Malaysian Bankers Acceptance Criteria on Islamic Financial System

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Abstract

Islam has a very specific approach to business transaction, the law of contract, the prohibition of riba, indeed to worldly matters which are all in accordance to Shariah. As for financial institutions operating in an Islamic environment, or seeking to meet the requirements of Muslim communities, this creates a variety of problems. This study aims to investigate the reasons of limited practice of Al-Mudharabah modes of financing, especially Al-Murabahah and Al-Bai Bithaman Ajil. The survey was carried out among the Islamic banks and Conventional banks which operate Islamic banking system in major cities and towns in Malaysia. This study focuses on banks selection criteria in considering Al-Mudharabah as well as the reasons for its limited usage. The findings showed that bankers ranked viability and profitability of a project as the most important in Selection Criteria, while inadequate managerial skill and entrepreneur irresponsibility as the main problems in extending financing through the said principle. In addition, the result indicated significant differences in the importance of the selection criteria by type of banks for 'banker's technical and administrative assistance' and 'valued customer'. The conventional banks considered both criteria as of higher importance compared to Islamic banks.

Keywords: *Al-Mudharabah, Al-Murabahah,Al-Bai Bithaman Ajil, Shariah*

1. Introduction

Modern banking system was introduced into the Muslim countries in the late 19th century at a time when they were politically and economically at a low recede. The main banks in the home countries of the imperial powers established local branches in the capitals of subject countries and they catered mainly to the import export requirements of foreign business. These banks were generally confined to the capital cities and the local population remained largely unaffected by the banking system. The local trading community avoided the foreign banks both for nationalistic as well as religious reasons (El-Gamal, 2006). However, as time went on it became difficult to engage in trade and other depositing their savings with the bank were strictly avoided in order to keep away from dealing in interest which is prohibited by the religion (Khan and Bhatti, 2008).

However, with the passage of time and other socio-economic forces demanding more involvement in national economic and financial activities, avoiding the interaction with the banks became impossible. Local banks were established on the same lines as the interest-based foreign banks for want of another system and they began to expand within the country bringing the banking system to more local people. As countries became independent the need to engage in banking activities became pertinent unavoidable and urgent. Regardless of preferences, governments, business, and individuals began to transact business with the banks. This state of affairs drew the attention and concern of Muslim intellectuals. Thus, interest-free or Islamic banking begins.

The Islamic economic resurgence in the late 1960s and 1970s has initiated the call for a financial system that allows Muslim to transact in a system that is in line with their religious beliefs. The Islamic banking system involves social implication which is necessarily connected with the Islamic order itself, and represents a special characteristic that distinguished Islamic banks from other banks based on other philosophies (Khan and Bhatti, 2008).

2. Islamic Finance In Malaysia

Islamic finance in Malaysia could be said to have begun in 1962 where the Pilgrimage Fund Board was form to enable intending pilgrims to undertake interest-free savings for the *Haj*. Thus funds were in turn invested in productive sectors of the economy, aimed at yielding return uncontaminated by usury (*riba*). Since then, with the establishment of Bank Islam Malaysia in 1983, Takaful in 1984, Islamic capital market (ICM) system in 2000 and supported by the relevant *Syariah* consistent regulatory framework such as the Islamic Banking Act 1983, the Islamic financial system is in the process of developing a distinct and parallel sector to the conventional system.

The introduction of the interest-free banking scheme in March 1993 marked the beginning of the second phase of Islamic banking in Malaysia. Later, the National *Syariah* Advisory Council (SAC) for Islamic Banking and Takaful was established in May 1997. From 2011 onwards, apart from BIMB, a total of 17 Islamic banks, 4 international Islamic banks, 6 development Financial Institutions (DFIs) offering Islamic banking services, 4 investment banks, and 3 commercial banks that participate in Islamic banking scheme (see Appendix: Malaysia International Islamic Finance Centre (MIFC) Community Directory, 2001).

There are several financing techniques offered by Malaysian Islamic banking operators such as *Al-Mudharabah, Al-Musyarakah, Al-Bai Bithaman Ajil, Al-Ijarah, Qard Hasan, Al-Wakalah, Al-Wadiah, Al-Bai Al-Dayn, Al-Ujr* and *Al- Rahn*. In sum, each financing method has its unique features. These features can be readily identified in terms of the nature of financing, the role of capital provider in the management of funds, the level of risk bearing by the provider, uncertainty of the rate of return, cost of capital, the relationship of the cost of capital, and the rate of return on capital (Haron and Shanmugam, 1997).

