



Munich Personal RePEc Archive

## **Is the Theory of Planned Behaviour Valid for Islamic home financing?**

Amin, Hanudin and Abdul-Rahman, Abdul-Rahim and  
Abdul-Razak, Dzuljastri

Universiti Malaysia Sabah, International Islamic University  
Malaysia, IIUM Institute of Islamic Banking and Finance

7 July 2009

Online at <https://mpra.ub.uni-muenchen.de/43179/>  
MPRA Paper No. 43179, posted 09 Dec 2012 20:03 UTC

# IS THE THEORY OF PLANNED BEHAVIOUR VALID FOR ISLAMIC HOME FINANCING?<sup>♠</sup>

HANUDIN AMIN<sup>ψ</sup>, ABDUL-RAHIM ABDUL-RAHMAN<sup>\*</sup> and DZULJASTRI ABDUL-RAZAK<sup>♠</sup>

<sup>ψ</sup>*Ph.D Candidate, IIUM Institute of Islamic Banking and Finance  
International Islamic University Malaysia*

<sup>\*</sup>*Professor, Kulliyah of Economics and Management Sciences  
International Islamic University Malaysia  
IIUM Institute of Islamic Banking and Finance*

<sup>♠</sup>*Assoc. Professor, Kulliyah of Economics and Management Sciences  
International Islamic University Malaysia*

**5th SEPTEMBER 2011 (PhD registration date)**

## ABSTRACT

This study is aimed at explaining factors influencing the intention amongst bank customers in selecting Islamic home financing that is *musharakah mutanaqisah* home financing. Drawing upon the theory of planned behaviour (the TPB), this study proposes a model to examine the effects of three explanatory factors namely attitude, subjective norm and perceived behavioural control on such intention. This study tests the TPB in a context of *musharakah mutanaqisah* home financing. The model of the study is tested using survey data from 168 bank customers who are respondents of the study. Our results suggest that attitude, subjective norm and perceived behavioural control are significantly influencing the intention to select such facility. The relationship between attitude and subjective norm are also statistically significant. The findings also demonstrate the applicability of the TPB in the *musharakah mutanaqisah* home financing context.

**Keywords:** Islamic banking, *musharakah mutanaqisah*, home financing, survey, mortgage finance, Malaysia

---

<sup>♠</sup> THIS IS TO EXPLAIN THAT THIS WORK IS PART OF PhD STUDY OF THE FIRST AUTHOR.

## THE AUTHORS



**HANUDIN AMIN** is a lecturer at the **UNIVERSITI MALAYSIA SABAH** – Labuan International Campus. He teaches Islamic banking practice, mutual fund management, Islamic accounting, banking management, research method, issues in Islamic finance, international banking and financial statement analysis, to name a few. His areas of interest are Islamic banking, Islamic accounting and Islamic marketing. He has published journal articles in *Journal of Internet Banking and Commerce*, *International Journal of Business and Society*, *Labuan Bulletin of International Business and Finance* and *Management Research Review*, to mention some. He is currently working as a PhD candidate at the **IIUM INSTITUTE OF ISLAMIC BANKING AND FINANCE (II/BF)** in Damansara, Kuala Lumpur, Malaysia. The topic of his PhD is on Islamic home financing.



**ABDUL RAHIM ABDUL RAHMAN** is Professor at the Department Accounting, Kulliyyah (Faculty) of Economics and Management Sciences, International Islamic University Malaysia (IIUM). He obtained his Bachelor degree in Finance and Accounting from University of East London UK; Master in Accounting and Management Sciences; and PhD in Accounting from University of Southampton UK. His PhD thesis title was “An Interpretive Inquiry into Accounting Practices in Islamic Organisations in Malaysia”. Dr. Abdul Rahim is actively involved in research and consultancy. His current research interests include: accounting for Islamic financial institutions; zakat accounting and governance; Islamic banking and finance; Islamic microfinance; and, corporate governance. He has published more than 20 papers in international and local academic journals; edited books; and, professional magazines. He has published works in reputable academic journals including *Financial Accountability and Management* (Blackwell), *Managerial Auditing Journal* (Emerald), *American Journal of Islamic Social Sciences* (IIIT), *Islamic Economic Studies* (IRTI IDB), and *Review of Islamic Economics* (Islamic Foundation UK). Dr. Abdul Rahim has also served as the founding director of the IIUM Institute of Islamic Banking and Finance; Head of the Department of Accounting; and Deputy Dean of the Faculty of Economics and Management Sciences, IIUM.



