). It seems that these attributes are able to explain adoption of different services which crucially are important for shows the product and service characteristics that in turn is able to stimulate the users to accept them. More specifically, according to Kim and Park (2011), most researches on innovation adoption examine the product characteristic role as well as personal traits as determinants of customers' adoption decisions.

Perceived attributes of innovation diffusion theory are adapted in order to better explain and describe intention to use and adoption decision concerning Islamic banking services. Beforehand, the model has been utilized in multiple areas like management and marketing studies. In fact, characteristics of Innovation, influences of the individual's context and personal factors will all forms the ultimate decision as well as persistence with a technology, product or service (Straub, 2009).

In this regard, Rogers (2003) has identified five key characteristics of an innovation namely relative advantage, complexity, compatibility, observability and trialability as the most significant factors for an explanation of the rate of innovation adoption (Sadiq Sohail and Shanmugham, 2003). Therefore, we believe that these attributes are able to influence bank consumers to use Islamic banking services due to their previous impact on the adoption of different innovation, products and services in regards to multiple products and services. Besides, Jamshidi and Rezaei (2012) have used these perceived attributes of Innovation to explain the adoption of Islamic credit card.

In the originally proposed framework of Rogers, the rate of adoption of innovation was considered as the dependent variable. The relationship between innovation attributes (which were categorized by Rogers as relative advantage, compatibility, complexity, trialability, and

observability) and rate of adoption was examined. These attributes were used to explain the user adoption and decision-making process (Chang and Tung, 2008). Without breaking the consistency of the original framework, some researchers have used the adoption or usage of the innovation as the dependent variable instead (Agarwal and Prasad, 1997, He et al., 2006).

Attitude toward using Islamic banking service

Attitude toward behavior is the degree to which an individual has unfavorable or favorable appraisal or evaluation of behavior in the question (Ndubisi and Sinti, 2006). Attitude of consumers regarding a specific service is able to influence the adoption decision of users to adopt the service or idea. During the time, it has been proved that attitude is a strong predictor regarding acceptance and usage of multiple service or products.

In this regard, Attitude has been used in context of using Islamic personal financing (Amin et al., 2011), the usage intention of Islamic diminishing home partnership financing (Taib et al., 2008), mobile banking adoption (Püschel et al., 2010), mobile service acceptance (López-Nicolás et al., 2008), the usage intention of Facebook (Suki et al., 2012), the usage intention of technology (Teo et al., 2009), adoption of Islamic credit card (Jamshidi and Hussin, 2012). Consequently the current study would aim to consider the potential impact of customer attitude in adoption and usage of Islamic retail banking product and services. Therefore due to this vast applicability of attitude for influencing adoption of varied new products and services, we believe that it would be able to enhance acceptance of Islamic banking services by bank customers.

Customer Awareness

In a study which considered the Jordan customers by Naser et al. (1999) it was clear that respondents were aware of some specific Islamic financial and banking terms such as Mudaraba, Murabaha and Musharaka but these respondents were not using these types of Islamic banking services. Furthermore, Metawa and Almosawi (1998) considered Bahrain bank customers to identify awareness and using rate of them. Their study showed that although customers are aware and use basic deposit schemes like current accounts, saving accounts and investment accounts but, two third of respondents do not use Islamic financial schemes. In other words, the usage rate of Islamic banking product and services is quiet below their awareness.

Another imperative result of study indicates that only 35 percent of customers which are under 25 years old have an account in Islamic banks. Khattak and Rehman (2010) have indicated that 67% of Islamic bank account holders in Pakistan also are using the services of the conventional banking system and additionally customers are aware of Islamic banking products but have not adopted these kinds of products. Another study by Saini et al. (2011) was conducted in South Africa in order to identify the awareness and usage rate of Islamic banking products and services and it showed that Muslims are aware of Islamic banking products but usage rate is low.

In some studies regarding Malaysia, the awareness and using of Islamic banking counter and products have been investigated. For instance, Hamid and Azmin (2001) mentioned that although 48 percent of respondents in Malaysia claim that they know Islamic banking financial products, but less than 15 percent are able to answer appropriately about meaning of these products, more surprisingly this study showed that almost all respondents are aware about existence of Islamic banking system in Malaysia but at the same time about 50 percent of respondents have been using Islamic banking counter and services and more than 60 percent of respondents could not differentiate between Islamic and conventional banks' financial products and services.

In this regard, in a study conducted by Thambiah et al. (2011a) conducted to show the level of awareness and usage of Islamic retail banking products and services in both rural and urban areas of Malaysia which surprisingly resulted that there is a lack in awareness and more importantly percentage of non users of Islamic banking products is higher than users of these services among both rural and urban citizens after three decades of implementing of Islamic banking in Malaysia. Therefore, it could be mentioned that even though some number of Malaysian bank customers are currently consumers of Islamic banking services and products, but clearly a majority of Malaysian customers still have not adopted the Islamic banking system (Thambiah et al., 2010). This could be the problem for development of Islamic banking in Malaysia.

Awareness is the added measure which would be used to identify its effect and linkage to adoption of Islamic retail banking product and services. The reason behind applying this measure refers to its impact on other area of adoption and usage such as e payment adoption (Gholami et al., 2010), information technology adoption (Huang et al., 2011), online and mobile banking adoption (Daud et al., 2011), internet banking adoption (Hanafizadeh and Khedmatgozar, 2012), e-banking usage (Agarwal et al., 2009). Based on these literatures we consider awareness on Islamic banking services and its merits as a reason to fill the gap of study related to adoption of these services.

Perceived financial cost

Islamic banks' act to select the most suitable price regarding the selling of the financial services which lead to creating a balance between customers' interest and bank is known as Islamic services financing (Amin et al., 2011). In fact, the amount of cost that customers have to pay to use a kind of banking service will influence their decision whether integrates this service to their life or not. Besides, it is clear the lower amount of the cost that a specific Islamic banking service provides for its users, the higher chance would have to be adopted by its end users.

Perceived financial cost is the last added measure and concept to study because of its vast usage in usage intention and adoption in other area which are usage intention of Islamic personal financing (Amin et al., 2011), Islamic mobile phone banking service adoption (Sun et al., 2012), e-banking adoption (Poon, 2007), internet banking adoption (Alam et al., 2009), mobile banking usage intention (Luarn and Lin, 2005), usage intention of mobile services (Revels et al., 2010, Min et al., 2008). Based on these literatures and vast usage, effectiveness and efficiency of perceived financial cost in adoption studies, the current study utilizes this factor to explore its

linkage and impact on adoption of Islamic retail banking services to fill the gap of study. By considering the important impact that perceived financial cost have had regarding the adoption of different conventional banking system, it would be expected that this construct is explained the adoption of Islamic banking services as well.

Conclusion and future research

This study attempted to provide a discussion regarding the main factors that influence adoption, acceptance and continues usage of Islamic banking services. In this regard, Diffusion of Innovation theory and its applicability to explain its influence on the adoption of Islamic banking services were discussed. Besides, the potential impact that attitude toward this banking service, customer awareness as well as the perceived financial cost impact was discussed.

However, a number of studies by applying other adoption and acceptance theories is needed to represent a comprehensive viewpoint in regards of the factors that can enhance adoption of Islamic retail banking services. Moreover, the main factors that can influence the adoption of specific types of Islamic products and services, such as Islamic credit card, Islamic home financing, Islamic personal financing as well as other types of Islamic banking services could be explained in future studies.

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