

Willingness to Be a Partner in *Musharakah Mutanaqisah* Home Financing: Empirical Investigation of Psychological Factors

(Kesediaan Menjadi Rakan dalam Pembiayaan Rumah *Musharakah Mutanaqisah*: Kajian Empirikal
Faktor-Faktor Psikologi)

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ABSTRACT

This study is aimed at explaining factors influencing the intention to be a partner amongst bank customers in musharakah mutanaqisah home financing. Drawing upon the theory of planned behavior (TPB), this study assesses the model in order to examine the effects of three explanatory factors namely attitude, subjective norm and perceived behavioral control on the intention to be a partner in the context of Islamic home financing. This study modifies the TPB to reflect musharakah mutanaqisah home financing. The model of the study is assessed using survey data from 168 respondents among bank customers. The findings suggest that attitude, subjective norm and perceived behavioral control are significantly influencing the intention to be a partner. The relationship between attitude and subjective norm is also significant. The findings demonstrate the applicability of the TPB in the musharakah mutanaqisah home financing context. The findings are also useful to bank managers in effectively managing Islamic home financing facilities.

Keywords: Islamic banking; musharakah mutanaqisah; Islamic home financing; psychological factors; Malaysia

ABSTRAK

Kajian ini bertujuan untuk menerangkan faktor-faktor yang mempengaruhi niat untuk menjadi rakan kongsi dalam kalangan pelanggan bank dalam pembiayaan rumah musharakah mutanaqisah. Berdasarkan kepada teori tingkah laku terancang (TPB), kajian ini menilai model tersebut untuk meneliti kesan tiga faktor iaitu sikap, norma subjektif dan kawalan tingkah laku terhadap niat untuk menjadi rakan kongsi dalam konteks pembiayaan rumah Islam. Kajian ini mengubahsuai TPB bagi menggambarkan musyarakah mutanaqisah pembiayaan rumah. Model kajian diuji menggunakan data kaji selidik 168 pelanggan bank yang terlibat sebagai responden kajian. Dapatan kajian menunjukkan bahawa sikap, norma subjektif dan kawalan tingkah laku dengan ketara mempengaruhi niat untuk menjadi rakan kongsi. Hubungan antara sikap dengan norma subjektif adalah juga signifikan secara statistik. Dapatan kajian menunjukkan kesesuaian TPB dalam konteks pembiayaan musyarakah mutanaqisah rumah. Dapatan kajian juga bermanfaat kepada pengurus bank untuk merancang kemudahan pembiayaan rumah Islam dengan berkesan.

Kata kunci: Perbankan Islam; musharakah mutanaqisah; pembiayaan rumah secara Islam; faktor-faktor psikologi; Malaysia

INTRODUCTION

The increasing popularity of the *musharakah mutanaqisah* as a principle to govern Islamic home financing products in Islamic banks has produced a paradigm shift in the contract of conducting Islamic mortgage transaction. Banks like RHB Islamic, Maybank Islamic and HSBC Amanah have made the product available in their list of Islamic banking products and services. On the other hand, several challenges have been pointed out by scholars regarding the implementation of *musharakah mutanaqisah* home financing (Mohamed-Naim 2011; Hasan 2011). The current work does not capture this particular issue. Instead, this study focusses on the

empirical evidence of bank customer's acceptability on *musharakah mutanaqisah* home financing. In Malaysia, the idea of *musharakah mutanaqisah* home financing is firstly coined by Baharum (1991). The Islamic bank has developed Islamic home financing products using *bay bithamani ajil* (BBA) as a *Shariah* contract governing the financing products. *Musharakah mutanaqisah* however is slowly introduced for two main reasons. Firstly, the Islamic bank operates as a bank rather than a business entity which discourages a transaction based on equity basis. Secondly, the regulation pertaining to *musharakah mutanaqisah* is yet to be established since Islamic bank has encountered with difficulty in tapping the uniqueness of the product particularly in the case of abandoned housing

projects and defaults. Nevertheless, only in 2005 that the idea has been revived for the interest of Islamic banking industry (Mydin-Meera & Abdul-Razak 2005). This occurs after *bay bithaman ajil* (BBA) has received a tremendous criticism due to its non-compliance towards *maqasid al-Shariah* (Anwar 2003). Earlier, BBA has been used to govern Islamic home financing products whilst *musharakah mutanaqisah* is also developed for the same purpose. Many scholars have proposed *musharakah* as an alternative to BBA which has been viewed as a source of so many legal cases relating to Islamic banking in Malaysia (Muneeza et al. 2011; Abu-Backer 2002; Mohd-Yasin 1997).

Prior scholars have reached a consensus when defining *musharakah mutanaqisah* (Hasan 2011; Mohamed-Naim 2011). *Musharakah mutanaqisah* can be defined as a form of partnership in which two or more people combine either their capital or labor 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). This *Shariah* principle is apparent in Islamic home financing products. Particularly, *musharakah mutanaqisah* has been used by Islamic banks to govern their Islamic home financing products. In this case, Hassan (2011) describes the procedures of *musharakah mutanaqisah*. Firstly, the Islamic bank and the customer participate in a joint ownership of a house. Later, the bank buys the house and leases the house to the same customer using the *ijarah* principle. Thirdly, the customer can use the usufruct of the house in return for payments on the monthly installment (i.e., monthly rental payment) to the bank. The monthly payment will gradually increase the share of the customer whilst at the time it gradually reduces the share of the bank. At the end of the contract period, all ownership of that property belongs to the customer, making him the sole owner of the property. The title of the property can then be effectively transferred to the client (Hassan 2011).