**DZULJASTRI ABDUL-RAZAK** is Associate Professor at the Department of Finance, Kulliyyah of Economics and Management Sciences, International Islamic University Malaysia, Malaysia. He earns his PhD in 2011 from Universiti Sains Malaysia in Islamic Banking and Finance. He teaches marketing, bank management, bank marketing, Islamic products and services and Islamic financial planning. His areas of interest are Islamic home financing, Islamic micro credit, equity financing, personal finance, service quality in Islamic banking, *maqasid al-Shariah* and financial crisis from an Islamic perspective. He has published a number of articles in *Review of Islamic Economics*, *International Journal of Islamic and Middle Eastern Finance and Management*, *Global Journal of Finance and Economics*, *JKAU Islamic Economics*, *Journal of Islamic Marketing* and *American Journal of Applied Sciences*, to mention some.

## I. INTRODUCTION

Prior scholars have reached consensus when defining *musharakah mutanaqisah* (Hasan 2011; Mohamed-Naim 2011). *Musharakah mutanaqisah* can be defined as a form of partnership where two or more people combine either their capital or labour together to share the profits, enjoying similar rights and liabilities (Mohamed-Naim 2011). This definition is in consonance with the definition provided by Usmani (2002). Explained in more detail, according to this concept, a financier and his client participate either in the joint ownership of a property or equipment or in a joint commercial enterprise (Usmani, 2002). The application of the *Shariah* principle is apparent in housing. Several works in Malaysia have investigated *musharakah mutanaqisah* principle in the context of Islamic home financing (Mydin-Meera & Abdul-Razak 2005; Mydin-Meera & Abdul-Razak 2009; Shuib et al. 2011a). These authors have defined *musharakah mutanaqisah* as a contract which consists of three *Shariah* contracts namely *musharakah*, *ijarah* and *bay*. The customer enters into a partnership under the concept of joint ownership agreement with the bank to co-own the asset being financed. Later, the bank leases out its share to the customer under the *ijarah* concept. Finally, the customer buys the bank share until the asset fully owned by the customer (Mydin-Meera & Abdul-Razak 2009).

Mydin-Meera and Abdul-Razak (2005) claim *musharakah mutanaqisah* home financing is a better Islamic financing alternative for housing in Malaysia as compared to that of BBA. Shuib et al. (2011b,c) also confirm the claim as the *musharakah mutanaqisah* is more beneficial than that of BBA. Despite the merits posed in the product, the acceptance of bank customers on *musharakah mutanaqisah* is particularly unclear. To be specific, their intentions to choose *musharakah mutanaqisah* home financing are not well-documented. Previous works on *musharakah mutanaqisah* home financing are centred on conceptual papers addressed the implementation issues of the product such as ownership, default and computer system (Osmani & Abdullah 2010). Empirical works on *musharakah mutanaqisah* home financing are scanty. Through a literature survey, one study done by Md-Taib et al. (2008) document the empirical evidence pertaining to the acceptability of the theory of reasoned action (the TRA) to examine postgraduate students' decision to accept *musharakah mutanaqisah* home financing in the future. Findings of the study are that attitude and subjective norm were instrumental in determining one's willingness to use the product. Yet, the study context is within university setting rather than bank customers at large. The study has chosen the TRA rather than the theory of planned behaviour (the TPB).

With the birth of *musharakah mutanaqisah* home financing, the need to investigate factors leading to the selection of Islamic home financing is of prime importance. For the purpose, the TPB is chosen. The TPB is found to be applicable in a Malaysia's context (Ramayah et al., 2009; Luthfi and Salehudin, 2010; Alam and Mohamed-Sayuti, 2011). The main purpose of the study is to examine the effects of attitude, subjective norm and perceived behavioural control on the intention to select Islamic home financing that is *musharakah mutanaqisah* home financing.

