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

ANDI RENI

DOCTOR OF PHILOSOPHY
UNIVERSITI UTARA MALAYSIA
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Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
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In Fulfillment of the Requirement for the Degree of
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ABSTRACT

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

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


Kata kunci: Perbankan Islam Indonesia, niat, pemilihan, Theory of Reasoned Action (TRA), dan Theory of Planned Behaviour (TPB)
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<td>ATD</td>
<td>Attitude</td>
</tr>
<tr>
<td>ATM</td>
<td>Automatic Teller Machine</td>
</tr>
<tr>
<td>BAMUI</td>
<td>Board of Arbitration Muamalat Indonesia</td>
</tr>
<tr>
<td>CMW</td>
<td>Common Method Variance</td>
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<tr>
<td>DTPB</td>
<td>Decompose Theory of Planned Behavior</td>
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<tr>
<td>GDP</td>
<td>Gross domestic Bruto</td>
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<tr>
<td>GS</td>
<td>Government Support</td>
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<tr>
<td>IBS</td>
<td>Islamic banking Indonesia</td>
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<tr>
<td>ICMI</td>
<td>Ikatan Cendekiawan Muslim Indonesia</td>
</tr>
<tr>
<td>IDR</td>
<td>Indonesian Rupiah</td>
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<tr>
<td>INT</td>
<td>Intention</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
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<tr>
<td>KNL</td>
<td>Knowledge</td>
</tr>
<tr>
<td>L/C</td>
<td>Letter of credit</td>
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<tr>
<td>PBC</td>
<td>Perceive Behavioral control</td>
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<tr>
<td>PHD</td>
<td>Doctor of Philosophy</td>
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<td>PLS</td>
<td>Partial Least Square</td>
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<td>PRC</td>
<td>Price</td>
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<td>R2</td>
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<td>RLG</td>
<td>Religion</td>
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<td>SEM</td>
<td>Structural Equation Modelling</td>
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<td>SN</td>
<td>Subjective Norm</td>
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<tr>
<td>SPSS</td>
<td>Statistical Package for the Social Sciences</td>
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<tr>
<td>SWT</td>
<td>Subhanahu Wa Ta’ala</td>
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<td>TAM</td>
<td>Theory of Acceptance Model</td>
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<td>TRA</td>
<td>Theory of Reasoned Action</td>
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<td>TPB</td>
<td>Theory of Planned Behavior</td>
</tr>
<tr>
<td>TS</td>
<td>Technology support</td>
</tr>
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<td>USA</td>
<td>United States of America</td>
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CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

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

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