Bank Islam Malaysia Berhad has reported a heavy reliance given to *Al-Bai Bithaman Ajil* and *Al-Murabahah* contracts. The proportions of funds granted by BIMB, reflects the bank's limited scope of operation to merely trading business, thus denying the desire of investors or would-be entrepreneurs to obtain funds for equity-based investment in productive business ventures. The report also reveals the bank's willingness to hold large idle balances which is cost rather than income-generating. Overdependence on the *Al-Bai Bithaman Ajil* and *Al-Murabahah* modes of operation has caused skepticism among Muslim academicians over the bank's genuine role as a full-fledge Islamic financial institution. In theoretical discussions, Muslim scholars assume a dominant role for the *Al-Mudharabah* and *Al-Musyarakah* transactions, since these will promote equitable income distribution among users and providers of capital (Man, 1991). The question is why Islamic banks have not been successful to introduce the profit and loss sharing in their asset side operations? Therefore, the researcher try to examine the appeal of *Al-Mudharabah* as a financing instrument compared to other methods, from the bankers' perspectives.

3. Issues And Problem Statement

Conventional banking system serves to maximize the shareholders' wealth whereas Islamic banking system tends to provide a fairer approach to both parties involved in the financial transaction (Haron and Ahmad, 2000). The relationship between a banker and a customer for conventional banking is debtor and creditor which may be terminated by mutual agreement or unilaterally. For Islamic banks, the relation to clients is that of partner, investor and trader and is guided by the general principles which dominate the economic behavior in an Islamic culture.

According to Parker (1998), Islamic banking differs from the conventional system in its approach to risk-sharing, treatment of funds under management, nature of deposits, and the status of return on profits. Therefore, it is often argued that certain regulatory provisions should be amended when applied to supervising Islamic banking institutions. However, attitude towards interest and business transaction in accordance to *Shariah* law are the major factors that differentiate Islamic banking from the conventional banking. For example, the Conventional banking relies on the ability of the borrower to repay the principal together with interest, but Islamic banking is participatory in nature. Thus, Islamic banks usually assume all the normal risk of business that the entrepreneur assumes where profit and loss, irrespective of its quantum, is shared by the bank and the entrepreneur.

Meenai (1998) states that conventional banks' lending policy allows for loans to be used as additional capital and not as individual capital. However, Islamic banks will participate in both new and existing projects (subject to the availability of funds), as long as the proposed venture is viable and profitable. Moreover, Islamic banks cannot participate in businesses prohibited by *Shariah*, such as the manufacture or trading of liquors, gaming, etc. These socio-economic dimensions also play a significant role in evaluating the financing proposals in Islamic banking system. Thus businesses that add more to social welfare are likely to get a higher priority (Abdul Rahman, 2007).

Further issues are the interest rate that is used by the conventional banks as a cut-off point in making loan decision and the loans will not be approved if the rate of return of the borrowers business is below the interest rate on loan. However, Islamic banks will participate in any project as long as it generates profit or improves the well-being of the society especially the Muslims. Here, the Islamic banks will provide credit to the poor who have the skills, the expertise and they cannot provide collateral to the banks, whereas, for conventional banks, they are not willing to provide credit to those who cannot provide collateral, although they have the talent and expertise (Jimenez and Saurina, 2004). Since the interest rate is the factor in making loan decisions, it is important to understand the concepts and philosophies of *Al-Mudharabah* and also the operations of the system implemented by the Islamic Banking.

Due to the above condition, Islamic banks do face a risk which does not faced by their conventional counterparts. Though both have to take credit risk, capital adequacy, liabilities and asset-matching risks, currency-fluctuating and liquidity risks, the risk for the Islamic banks is higher, due to their extensive trade and investment activities. Therefore, the objectives of this study are (1) to determine the selection criteria used by bankers towards *Al-Mudharabah* mode of financing and (2) to determine the possible reasons why *Al-Mudharabah* principle was not widely used as a financing instrument.