## II. LITERATURE REVIEW

### *Empirical works on musharakah mutanaqisah home financing*

Empirical works in the area of *musharakah mutanaqisah* home financing are particularly scanty. In this section, the authors of the current paper opt five empirical studies which relevant in the present study (Amin 2008; Md-Taib et al. 2008; Abdul-Razak & Md-Taib 2011; Abdul-Hamid et al. 2011; Hamid & Masood 2011). The following discussion highlights some of the key findings of these studies:

An interesting work on choice criteria for Islamic home financing by Amin (2008) examines factors influencing the decision amongst Malaysian bank customers on the selection of mortgage providers.

The study however only establishes antecedents whilst a dependent variable is clearly unexplored. The study uses questionnaire survey to elicit responses from respondents pertaining to Islamic home financing preference. The study finds that *Shariah* principle, lower monthly payment, transparency practice, interest-free practice and 100 percent financing are the important factors determining why individual opt for Islamic home financing. There are two works which have replicated this study notably [Abdul-Hamid et al. \(2011\)](#) and [Hamid and Masood \(2011\)](#), however but they are varied in terms of research objectives and geographies.

Explained in more detail, [Abdul-Hamid et al.'s \(2011\)](#) study is centred on the factors influencing the Islamic home financing adoption. The authors report that there are significant discrepancies between Malay and Chinese in their level of awareness on Islamic home financing products. Further, there are significant relationship between different respondents' age and education group against their level of awareness. The study also discovers that individual and financial institution factors have strong significant relationship on the adoption.

On the same note, [Hamid and Masood \(2011\)](#) examine selection criteria for Islamic home financing in Pakistan. As noted earlier, the [writing style](#) is similar to that of [Amin's \(2008\) study](#). Importantly, the study reports that *Shariah* principle, fast and efficient services, price, bank reputation and terms and conditions of product flexibility are the five most essential factors considered by customers when opting for Islamic mortgages. These results further open a new debate in this area in understanding in depth of what selection criteria preferred by Pakistani when opting Islamic home financing. Although these studies note the importance of examining Islamic mortgage empirically, no special reference is made to that of *musharakah mutanaqisah* home financing which may explain the research in this discipline inconclusive.

On the other ground, two empirical works have examined the acceptability of bank clients on the *musharakah mutanaqisah* home financing namely [Md-Taib et al. \(2008\)](#) and [Abdul-Razak and Md-Taib \(2011\)](#). These studies however have examined different research objective. We further examine that a study by [Md-Taib et al. \(2008\)](#) is embarked on testing the applicability of the TRA in a newly context of diminishing partnership home financing. Interestingly, the study reports that attitude and subjective norm are important to determine one's willingness to use *musharakah mutanaqisah* home financing. The study therefore proves that the TRA model is appropriate and valid in a newly context of *musharakah mutanaqisah* home financing.

In a similar vein, [Abdul-Razak and Md-Taib \(2011\)](#) examine *musharakah mutanaqisah* home financing from bank clients' perception. The study reports that the customers of banks are dissatisfied with the current status of BBA due to the high pricing, injustice and a burden to individuals. On the other hand, it also discovers that *musharakah mutanaqisah* home financing is more preferred as profit and risk is shared between the customer and bank resulting in greater fairness, justice and equity. Nevertheless no attention has devoted to examine the applicability of the TPB in their research contexts.

### III. RESEARCH METHOD

#### *Sample and source of data*

A survey is conducted in Malaysia in December 2011. The sampling unit is customers of Islamic banks who use Islamic banking products but yet for Islamic home financing products. The data for the study are collected using online questionnaire survey distributed through e-mail and social networking site. The survey is conducted for two months. The population of interest is the existing Islamic bank customers who familiar with Islamic banking facilities. The study manages to collect 191 filled questionnaires. Of these, only 168 are usable. The sample size is based on the usable questionnaire that is 168 questionnaires.

Table 1  
Profiles of respondents

Attributes	Demographic distribution	
	Frequency	Percentile
<i>Gender</i>		
Male	69	41.1
Female	99	58.9
<i>Age</i>		
< 20	15	8.9
20-30	95	56.5
31-40	35	20.8
41-50	23	13.7
<i>Marital status</i>		
Single	85	50.6
Married	83	49.4

### *Construct measurement and questionnaire design*

The data of the present study are expected to be collected using a set of questionnaire. A questionnaire is a preformulated written set of questions to which respondents record their answers, normally within rather closely defined alternative (Sekaran & Bougie 2010). Extensive literature searches are conducted prior to questionnaire design. The questionnaire developed is sent for pilot study in an attempt to minimize the differences in observed and true responses. The details of the constructs used are as follows:

[DV] *Intention select Islamic home financing product.* The dependent variable in this study is measured using five items adapted from previous studies (Ramayah et al. 2009; Lada et al. 2009; Md-Taib et al. 2008).