Several works have investigated *musharakah mutanaqisah* principle in the context of Islamic home financing in Malaysia (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. The bank then leases out its share of the asset to the customer under the *ijarah* concept. Finally, the customer buys the bank share so that the asset is fully owned by the customer (Mydin-Meera & Abdul-Razak 2009).

Musharakah mutanaqisah is so unique when compared with conventional home loan. The reasons are

two-fold. Firstly, *musharakah mutanaqisah* home financing promotes justice in home ownership to the customer and it is in line with the *maqasid al-Shariah*. The bank and the customer are the joint owners of the house in which both parties have the same commitments in ensuring the transaction based on this principle is effectively successful in terms of the transfer of the house ownership and the monthly payment. The former is under a commitment by the bank whilst the latter by the customer. Such concept is silent in the conventional scheme. Secondly, *musharakah mutanaqisah* is viewed as a shield for the subprime crisis. Recently, this financing product is only approved to the customer based on the customer's creditworthiness rather than his desire. In other words, the bank will only offer this financing product once the creditworthiness of the customer is satisfied. This practice however seems to be overlooked in conventional home loan.

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, 2011c) also confirm such claim since the *musharakah mutanaqisah* is more beneficial than that of BBA. This is owing to the fact that such an equity home financing is based on the real economy whereby the bank takes ownership and liability of acquiring the property (Rosly 2005). Consequently, it would prevent excessive debt as money is not treated as commodity as in the traditional debt home financing. Despite the merits, the acceptance of bank customers on *musharakah mutanaqisah* is particularly unclear. To be specific, their intentions to be partners for *musharakah mutanaqisah* home financing are not well-documented. Previous works on *musharakah mutanaqisah* home financing are still centered on the conceptual discussion on the implementation issues of the product such as ownership, default and computer system (Osmani & Abdullah 2010). The reasons are two-fold. Firstly, earlier works have specialized in a qualitative study where investigating new issues based on content analysis and interviews are widely utilized. Secondly, earlier works have a sort of interest to create further debates on the issues raised in order to reach a solution for the issues identified. Empirical works on *musharakah mutanaqisah* home financing are scanty. Through a literature survey, a study done by Md-Taib et al. (2008) reports the empirical evidence pertaining to the acceptability of the theory of reasoned action (TRA) to examine postgraduate students' decision to accept *musharakah mutanaqisah* home financing in the future. The study finds that attitude and subjective norm are instrumental in determining one's willingness to choose the product. These factors are proven essential in explaining consumer's decision in selecting Islamic mortgage since both have the psychological effects which influence his/her decision. Attitude and subjective norm are two factors normally found in consumer behavior. Since the present study is related to consumer behaviour, therefore the two said factors deem appropriate. Later studies by Lada et al. (2009) and Amin (2012) have proven

that attitude and subjective norm are relevant when a study is related to consumer behavior. Yet, the study considers university students instead of bank customers at large. The study has chosen the TRA rather than the TPB. The TPB is modified from the TRA as one's decision would not rely exclusively on attitude and subjective norm alone, instead other variables related to one's efficacy and control are also important. In the context of this study, the birth of *musharakah mutanaqisah* home financing warrants the need to investigate factors leading to bank customer's willingness to be a partner for the product is of prime importance.

Although *musharakah mutanaqisah* is unique, it is also subject to a problem of rental rate which is crucial in pricing the contract. Generally, the rental rate for properties varies from one area to another. There are claims that the rural area has low rental rate whilst the urban area has higher rental rate. This creates price discrimination for properties (Mydin-Meera & Abdul-Razak 2009). Meanwhile, the issue of second undertaking in the case of default is also another problem found in *musharakah mutanaqisah* (Mohamed-Naim 2011). Mohamed-Naim (2011: 42) details the concept of "second undertaking":

Second undertaking, in the event of default, obliges the customer to purchase the bank's shares. Hence the customer shall buy the bank's share on credit at the price that covers the bank's remaining share, unpaid rental for the period before imposing the binding undertaking to purchase, and other expenses. As the result on practicing the undertaking, the indebtedness of the customer is created and the property is seen as collateral for the customer's obligation.

Consumer behavior theories are particularly relevant in explaining the behavior of banks' customers, and thus it is timely to choose the TPB to increase our understanding on factors determining the willingness of bank customer to be a partner in the case of *musharakah mutanaqisah* home financing. The main purpose of the study is to examine the effects of attitude, subjective norm and perceived behavioral control on the intention to be a partner in the context of *musharakah mutanaqisah* home financing. The research question that is being addressed, "What are effects of attitude, subjective norm and perceived behavioral control on the intention to be a partner?"

LITERATURE REVIEW

THEORY OF PLANNED BEHAVIOR

The strategy behind the model introduced in this paper is framed within the theory of planned behavior (TPB) which is firstly coined by Ajzen (1991). The TPB is based on the theory of reasoned action (TRA) which was introduced by Ajzen and Fishbein (1980). Evidently, the TRA has been applied in Islamic insurance and *zakat* compliance (Amin 2012; Bidin et al. 2009) and it has been discovered to be valid and useful. Later, many studies have employed the TPB into new contexts

particularly in Islamic marketing (Luthfi & Salehudin 2010; Alam & Mohamed-Sayuti 2011). An interesting work by Luthfi and Salehudin (2010) intends to examine the applicability of the theory of planned behavior (TPB) in understanding the intention to switch from products without certified *halal* labels to *halal* labels. The study is conducted in Indonesia with a total of 7,500 responses generated from 150 respondents in 50 different scenarios. Attitude is consistently significant in understanding behavioral intention across product categories. Subjective norm however is inconsistent in explaining behavioral intention. The same outcome is also found for perceived behavioral control (Luthfi & Salehudin 2010). The study employs structural equation modelling. On the same note, Alam and Mohamed-Sayuti (2011) examine *halal* food purchasing behavior in Malaysia. A total of 251 respondents participate in the study. The authors discover that attitude, subjective norm and perceived behavioral control are found to be statistically significant at the 5 percent significance level. The study employs multiple regression analysis.