4. The Philosophy And Principle Of Islamic Banking

Islam prohibits Muslims from taking or giving interest (*riba*) regardless of the purpose for which such loans are made and the rates at which interest is charged. This prohibition is mentioned in four different revelations in the Quran. The first revelation emphasizes that interest deprives wealth of God's blessing (*Ar-Ruum* 30:39). The second revelation condemns it, placing interest in combination with wrong appropriation of property belonging to others (*An Nisa'* 39:161). The third revelation enjoins Muslims to stay clear of interest for the sake of their own welfare (*Al-Imra*n 3:130-132). The fourth revelation establishes a clear distinction between interest and trade, urging Muslims to take only the principal sum and to forgo even this sum if the borrower is unable to repay. Furthermore, it is declared in the Quran that those who disregard the prohibition of interest are at war with God and His Prophet (peace be upon him) (*Al Baqarah* 2:275-281).

From Hadith Muslim, Vol III: 3854, Abu Sa'id al-Khudri (Allah be pleased with him) reported by Allah's Messenger (peace be upon him) says:

> *"Gold is to be paid by gold, silver by silver, wheat by wheat, barley by barley, dates by dates, salt by salt, like by like, payment being made hand to hand. He who made an addition to it, or asked for an addition, in fact dealt with riba. The receiver and the giver are equally guilty."*

In addition, the prophet also condemned not only those who take interest but also those who give interest and those who record or witness the transaction, saying that they are all alike in guilt.

Therefore, banking and other financial transactions in an Islamic society have to dispense with all interest-related instruments and adopt modes of financing that are consistent with Islamic law (*Syariah*) namely justice (*'adalah*), education (*tarbiyah*), and protecting public interest (*maslahah al-amanah*). In the protection of public interest, the protection of wealth (*al-mal*) forms the economic basis of *Shariah* objectives although the protection of the *deen* (religion), *nafs* (life), *'aql* (intellect) and *nasl* (progeny) are equally important (Prabowo, 2009).

Islam has no objection to profit maximization for business that operates in accordance to *Shariah* principles. The main objective of *Shariah* is to harmonize self-interest with common weal. Hence, *Shariah*-based financial instruments, in present day interest-free banking, are expected to play a positive role in achieving the economic well-being of the nation (Pollard and Samers, 2007, Rosly 1994).

All interest-based instruments are generally variants of profits-sharing arrangements, since although interest is forbidden in Islam, trade and profits are permissible. An uncertain rate of return based on profits is thus *Shariah*-compatible, so that if a banking structure can be developed in which interest is replaced by such rate of return, the resulting system would be in conformity with Islamic principles and guidelines (Chapra, 1992; Siddiqi, 1983).

As such the promises of Islamic banking in the revitalization of the Malaysian economy lie in its ability to observe the principles of profitability, safety and liquidity in the banking business such that the wealth of depositors, fund users and shareholders are protected from depletion. This will involve a long-term view of product designs so that equilibrium in the credit market as well as equality in aggregate savings and investments be guaranteed to secure steady rate of economic growth.

5. Literature Review

An Islamic bank is not a bank that does not operate under the interest mechanism. It is a bank based on certain economic and philosophical principles and an institution to serve the community. It is also dedicated to fostering economic welfare for people and development of socio-economic based on the values of Islam. Al-Haran (1995) classified the Islamic banks' operational objective into four; 1) the philosophical principle; 2) profit-sharing investment; 3) positive attitude; and 4) social nature.

Since Islam has forbidden the underlying principle of *riba* (interest), the entire production and trade were based on the principle of *Al-Mudharabah* and *Al-Musyarakah*. In spite of the abolition of interest, the economic activity in the Muslim world did not show any downward tendency, instead there was increased prosperity.

Chapra(1992) and Siddiqi (1983) have pointed out that monetary and banking system of a country does not operate in an ideological vacuum. It is an integral part of its parent ideology. Its operating procedures have to be fashioned in accordance with the requirements of a particular ideology. Judged in this perspective, the task of replacing conventional banking with Islamic banking should not be taken to consist of a mere mechanical substitution of interest-based for non-interest-based modes of financing. These modes of financing have to be chosen keeping in view the *Shariah* requirements as well as the ideological orientation of an Islamic society. Further, the financing activities of Islamic banks have to be directed towards achieving Islamic socio-economic objectives. These objectives are briefly the promotion of a pattern of growth best suited for eradication of poverty, equitable distribution of income and wealth and sufficient opportunities for gainful employment.