[IV1] *Attitude.* Fishbein and Ajzen (1975) define attitude as the evaluative effect of positive or negative feeling of individuals in performing a particular behaviour. In the questionnaire, this variable is measured using five items adapted from Gopi and Ramayah (2007) and Ramayah et al. (2009).

[IV2] *Subjective norm.* According to Fishbein and Ajzen (1975) subjective norm refers to the individual's perception of the likelihood that the potential referent group or individuals approve or disapprove of performing the given behaviour. Items to measure this construct are adapted from Ramayah et al. (2010) Ramayah et al. (2009) and Zainuddin et al. (2004).

[IV3] *Perceived behavioural control.* According to Ajzen (1991), perceived behavioural control is defined as the perceived ease or difficulty of performing the behaviour and it is assumed to reflect past experience as well as anticipated impediments and obstacles. Items of this construct are adapted from Alam and Mohamed-Sayuti (2011) and Bonne et al. (2007).

All in all, the respondents are asked to rate the research items based on 5-point scale: 1=strongly disagree; 2=disagree; 3=neutral; 4=agree; 5=strongly agree.

### *Statistical methods*

The data of the study are analyzed using SPSS for frequency of demographic items. To answer the study's objective the study uses AMOS for measurement model and structural equation model. Prior studies have employed AMOS for structural equation model and proven structural equation model is suitable to extend to survey-based research (Mohd-Suki 2011; Mohd-Suki & Ramayah 2010).

## IV. RESULTS

### *Measurement model*

Concerned with measurement model, confirmatory factor analysis (CFA) is assessed in order to examine the validity of the items and underlying constructs in the measurement model. The test of the measurement model demonstrates good fit between the data and the proposed measurement. RMSEA and RMR are well within the range of acceptability recommended by [MacCallum et al. \(1996\)](#). The accepted value for RMSEA is less than .08 whilst RMR is less than .05.

Table 2  
Measurement model

Root Mean Square Error of Approximation (RMSEA)	Root Mean Square Residual (RMR)	Normed Fit Index (NFI)	Goodness of Fit Index (GFI)	Comparative Fit Index (CFI)
.051	.027	.933	.937	.978

Table 3  
Assessing the measurement model

Latent Variables	Composite Reliability	Average Variance Extracted
Attitude	.916	.786
Subjective norm	.967	.846
Perceived behavioural control	.962	.988
Intention to be a partner	.929	.600

The study employs composite reliability (CR) and average variance explained (AVE) for convergent validity. CR suggests a value of 0.6 for acceptability which indicates internal consistency of the measurement model. As reported in [Table 3](#), all items are greater than that of recommended value which suggests a high internal reliability of the data exists. On the same note, AVE suggests a value of 0.5 for the same reason which indicates what percentage of the variance of the construct is explained by an individual item ([Bagozzi & Yi 1988](#)).

### *Structural equation model*

Table 4  
Structural equation model

Root Mean Square Error of Approximation (RMSEA)	Root Mean Square Residual (RMR)	Normed Fit Index (NFI)	Goodness of Fit Index (GFI)	Comparative Fit Index (CFI)
.044	.027	.943	.945	.985

RMSEA for the study is .044. A rule of thumb is that RMSEA <.05 indicates close approximate fit, values between .05 and .08 suggest reasonable error of approximation, and RMSEA >.10 suggests poor fit ([Browne & Cudeck 1993](#)). The study's RMSEA is considered good fit. On the same note, RMR is .027, deemed acceptable ([Schumacher & Lomax 2004](#)). Usual acceptable level of fit for RMR is .05 ([Hu & Bentler 1999](#); [Schumacher & Lomax 2004](#)). A brief discussion is also provided for NFI. As depicted in [Table 4](#), NFI is found good fit with a value of .943. This result is somehow supported by [Bentler and Bonett \(1980\)](#). In a similar vein, the inclusion of GFI is also important to understand the model fit. According to [Kline \(2005\)](#), GFI = 1.0 indicates perfect model fit, GFI > .90 may indicate good fit, and values close to zero indicate very poor fit. In consonance with this rule of thumb, the present finding reports GFI > .90, which explains that the study's model is good fit. As for

CFI, a rule of thumb for the CFI and other incremental indexes is that values greater than roughly .90 may indicate reasonably good fit of the researcher's model (Hu & Bentler 1999). The study's CFI is exceeding .90, which leads us to make a conclusion that the study's has good fit for CFI.