On the other angle, Ramayah et al. (2009) and Gopi and Ramayah (2007) have proven the applicability of the TRA and TPB in a Malaysia's context. Ramayah et al. (2009) examine factors influencing the intention to use Internet for stock trading using the TRA. Respondents are 144 investors who buy and sell stocks for personal investment and also those who are aware of Internet stock trading in the Bursa Malaysia (the stock exchange of Malaysia). Findings show that attitude and subjective norm have a direct positive relationship towards behavioral intention to use Internet stock trading. In a similar vein, Gopi and Ramayah (2007) examine factors influencing the intention to use internet trading, but using the TPB as the underlying theory. Data for the study are collected through structured questionnaires. 300 questionnaires are distributed to remisiers and dealers and subsequently passed on to investors who are aware of internet stock trading. A total of 150 responses are obtained. Of these, six are discarded due to incomplete data giving the final response rate of 48 percent. Findings show that attitude, subjective norm and perceived behavioral control have direct positive relationships toward behavioral intention to use internet stock trading. The theory of planned behavior can be used to explain variation in behavioral intention and actual usage.

In other discipline, Lobb et al. (2007) prove the TPB is flexible. Lobb et al. (2007) examine risk perception and trust in food safety information within the TPB. The study uses 535 UK respondents which are selected using stratified random sampling. The study reports that attitude emerges as the key determinant of intention to purchase chicken, whilst trust in food safety information provided by media reduces the likelihood to purchase. The study employs ordered probit model.

Based on the previous studies, the reasons of choosing the TPB are mainly owing to two reasons. The theory has received considerable support in correlational studies.

The TPB possesses two particular strengths leading to the decision to choose the theory. Firstly, the model provides parsimonious explanations; only a small number of variables need to be measured in order to obtain accurate prediction of behavior (Abraham & Sheeran 2003; Sekaran & Bougie 2010). Secondly, the TPB provides clear guidelines about how to measure cognitions specified by the model, in order to ensure predictive accuracy (Ajzen & Fishbein 1980; Abraham & Sheeran 2003).

STUDIES ON *MUSHARAKAH MUTANAQISAH* HOME FINANCING

Studies on Islamic home financing from *musharakah mutanaqisah* are still scant, including on its implementation. The work on Islamic home financing from *musharakah mutanaqisah* perspective in Malaysia is first coined by Baharum (1991). Baharum (1991) notes that *musharakah mutanaqisah* is an ideal *Shariah* principle in governing Islamic home financing. Nevertheless, the idea of introducing *musharakah mutanaqisah* home financing to Islamic bank counters remain unaddressed. Between 1997 and 2003, Islamic banking in Malaysia has been criticized due to over reliance on the debt structure for Islamic home financing, particularly on the application of *bai bithaman ajil* (BBA). Various cases have been reported regarding the flaws of the Islamic home financing products in terms of its permissibility, consumer protection and in the case of default which may end the case in the hand of judges who are not conversant on Islamic home financing issues (Muneeza et al. 2011; Abu-Backer 2002; Mohd-Yasin 1997).

Usmani (2002) defines *musharakah* as a sharing. Recently, Islamic home financing has been made available in the form of *musharakah mutanaqisah* using a contemporary marketing brand such as equity home financing-*i* by RHB Islamic bank in Malaysia (Mohamed-Naim 2011). *Musharakah mutanaqisah* is particularly the combination of three contracts namely partnership, *ijarah* and sale (Osmani & Abdullah 2010). It is a contract of partnership between two parties where one partner gradually buys the whole parts of the property (Osmani & Abdullah 2010). After 15 years since it is firstly argued in 1991 by Baharum (1991), *musharakah mutanaqisah* home financing finally meets the public in 2006. Kuwait Finance House is the first foreign Islamic bank in Malaysia providing such financing facility to customers in that year mentioned. On the other hand, Usmani (2002: 57) asserts that *musharakah mutanaqisah* can be described as follows:

In *musharakah mutanaqisah*, a financier and his client participate either in the joint ownership of a property or equipment, or in a joint commercial enterprise. The share of the financier is divided into a number of units and it is understood that the client will purchase the units of the share of the financier one by one periodically, thus increasing his own share till all the units of the financier are purchased by him so as to make him the sole owner of the property or the commercial enterprise as the case may be.

Several authors have discussed the mechanics of *musharakah mutanaqisah* (Shuib et al. 2011a; Osmani & Abdullah 2010). These authors have profoundly explained the system of *musharakah mutanaqisah*. According to Shuib et al. (2011a: 4001-4002), the modus operandi of the property financing product based on *musharakah mutanaqisah* can be depicted as follows:

1. The customer who seeks to buy a property approaches the bank for financing.
2. The bank and customer enter into *musharakah mutanaqisah* agreement to jointly purchase the property based on an agreed share depending on the amount of financing requested (for example, 90 = Bank: 10 = Client).
3. The deposit already paid by the customer will be deemed as his initial share contribution.
4. The customer will rent the bank's share of the jointly acquired property through *ijarah* agreement.
5. The installment by the customer will be used to buy the share of the bank gradually until the entire share of the bank share is owned by the customer.