Khan (1986) argued that the traditional banking practice of paying depositors a fixed (predetermined) interest, regardless of whether the bank is doing well or not, prevents banks from instantaneously adjusting to potential asset shocks. He also concluded that such rigidity can lead to possible financial instability. In contrast, Khan shows why the alternative Islamic banking system, in which banks do not provide, predetermined interest but rather share profits or loss with their depositors, can provide immunity against bank failure and financial instability (Siddiqi, 1981).

According to Ahmad (1989), a banking system based upon profit and loss sharing principle is likely to provide a great boost to economic development by enlarging the supply of risk capital. Besides that, such a system may be expected to quicken the pace of technological through greater encouragement to innovation and experimentation with new techniques of production. Thus, it will also promote greater allocation of efficiency since the banks will join hands with business enterprises (through *Al-Mudharabah* mode of financing) in maximizing productivity.

Several researchers have attempted to show, with varying degrees of success, that Islamic banking based on concept of profit and loss sharing is theoretically superior to conventional banking from different angles. However, from the practical point of view this does not seem that rosy as pointed out by Walsh (2003). Sufian (2007), Sarker (1998) Al-Harran (1995), and Ghafoor (1995) listed the factors that influence the difficulties in implementing *Al-Mudharabah* such as; bankers' lack of skill, to participate into the business, lacks of medium and long term fund allocated for *Al-Mudharabah* loan, higher risks on the project financed, lack of qualified personnel to undertake the operations, and lack of honest and trustworthy amongst entrepreneurs.

Apart from the above factors, Zandou (1992) suggested that the bankers should acquire a clear accounting and procedural framework related to the project preparation for its follow-up and supervision to avoid any confusion relating to the *Al-Mudharabah* operational matters. He also pointed out that, banks have to create suitable and efficient financial market as well as the development of a secondary financial market. Further, Man (1991) added that the important factor that contributes to inability to mobilize *Al-Mudharabah* and *Al-Musyarakah* is the lack of vision among banks decision makers of what an ideal Islamic bank should be like.

6. Methodology

The survey data was collected through self-administered mail questionnaires which was designed and administered to the population of this research consisted of banks, finance companies, and merchant banks which provide Islamic banking products under Islamic banking scheme in Malaysia. The respondents were the Islamic banking Unit Manager, Operational and Credit Processing Officers of the respective banks. As far as the respondents are concerned, sampling units who do not posses at least three-year of working experience of the financial process and unable to provide opinions were excluded from the study.

Stratified sampling method were used where representation of all groups in sample were assured, increase the sample's statistical efficiency; provide adequate data for analyzing the various sub-populations, and enable different research methods and procedures has used in different strata (Leslie, 1965). Due to resource availability, sample sizes of 150 were selected based on their respective size and geographical location. Specifically, focuses were being on medium and large size bank branches as well as Klang Valley location. The respondents were required to express their perception towards the application evaluation process for *Al-Mudharabah* loan.

Mail Questionnaires was conducted in lieu of its high geographic flexibility and low cost. Several methods were implemented to encourage higher response rate, which include the use of more structure questionnaires and enhance follow-up procedures. In addition, questionnaires are sent electronically to some sampling units where applicable. Pilot test was carried out with a group of respondents in order to discover problems and to look for evidence of ambiguous questions and respondents misunderstanding.

Structure fixed-alternative questions were asked to indicate the respondents attitudes by checking how strongly they agree or disagree with carefully constructed statements that express either a favorable or unfavorable attitude toward the object of interest (Cooper and Schindler, 1998). The degree of agreement is scaled out into five points, namely, (1) Strongly disagree, (2) Disagree, (3) Uncertain, (4) Agree, (5) strongly agree. The usage of Likert Scale makes date easier to code, tabulate and interpret.

The questionnaire is divided into 4 sections. Section A is on the demographic study on the human population in term of size, density, location, age, gender, race, occupation, and other statistics. Section B consisted of the bankers' loans processing methods together with appraisal and approval of loans especially in *Al-Mudharabah* mode of financing. Section C consisted of the reasons for the less preference for *Al-Mudharabah* mode of financing. Finally, section D consisted the reasons for the popularity of other modes of financing namely *Al-Murabahah* and *Al-Bai Bithaman Ajil*.

7. Data Analysis

Descriptive analysis is carried out in this study to transform the raw data into a form that will make them easy to understand, interpret, rearranging, and manipulating data, was carried out to provide descriptive information. The purpose of using descriptive anlaysis is to determine the relative importance of the selection criteria towards the adoption of Al-Mudharabah mode of financing. For that, the score of means computed from the respondents' weights on each question were used to rank those criteria.