Table 5  
Regression

	Parameter	Estimate	S.E.	C.R.	P
SN	→ ATT	.585	.104	5.640	***
ATT	→ INT	.724	.171	4.229	***
SN	→ INT	.500	.134	3.731	***
PBC	→ INT	.188	.091	2.076	.038

In terms of effect of subjective norm on attitude, the results report the significant relationship at 5 percent significance level. Evidently, attitude, subjective norm and perceived behavioural control are instrumental in explaining the intention select Islamic home financing. Attitude is found to be the most influential factor (CR=4.229, *p*-value=.000). This finding is consistent with prior studies (Ramayah et al. 2009; Gopi & Ramayah 2007). Subjective norm is found to be the second factor influencing a client's intention to select Islamic home financing. Perceived behavioural control is found to have significant direct effect on behavioural intention.

## V. CONCLUSION

This study extends the TPB model to examine the effects of attitude, subjective norm and perceived behavioural control on the intention to select Islamic home financing that is in a *musharakah mutanaqisah* context. The main findings suggest that attitude is the first influential determinant, followed by subjective norm and thirdly by perceived behavioural control. Significant interactions between these three factors in the current work framework are discovered.

## REFERENCES

- Abdul-Hamid, M., Yaakub, N.I., Mujani, W.K., Sharizam, M. & Jusoff, K. 2011. Factors adopting Islamic home financing: A case study among consumers of Islamic bank in Malaysia. *Middle East Journal of Scientific Research* 7: 47-58.
- Abdul-Razak., D. & Md-Taib, F. 2011. Consumers' perception on Islamic home financing: Empirical evidences on bai bithaman ajil (BBA) and diminishing partnership (DP) modes of financing in Malaysia. *Journal of Islamic Marketing* 2(2): 165-176.
- Ajzen , I. 1991. The theory of planned behaviour. *Organizational Behavior and Human Decision Processes* 50(2): 179-211.
- Alam, S.S. & Mohamed-Sayuti, N. 2011. Applying the theory of planned behaviour (TPB) in *halal* food purchasing. *International Journal of Commerce and Management* 21(1): 8-20.
- Amin, H. 2008. Choice criteria for Islamic home financing: Empirical investigation among Malaysian bank customers. *International Journal of Housing Markets and Analysis* 1(3): 256-274.
- Bagozzi, R. & Yi, Y. 1988. On the evaluation of structural equation models. *Journal of the Academy of Marketing Science* 16(1): 74-94.
- Bentler, P.M. & Bonett, D.G. 1980. Significance tests and goodness of fit in the analysis of covariance structures. *Psychological Bulletin* 88(3): 588-606.
- Bonne, K., Vermeir, I., Bergeaud-Blackler, F. & Verbeke, W. 2007. Determinants of *halal* meat consumption in France. *British Food Journal*, 109(5): 367-386.
- Browne, M.W. & Cudeck, R. 1993. Alternative ways of assessing model fit. In K.A. Bollen and L.J. Scott (Eds.). *Testing Structural Equations Models* (pp. 36-62). Newbury Park: Sage.