This is further supported by Osmani and Abdullah (2010) who claim that the procedures of *musharakah mutanaqisah* for home finance occur in different stages. A customer who is intended to purchase a house will approach an Islamic bank, and then fills up the necessary form (e.g. regularly it's an application form). If the financing application is approved by the bank, then the bank and the customer will jointly purchase the house in varied percentage, typically 90 percent by the bank whilst 10 percent by the customer. Based on this agreement, the bank possesses 90 percent of the house whilst the customer owns 10 percent of the house. Practically, the bank will then rent out his share of the house to the customer. The customer will pay monthly rental to the bank in order to increase his share. At the end of the contract period, the customer buys the total share of the bank and the bank transfers the ownership to the client (Osmani & Abdullah 2010).

The assertions by Shuib et al. (2011a) and Osmani and Abdullah (2010) are aligned with Mydin-Meera and Abdul-Razak (2009). Mydin-Meera and Abdul-Razak (2009) explicate different example for clarity. They assert that the ownership is not necessarily constrained to that of 10 percent for customer and 90 for bank, but it can also be that of 20 percent for customer and 80 percent for bank. In practice, the bank normally encourages the customer to pay 10 percent of the house's price whilst the rest will be borne by the bank. As a matter of fact, this arrangement has been in place prior to the introduction of *musharakah mutanaqisah* in which the bank will ask the customer to pay a deposit of 10 percent of the house's price, as in the case of the BBA. Clearly, this arrangement demonstrates that the BBA and *musharakah mutanaqisah* are similar to a certain extent. The difference is, under the BBA, an Islamic bank can offer up to 100 percent financing. Such an arrangement is not possible in the case

of *musharakah mutanaqisah* home financing. Ideally, Mydin-Meera and Abdul-Razak (2009), Osmani and Abdullah (2010) and Shuib et al. (2011a) are in consensus that the customer and the bank must share the purchase of a property in order to define a transaction to be a *musharakah mutanaqisah*. However, the percentage of sharing could vary according to the individual Islamic bank's policies.

Importantly, *musharakah mutanaqisah* offers a risk sharing element that is claimed to be the plus point of the *Shariah* principle (Mohd-Nor 2008). This feature proves that the current practice of *musharakah mutanaqisah* is based on equity principle, in which of prime importance is for both parties to share the price of the house and later, one party (typically the customer) will buy the bank's share. Mohd-Nor (2008) and Mydin-Meera and Abdul-Razak (2009) also note that the financing structure for *musharakah mutanaqisah* is more flexible than that of the BBA as the customer can own the property earlier by redeeming faster the principal sum of the bank without the need to computer rebates as is the case with the BBA.

It is further explained that under *musharakah mutanaqisah*, the value of the property always reflects the market price and rental is determined by market rental values (Mohd-Nor 2008). In contrast, the selling price of the property under the BBA does not reflect market value since the mark-up for the deferred payment is quite substantial. This pricing policy can be described as fixed and higher payments at the beginning of a contract between a customer and an Islamic bank (Rosly 1999). The rate will not fluctuate even during inflation. Thus, it remains stable and constant that leaves a peace of mind to the customer. The majority of Islamic scholars consider it permissible to charge higher prices for goods if payment is deferred. Islamic banks have developed a range of "mark-up" instruments for that purpose (Maali et al. 2006). All in all, *musharakah mutanaqisah* is the better alternative to the BBA home financing as the former case demonstrates the *maqasid al-Shariah* in its financing structure (Baharum 1991).

Despite the merits, *musharakah mutanaqisah* home financing is also subject to several limitations. The discussions of these limitations are based upon a detailed examination made on previous studies:

1. It is claimed that the rental rate used to price *musharakah mutanaqisah* home financing would be based on the market rental value, which is very much determined by location and time. Rental value can therefore change, and in normal cases, the rental value would increase (Mohd-Nor 2008). The author (Mohd-Nor 2008: 24) further argues that "...it would be difficult to keep track of the rising rentals and prove cumbersome to the bank and the customer, who would have to pay a higher rental as the years pass." The fluctuation of rental price of a house is a terrible problem that *musharakah mutanaqisah* has to face (Osmani & Abdullah 2010). It perhaps would be

beneficial for the bank but not that of customer since the former is able to generate profit when the rental price is increased.

2. A study done by Mydin-Meera and Abdul-Razak (2009) proves that rental yields for all categories of houses are generally lower than base lending rate for the period of 1984-2005. Only condominiums have shown higher rental yields than market interest rates. This implies that bank may use *musharakah mutanaqisah* for properties that have potential of high rental only. Tendency toward high rental properties in turn indicates that only those affluent applicants are able to apply for *musharakah mutanaqisah* home financing.
3. Interestingly, Osmani and Abdullah (2010) raise significant issue with respect to the damage inflicted on the property particularly before the monthly payments are complete. If the property is damaged by the client because of his negligence, then he should pay the compensation on those damages. However, if the damages are due to the natural calamities and so on, then both partners have to share the loss according to their proportion as specified in the condition of partnership.