Factor analysis was conducted to identify a set of dimensions that are not easily observed in a large set of variables (Cooper and Schindler, 1998). Five steps were followed in undertaking the factor analysis: (1) selecting variables, (2) computing the matrix of correlation among variables, (3) extracting initial unrotated factors, (4) rotating the factors to a terminal solution and (5) interpreting the rotated factor matrix. In this study, the rotated factor matrix (varimax) resulted from factor analysis was used to summarize the variables of the selection criteria of *Al-Mudharabah* mode of financing and its reasons for limited usage.

In addition, an Analysis of variance (ANOVA) was used to compare between the two types of banking whether there were any significant differences in the importance of the selection criteria. The multiple regression analysis explains the relationships and assesses the degree of accuracy of description or prediction achieved by the regressions equation using a mathematical equation. The multiple regression models for this study are mathematically described as follows:

$$Y = \beta_0 + \beta_1 F1 + \beta_2 F2 + \beta_3 F3 + \beta_4 F4 + \beta_5 F5 + \beta_6 F6 + \varepsilon_t$$

Where;

Y	=	Selection Criteria
β_0	=	Parameters of the model
β_{1-6}	=	Estimates (Regression Coefficient)
F1	=	Viability and Profitability of the project (**Factor 1**)
F2	=	Bankers' Technical and Administrative Assistance (**Factor 2**)
F3	=	Bankers' Policy (**Factor 3**)
F4	=	Entrepreneur's Knowledge and Experience (**Factor 4**)
F5	=	Valued Customer (**Factor 5**)
F6	=	Collaterral (**Factor 6**)
ε_t	=	The error term associated with the model

8. Results And Findings

This study used the descriptive statistical approaches to describe the respondents' demographic profiles of the Islamic banking Unit Manager, Operational and Credit Processing Officers of the respective banks. A total of 150 questionnaires were distributed, out of which 104 or 69.3% were returned. Cross tabulation on the demographic data was used to highlight the response rate and respondents' profile on their influence to the study.

Table 1 shows the relative profile of respondent's age, marital status, level of education and designation. The table shows all distribution by gender. For the age groups, overall distribution are 68 (65.5%) of the respondents are male and 36 or 34.5% are female. Out of 68 male, 1.5% respondent are below 25 year old; 23.5% aged 26 to 30; 16.2% aged 31 to 35; 32.4% aged 36 to 40; 23.5% aged 41 to 45; and 2.9% respondents are above 46 years old. As for female respondents, out of 35, 11.1% aged below 24 years old; 27.8% aged 26 to 30; 13.9% aged 31 to 35; 16.6% aged 36 to 40; and 30.6% aged 41 to 45 years old. This indicates that the overall respondents are between 36 to 45 years old. The distribution of the marital status of the respondents by gender shows that out of 68 males, 17.6% are single and 82.4% are married.

Whereas, out of 36 female respondents, 33.3% are single and 66.7% are married. This indicates that 77% respondents are married couples. The distributions of level of education among the respondents by gender shows that out of 68 males, 2.9% are holding SPM/STPM, 26.5% Diploma; 64.7% Degree; and 5.9% with Master. Among 36 female respondents, 22.2% are holding a Diploma; 66.7% with Degree; and 11.1% with Master. This indicates that 65.4% respondents hold a Degree and followed by 25.1% holding a Diploma. The distribution of the designation by gender shows that out of 68 males respondents, 5.9% are from Top Management; 35.3% Managers; and 58.8% are Officers. This indicates that the higher numbers of male and female respondents are at Executive / Officers level.

The distribution of the respondents' monthly income by designations shows only 5 Senior Management earned a monthly income above RM6,000; out of 30 Managers, 16.7% earned RM2,000 to RM4,000; and 83.3% earned RM4,001 to RM6,000 monthly income. Whereas for 66 Officers, 18.2% earned below RM2,000; 71.2% earned RM2,000 to RM4,000; and 10.6% earned their monthly income of RM4,001 to RM6,000. This indicates that the highest ranging income is from RM2,000 to RM4,000 which mostly from the Managers and Executives/ Officers level. Generally, the difference in distribution of age and income by gender is significant at $p < 0.05$. However, the difference in distribution of marital status, level of education, and designation by gender is not significant.