- Fishbein, M. & Ajzen, I. 1975. *Belief, Attitude, Intention and Behavior: An Introduction to Theory and Research*, Addison-Wesley, Reading, MA.
- Gopi, M. & Ramayah, T. 2007. Applicability of theory of planned behavior in predicting intention to trade online: Some evidence from a developing country. *International Journal of Emerging Markets* 2(4): 348-360.
- Hamid, A. & Masood, O. 2011. Selection criteria for Islamic home financing: A case study of Pakistan. *Qualitative Research in Financial Markets* 3(2): 117-130.
- Hasan, Z. 2011. Islamic home finance in the social mirror. *ISRA International Journal of Islamic Finance* 3(1): 7-24.
- Hu, L.T. & Bentler, P.M. 1999. Cutoff criteria for fit indices in covariance structure analysis: Conventional criteria versus new alternatives. *Structural Equation Modeling* 6(1): 1-55.
- Kline, R.B. 2005. *Principles and Practices of Structural Equation Modeling*, Guilford Press, New York.
- Lada, S., Tanakinjal, G.H. & Amin, H. 2009. Predicting intention to choose *halal* products using theory of reasoned action. *International Journal of Islamic and Middle Eastern Finance and Management*, 2(1): 66-76.
- Luthfi, B.A. & Salehudin, I. 2010. Marketing impact of *halal* labelling toward Indonesian muslim consumer's behavioural intention based on Ajzen's planned behaviour theory: policy capturing studies on five different product categories. (August 4, 2010). *Proceeding of 5th International Conference on Business and Management Research, 2010*. Available at SSRN: <http://ssrn.com/abstract=1682342>
- MacCallum, R.C., Browne, M.W. & Sugawara, H.W. 1996. Power analysis and determination of sample size for covariance structure modelling. *Psychological Methods* 1: 130-149.
- Md-Taib, F., Ramayah, T. & Abdul-Razak, D. 2008. Factors influencing intention to use diminishing partnership home financing. *International Journal of Islamic and Middle Eastern Finance and Management* 3(1): 235-248.
- Mohamed-Naim, A. 2011. Purchase undertaking issues in *musharakah mutanaqisah* home financing. *ISRA International Journal of Islamic Finance*, 3(1): 25-47.
- Mohd-Suki, N. & Ramayah, T. 2010. User acceptance of the e-government services in Malaysia: A structural equation modelling approach. *Interdisciplinary Journal of Information, Knowledge and Management* 5: 395-413.
- Mohd-Suki, N. 2011. Modelling early adopters' purchase intention towards online music. *Middle-East Journal of Scientific Research* 7(6): 827-836.
- Mydin-Meera, A.K. & Abdul-Razak, D. 2005. Islamic home financing through *musharakah mutanaqisah* and *al-bay bithaman ajil* contract: A comparative analysis. *Review of Islamic Economics* 9(2): 5-30.
- Mydin-Meera, A.K. & Abdul-Razak, D. 2009. Islamic home financing through *musharakah mutanaqisah* contract: Some practical issues. *J.KAU: Islamic Economics* 22(1): 3-27.
- Osmani, N.M. & Abdullah, M.F. 2010. *Musharakah mutanaqisah* home financing: A review of literatures and practices of Islamic banks in Malaysia. *International Review of Business Research Papers* 6(2): 272-282.
- Ramayah T., Rouibah, K., Gopi, M. & Rangel, G.J. 2009. A decomposed theory of reasoned action to explain intention to use Internet stock trading among Malaysian investors. *Computers in Human Behavior*, 25(6): 1222-1230.
- Schumacker, R.E. & Lomax R.G. 2004. *A Beginner's Guide to Structural Equation Modelling*, 2nd ed., Lawrence Erlbaum Associates, London.
- Sekaran, U. & Bougie, R. 2010. *Research Methods for Business: A Skill Building Approach* (5<sup>th</sup> edn). West Sussex: John Wiley and Sons.
- Shuib, M.S., Azam, A. & Mohamad, M.T. 2011a. Middle east bank and their challenge operation in Malaysia: A case study on Kuwait Finance House Malaysia Berhad. *African Journal of Business Management* 5(1): 4000-4006.
- Shuib, M.S., Azam, A., and Mohamad, M.T. 2011b. Pembiayaan perumahan secara Islam di Malaysia: Analisis kelebihan produk berasaskan *musharakah mutanaqisah* di Kuwait Finance House Malaysia Berhad (KFHMB). *Jurnal Teknologi* 55: 107-119.

- Shuib, M.S., Borhan, J.T. & Abu-Bakar, A.A. 2011c. Musharakah mutanaqisah home financing products: Implementation analysis, product advantages and issues at Citibank Malaysia Berhad. *Journal of Techno-Social* 3(2): 43-53.
- Usmani, M.T. 2002. *An Introduction to Islamic Finance*. The Netherlands: Kluwer Law International.