Several suggestions have been forwarded to address the above-mentioned limitations. The first could be minimized by setting up a rental index to represent specific location. Mydin-Meera and Abdul-Razak (2005) strongly assert that using House Price Index in a Malaysia case could be of advantageous to mitigate such limitation. It is done so in order to avoid any convergence element between Islamic home financing and conventional home loan. For the second limitation, two studies notably by Mydin-Meera and Abdul-Razak (2009) and Abdul-Razak (2009) have suggested the importance of initiating *musharakah mutanaqisah* model through "cooperatives" as investment avenues to address the social well-being of its members. In the case of Islamic bank, it is possible to work on this approach gradually, if it is opted to do so. This explains that Islamic bank considers itself as a cooperative and the customer for the home financing product is the member. These parties purchase the house jointly and share the profit between them. The customer however will purchase the bank's share in the house purchased which in turn the customer will be the sole owner of the house. For the third limitation, it is simply a lesson to learn that any potential problems (not just damages but including others like natural calamities) must be incorporated in the financing agreement between the bank and the customer (Mydin-Meera & Abdul-Razak 2005). If a dispute is of occurring, such dispute should be solved wisely by the bank and the customer instead of the former case brings it to the court for legal action. This makes *musharakah mutanaqisah* is more promising as the parties involved solve the dispute with a humane manner. Previously, Islamic banks have perceived to be *unIslamic* due to the BBA that is claimed to be manipulating since there exists no "true sale" in the BBA (Rosly 2010). Many cases on the

BBA have been reported on newspapers including Islamic banking textbooks (Mohd-Yasin 1997; Abu-Backer 2002; Muneeza et al. 2011).

Another interesting issue for *musharakah mutanaqisah* is that of “second undertaking” as raised by Mohamed-Naim (2011: 35):

In the event of default, it obliges the customer to purchase the bank’s shares. Hence the customer shall buy the bank’s share on credit at the price that covers the bank’s remaining shares. Hence the customer shall buy the bank’s on credit at the price that covers the bank’s remaining share, unpaid rental for the period before imposing the binding undertaking to purchase and other expenses. As the result on practicing the undertaking, the indebtedness of the customer is created and the property is seen as collateral for the customer’s obligation.

Mohamed-Naim (2011) argues that the industry needs this type of undertaking in order to protect them from ownership risk when disposing of the assets as there are several possibilities regarding the disposing process of the asset such as the value of the depreciated asset. This arrangement seems to be prohibited as it facilitates the capital guarantee concept which is prohibited (*haram*) in both co-ownership and contractual partnership contracts. This second undertaking is seen as contradicting with the Islamic spirit in the event of default as the customer will be required to bear the bigger obligations. The author proposes *musharakah* and *ijarah muntahiyah bi al-tamlik* structure in order to protect the right of the bank particularly in the case of default. Mohamed-Naim (2011: 46) explains regarding this structure:

Under this structure, the *musharakah* is formed between the customer and the bank (e.g. joint ownership on the undivided property). Subsequently, the bank leases its portion to the customer. At the maturity date of the leasing contract, the bank’s portion is transferred to the customer after payment of the last installment or by virtue of *hibah* by the bank. Under this structure, *musharakah* portion is not diminished and can be used as a basis to obtain the bank’s right over rental and its principal in the event of rental default.

The existing system of *musharakah mutanaqisah* is also criticized by Hasan (2011) who suggests the concept of diminishing balance *musharakah*. It is totally a new system born from the current debate of *musharakah mutanaqisah*. Hasan (2011) develops the system from two main sources. Firstly, the proliferating econometric studies on Islamic finance have often claimed that Islamic banks are more efficient on cost-profit criteria than their conventional counterparts. Secondly, there is a judicial opinion on record in Malaysia that Islamic banks fleece their clients at times more than the interest-charging institutions. These two views according Hasan (2011: 16-17) are contradicted. The introduction of diminishing balance *musharakah* has the potential to resolve the said issue gradually. How does the system work? He asserts the mechanics of the system as:

The bank proposes to the client as follows: you have already paid RM20,000 to the seller as earnest money. The remaining

RM80,000 the bank shall pay for acquiring a *constructive* ownership in the house. For getting back the amount in six-monthly installments over a period of 10 years, we shall put a yearly mark-up of 8 percent for our share in the cost of the house. However, the mark-up amount will be reduced proportionately to the return of our money. That would help reduce your liability to the bank. This registration of the house in the court will be in your name, but you will have to sign simultaneously as mortgage deed pledging the property with the bank as security until installments have been cleared in full amounts.

Surprisingly, as demonstrated by the author, diminishing balance model is particularly more Islamic as in the case of default or when the contract is breached. He further explains that (e.g. as may be referred to in great detail in his article), under the conventional home loan, the client needs RM54,753 plus interest to clear the loan. Concerned with *musharakah mutanaqisah* model, the client has to pay RM43,624 plus the rental share of the bank at the rate of RM1,911.8. Interestingly, the client only needs to pay the remaining RM36,000 in the diminishing balance model. Diminishing balance model is thus more advantageous for client both from the standpoint of cost and in the case of default or premature clearance of liability.

These previous studies on *musharakah mutanaqisah* in general have examined Islamic home financing from the conceptual perspective where profound discussions on the permissibility of *musharakah mutanaqisah* are provided. Such discussions are of the opinion that improving the current implementation of the principle in Islamic banks, which in turn promotes *musharakah mutanaqisah* home financing as the best option of mortgage for potential home buyers.

EMPIRICAL WORKS ON MUSHARAKAH MUTANAQISAH HOME FINANCING

Empirical works in the area of *musharakah mutanaqisah* home financing have been fallen short. Perhaps the literature developed in this area is relatively scarce and the technical knowledge on applying certain statistical software to analyze primary and secondary data is still at infancy stage. Still, four empirical studies are considered relevant in the context of the present study (Amin 2008; Md-Taib et al. 2008; Abdul-Razak & Md-Taib 2011; Abdul-Hamid et al. 2011; Hamid & Masood 2011) and some of the key findings are highlighted in the following section.

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 employs 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 preferences for Islamic home financing. The Islamic bank ensures the

Shariah principles are implemented in the Islamic home financing products. This is consistent with the objective of Islamic bank which is to promote well-being of both the bank and the customer. There are two works which 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. A study by Abdul-Hamid et al. (2011) focuses on factors that influence the adoption of Islamic home financing. The study reports that there are significant discrepancies between Malay and Chinese in their level of awareness on Islamic home financing products. Further, there are significant relationships 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. 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 about the selection criteria used 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.

On another ground, two empirical works (Md-Taib et al. 2008; Abdul-Razak & Md-Taib 2011) have examined the acceptability of bank clients on the *musharakah mutanaqisah* home financing. These studies however have examined different research objective. A study by Md-Taib et al. (2008) embarks on testing the applicability of the theory of reasoned action (TRA) in a new 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 the context of *musharakah mutanaqisah* home financing. Despite this merit, the study suffers from the fact that it has only examined two explanatory factors and these factors alone are not likely to be sufficient to shape one's willingness towards on the *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 terms of BBA due to the high pricing and injustice 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. The authors prove empirically that *musharakah mutanaqisah* home financing is closed to *maqasid al-Shariah*.

RESEARCH METHODOLOGY

ESTIMATION OF EQUATION

The normal components of the TPB are attitude, subjective norm and perceived behavioral control, which are derived following an expectancy value formulation where the global variables are assumed to be proportional to a linear combination of specific beliefs (respectively behavioral beliefs, normative and control) contributing to the global variables with weights depend on the motivation to comply with the behavioral beliefs, normative and the power of control (Lobb et al. 2007). This can be written as:

$$\text{Attitude: } A \propto \sum_{i=1}^n b_i e_i \quad (1)$$

$$\text{Subjective norm: } SN \propto \sum_{j=1}^g n_j m_j \quad (2)$$

$$\text{Perceived behavioral control: } PBC \propto \sum_{k=1}^q c_k p_k \quad (3)$$

We provide a justification based on Lobb et al.'s (2007) work in which attitude is measured from b_i which is the strength of behavioral beliefs and e_i is the outcome evaluations of these beliefs. In formulating subjective norm (SN), n_j is the specific normative beliefs and m_j is the motivation to comply. As for the measurement of PBC, C_k is the control beliefs and p_k are the powers of control beliefs.

The estimation equations to examine the effects of attitude, subjective norm and perceived behavioral control on intention to be a partner are given in the form of a linear function of the global variables:

$$INT_i = \delta_0 + \phi_1 ATT_i + \phi_2 SN_i + \eta_3 PBC_i + \zeta \quad (4)$$

where INT is intention to be a partner, ATT is attitude, SN is subjective norm, PBC is perceived behavioral control, and ζ is error. The effect of subjective norm on attitude is also examined using the following linear function:

$$ATT_i = \delta_0 + \delta_1 SN_i + \zeta \quad (5)$$

SAMPLE AND SOURCE OF DATA

A survey is conducted amongst Malaysia bank customers in December 2011. The sampling unit is the customer of Islamic bank who uses Islamic banking products except for *musharakah mutanaqisah* home financing. 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 are familiar with Islamic banking facilities. Since the survey is conducted on the Internet, snowball sampling

is thus deemed appropriate (Lewis et al. 2010). 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 collected using a set of questionnaire. It is designed based on extensive literature searches. The questionnaire is then sent for a pilot study in an attempt to minimize the differences in observed and true responses (Lobb et al. 2007). The details of the constructs of both dependent and independent variables are as follows:

Intention to be a Partner The dependent variable in this study is measured using five items adapted from previous studies (Ramayah et al. 2009; Lean et al. 2009; Lada et al. 2009; Md-Taib et al. 2008). The items including [1] In the future, I intend to be a partner for my Islamic home financing, [2] In the future, I plan to use *musharakah mutanaqisah* home financing in order to re-finance my home financing, [3] I intend to be partner for *musharakah mutanaqisah* home financing not only to finance my first but also to my second house, [4] Be a partner for *musharakah mutanaqisah* home financing is my priority as a muslim, and [5] I intend to recommend *musharakah mutanaqisah* home financing to others in order to make them as new partners for Islamic banks. The respondents are asked to rate these statements on a 5-point scale from 1 (strongly disagree) to 5 (strongly agree). The outcomes generated are aggregated to represent the Islamic home financing preference.

Attitude Fishbein and Ajzen (1975) define attitude as the evaluative effect of positive or negative feeling of individuals in performing a particular behavior. In the questionnaire, this variable is measured using five items adapted from Gopi and Ramayah (2007) and Ramayah et al. (2009). The respondents are asked to gauge their level of agreement pertaining to the following statements using a 5-point scale from 1 (strongly disagree) to

5 (strongly agree). The statements are [1] Choosing *musharakah mutanaqisah* home financing is a great idea to me, [2] Choosing *musharakah mutanaqisah* home financing is clever, [3] Choosing *musharakah mutanaqisah* home financing is beneficial, [4] I like *musharakah mutanaqisah* home financing, and [5] Choosing *musharakah mutanaqisah* home financing is positive.

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 behavior. Items to measure this construct are adapted from Ramayah et al. (2010), Ramayah et al. (2009) and Zainuddin et al. (2004). The first item is related to "Most people who are close to me think that I have to opt *musharakah mutanaqisah* home financing;" the second item is "It is expected by others that I should choose *musharakah mutanaqisah* home financing;" the third item is "Most people who are important to me think that *musharakah mutanaqisah* home financing is useful;" the fourth item is "Most people who are important to me think that *musharakah mutanaqisah* home financing is beneficial;" the fifth item, also the last item, is measured using this statement "Most people are assume me to be familiar with the need of *Shariah* if I opt *musharakah mutanaqisah* home financing." These items are measured using the same 5-point scale as used for the previous two constructs.

Perceived Behavioral Control According to Ajzen (1991), perceived behavioral control is defined as the perceived ease or difficulty of performing the behavior 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). Five items are developed to represent perceived behavioral control: [1] As a partner, I confidence to pay my monthly rental; [2] It is my decision whether to be a partner or not for *musharakah mutanaqisah* home financing; [3] For me, be a partner in *musharakah mutanaqisah* home financing is easier; [4] I can be a partner for Islamic bank at any point of time in the future; and [5] I can say yes or no pertaining to the *musharakah mutanaqisah* home financing. The respondents are asked to rate these statements based on the same 5-point scale.

STATISTICAL METHODS

The data of the study are analyzed using factor analysis, Cronbach's alpha and correlation. To answer the study's objective the study uses AMOS for confirmatory factor analysis, 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). SEM is firmly established as an analytical tool, leading to hundreds of

published applications per year (Golob 2003) but it has rarely been extended to *musharakah mutanaqisah* home financing. The current study chooses SEM owing to the merits possessed by the model including; (1) treatment of both endogenous and exogenous variables as random variables with errors of measurement, (2) latent variables with multiple indicators, (3) separation of measurement errors from specification errors, (4) test of a model overall rather than coefficients individually, and (5) handling of non-normality data (Golob 2003).

RESULTS

FACTOR ANALYSIS

This study performs factor analysis for explanatory variables and dependent variable. These two variables are analyzed separately due to the fact they are conceptualized and operationalized differently (Sekaran & Bougie 2010). The purpose of factor analysis is to condense a large set of variables into a smaller or more manageable number of factors (Tabachnick & Fidell 2007). Concerned with explanatory variables, factor analysis is conducted on one phase only. No cross-loadings are found. All items are generated according to their constructs and have eigenvalues of more than 1, which confirm those factors are significant. Factor loadings for all items are greater than the cut-off point. The current work uses Hair et

TABLE 2. Factor analysis

Item	Factor loadings		
	Subjective norm	Perceived behavioral control	Attitude
S3	.845		
S2	.832		
S4	.821		
S1	.795		
S5	.744		
PBC2		.928	
PBC1		.858	
PBC5		.814	
PBC3		.795	
PBC4		.748	
A2			.795
A5			.786
A3			.746
A1			.741
A4			.675
Variance explained	35.258	23.370	9.666
Eigenvalue	5.289	3.505	1.450
Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.848	
Bartlett's Test of Sphericity	Chi-Square = 1508.21 df = 105, Sig = .000		

Note: S = Subjective norm, A = Attitude, PBC = Perceived behavioural control

al.'s (2010) recommendation to accept items with factor loading of 0.6 to be considered practical and significant.

Concerning the dependent variable, there is no second phase analysis conducted. A total of five items are examined statistically and are found to be significant. Table 3 details the result of factor analysis for dependent variable.

TABLE 3. Factor analysis

Item	Factor loadings
	Intention to be a partner
INT1	.835
INT4	.811
INT2	.779
INT5	.762
INT3	.717
Variance explained	61.130
Eigenvalue	3.057
Kaiser-Meyer-Olkin Measure of Sampling Adequacy	.804
Bartlett's Test of Sphericity	Chi-Square = 324.478 df = 10, Sig = .000

Note: INT = Intention to be a partner

CRONBACH ALPHA

With regard to the Cronbach's alpha, the Cronbach's a-values for all dimensions range from a low of 0.837 to a high of 0.900, exceeding the minimum value of 0.6 (Hair et al. 2010). Thus, the constructs measures are deemed reliable. Consequently, all items are retained.

TABLE 4. Cronbach's alpha

Construct	No. item	Alpha	Remarks
Attitude	5	.847	Reliable
Subjective norm	5	.900	Reliable
Perceived behavioral control	5	.887	Reliable
Intention to be a partner	5	.837	Reliable

BIVARIATE CORRELATION

Correlation analysis is used to describe the strength and direction of the linear relationship between two variables. The current research uses correlation in order to detect multicollinearity problem exists between one variable to another. According to Sekaran and Bougie (2010), multicollinearity is an often encountered statistical phenomenon in which two or more independent variables in a multiple regression model are highly correlated. The presence of high correlation that is 0.8 is a sign of multicollinearity problem. It is of prime importance to rule out any one of the two related variables in order to avoid this problem.

TABLE 5. Bivariate (Pearson) correlation

	Attitude	Subjective norm	Perceived behavioral control	Intention to be a partner
Attitude	1	.565**	-.032	.614**
Subjective norm		1	.069	.641**
Perceived behavioral control			1	.117
Intention to be a partner				1

As demonstrated in Table 5, the correlations show that no relationships are high enough to potentially lead to the multicollinearity problem. The relationship between attitude and subjective norm is significant. Further, the relationship between attitude and subjective norm on the intention to be a partner are statistically significant. Yet, all correlation values are less than that of 0.8 which indicate no multicollinearity problem. This allows all factors to be retained for the further analysis.

MEASUREMENT MODEL

Next, 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 (Chen et al. 2004). 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 6. 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 7. Assessing the measurement model

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

Besides Cronbach's alpha, the study also employs composite reliability (CR) and average variance explained (AVE). CR suggests a value of 0.6 for acceptability which indicates internal consistency of the measurement model. As reported in Table 7, all items are greater than that of the 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 explained by an individual item (Bagozzi & Yi 1988). As reported in Table 6, all items are greater than 0.5 which indicate the items can adequately explain the variance in the constructs. No dropped out cases are conducted.

STRUCTURAL EQUATION MODEL

TABLE 8. 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 $RMSEA > 0.10$ suggests poor fit (Browne & Cudeck 1993). The study's RMSEA is considered a moderate fit. On the same note, RMR is 0.027, thus deemed acceptable (Schumacher & Lomax 2004). Usual acceptable level of fit for RMR is 0.05 (Hu & Bentler 1999; Schumacher & Lomax 2004). By the same token, a brief discussion is also provided for NFI. As depicted in Table 7, NFI is found to be a good fit with a value of 0.945. This result is somehow supported by Bentler and Bonett (1980). In addition, as noted earlier, Kline (2005) suggests the acceptable value of NFI in order to make it a good fit is $NFI > 0.90$. In a similar vein, the inclusion of GFI is also of importance to expound the model fit. According to Kline (2005), $GFI = 1.0$ indicates a perfect model fit, $GFI > 0.90$ may indicate a good fit, and values close to zero indicate a very poor fit. However, values of the GFI can fall outside the range of 0 to 1.0. Values greater than 1.0 can be found with just-identified models or with over-identified models with almost perfect fit; negative values are most likely to happen when the sample size is small or when model fit is extremely poor. In consonance with these arguments, the present finding reports $GFI > 0.90$. This explains that the study's model is in an acceptable range. As for CFI, a rule of thumb for the CFI and other incremental indexes is that values greater than roughly 0.90 may indicate reasonably a good fit of the researcher's model (Hu & Bentler 1999). The study's CFI is exceeding 0.90, which leads to a conclusion that the study's has a good fit for CFI.

TABLE 9. Results of 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 a significant relationship at the 5 percent significance level. The squared multiple correlation for the relationship is 0.403 indicating that 40.3 percent of the variation in attitude can be explained by subjective norm. On the other hand, attitude, subjective norm and perceived behavioral control are instrumental in explaining the intention to be a partner. The squared multiple correlation is 0.545 indicating that 54.5 percent of the variation in the intention to be a partner can be explained by attitude, subjective norm and perceived behavioral control. Attitude is found to be the most influential factor on behavioral intention to be a partner for *musharakah mutanaqisah* home financing. 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 be a partner for *musharakah mutanaqisah*. This finding is consistent with a study by Ryu et al. (2003). Perceived behavioral control is found to have a significant direct effect on behavioral intention to be a partner for *musharakah mutanaqisah* home financing. The finding is somewhat in line with the finding by Ryu et al. (2003) who find perceived behavioral control has a significant effect on the behavioral intention.

CONCLUSION

This study extends the TPB model to examine the effects of attitude, subjective norm and perceived behavioral control on the intention to be a partner in a *musharakah mutanaqisah* context. These factors in fact are known as psychological factors and are firstly coined by Ajzen (1991). The main findings suggest that attitude is the first influential determinant, followed by subjective norm and thirdly by perceived behavioral control. Significant interactions between these factors are found. These outcomes lead to the following contributions:

1. The research extends the applicability of the TPB model to the newly introduced context of *musharakah mutanaqisah* home financing. Prior studies have validated the TPB in different settings, as it is also applicable in a newly context of *musharakah mutanaqisah* home financing (Gopi & Ramayah 2007; Lobb et al. 2007). Generally, the theory is adequate to determine why bank customer intends to be a partner to an Islamic bank to acquire house. It is worth noting that the

theory extends its generalizability to an Islamic banking context, particularly on *musharakah mutanaqisah* home financing's context. This study modifies measurement items which reflect the specific features of *musharakah mutanaqisah* home financing which makes this research's finding is different with earlier Islamic home financing studies (Amin 2008; Md-Taib et al. 2008).

2. On the practical side, the results of the current study allows for policy enhancement. Islamic banks, as a recommendation, are required to incorporate the importance of psychological matters when offering *musharakah mutanaqisah* home financing to end customers. The current study proves that attitude, subjective norm and perceived behavioral control are of value in determining one's willingness to be a partner in *musharakah mutanaqisah*. This suggests that Islamic banks should strengthen their *musharakah mutanaqisah* facilities by inculcating Islamic values on the products in order to promote clients' positive attitude. Concerning subjective norm, Islamic banks should develop friendship with their clients. Their clients on the other hand should invite new contacts to patronize *musharakah mutanaqisah* home financing. Concerning the behavioral control term, Islamic banks may work on educating their clients through a specific counter which offers better financial counselling on the home financing facility. This would improve the customer's perception with regard to Islamic home financing products, which in turn generate demand to the financing products in the future.

Although this study demonstrates insightful contribution, yet but importantly, the current work also suffers from two limitations. Firstly, the current study only examines some psychological factors and only tests the TPB model. To tackle this drawback, understanding the effects of perceived financial freedom and perceived house satisfaction, to mention some are of importance to be studied. Future works are expected to integrate those factors in their theoretical frameworks. Secondly, the contribution of the study is confined due to the fact it is conducted using quantitative questionnaire survey. Views from findings may not be truly representative to the bank clients. To address this shortcoming, a qualitative approach such as an interview must be deliberated in future studies as this may provide additional but useful information pertaining to the acceptability of the financing facility among potential partners.

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