The first objective of this study is to determine the selection criteria used by bankers towards *Al-Mudharabah* mode of financing. Table 2 lists the selection criteria adopted by the bankers in considering *Al-Murabahah/Al-Bai Bithaman Ajil* mode of financing. The mean score is used to rank the selection criteria. The findings show that 'the applicant's ability to pay back amount financed on the project being financed' is the most considered criterion among bankers, with highest mean score of 4.72, while the least considered criterion with the mean score of 2.76 is 'the ability of fund from the bank/finance company to finance a project'.

The second objective is to determine the possible reasons why *Al-Mudharabah* principle was not widely used as a financing instrument. Table 3 lists of the reasons for widespread usage of *Al-Murabahah/Al-Bai Bithaman Ajil* in Islamic banking operation as perceived by the bankers. Again, the mean score is used to rank the reasons. The findings show that 'ease of implementing the financing' is most considered reason among the bankers, with the mean score of 4.00, whereas 'less legal requirement or government's procedure imposed' is viewed indifferently among the bankers as the possible reason (mean = 3.25).

Table 4 shows the rotated component matrix (varimax) of six factors with different loading (coefficient correlation) using the factor analysis. For the purpose of data reduction, loading with values higher than ± 0.5 were chosen as the weights for the respective selection criteria.

The analysis of variance (ANOVA) is presented in Table 5. The results show that there were only significant differences ($p < 0.05$) between type of banks with regard to the importance of 'bankers technical and administrative assistance' (Factor 2) and 'value customer' (Factor 5).

9. Conclusions

This study has managed to determine on how the banks' operation using Islamic Financial Instruments by adopting certain selection criteria on accepting *Al-Mudharabah* mode of financing. Cross-tabulation was used in the descriptive analysis to highlight the important demographic factors of the respondent's profile. In addition, other types of analysis employed were comparison of the mean values, factor analysis and analysis of variance (ANOVA).

The evidence suggests that 'the applicants ability to pay back amount financed on the project being financed' was the most considered selection criteria for the bankers in approving *Al- Murabahah* and *Al-Bai Bithaman Ajil* mode of financing.

The result of this study also reveals that the bankers considered *Al Murabahah* or *Al-Bai Bithaman Ajil* mode of financing as 'easy to implement'. It is consistent with Sarker's studies (1998) which indicated that *Al-Murabahah* or *Al-Bai Bithaman Ajil* modes of financing nad interest-based financing differs very little and most of the bankers employed in the Islamic banks are familiar with the interest-based banking practices and they have not enough training or little knowledge about Islamic banking.

This study represent a motivating power to the Islamic Banks to find an outlet for this problem by means of suggesting new methods and providing a wide range of alternatives that match all the financing needs of the investors through which the relative use of the *Al-Mudharabah* can be increased and supported.

The rapid expansion of Islamic banking in recent years has demonstrated that there is a sizable market for the product that Islamic banks have to offer. Islamic banks obviously found a niche and exploited it well. By and large, Islamic banks have worked reasonably well as a theory would predict, although some have encountered problems that were similarly faced by conventional banks, especially in promoting their products.

We can assume that the use of the *Al-Mudharabah* mode of financing is used to a lesser extent in comparison to the *Al-Murabahah* or *Al-Bai Bithaman Ajil* mode of financing. This should represent a motivating power to the Islamic banks to find an outlet for this problem by mean of suggesting new methods and providing a wide range of alternatives that match all the financing needs of the investors through which the relative use of the *Al-Mudharabah* can be increased and supported.

A future research could be done in this area using corporate companies where a comparison across different perception will probably reach a different outcome. More variables could be brought into the model, as this study is limited in scope due to the omission of possibly relevant model. Special attention should be directed to study the consequences of *Al-Mudharabah* on the stability and efficiency of the economy and making regular promotion of the existing instruments in accordance with the principles of the glorious Islamic *Shariah*.

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APPENDIXES

Table 1: Respondents Profile (Comparison and Percentages in Cross Tabulation Analysis)

	Male		Female		Total	
Age	**No.**	**%**	**No.**	**%**	**No.**	**%**
Less than 25 yrs	1	1.5	4	11.1	5	4.8
26 – 30 yrs	16	23.5	10	27.8	26	25.0
31 – 35 yrs	11	16.2	5	13.9	16	15.4
36 – 40 yrs	22	32.4	6	16.6	28	26.9
41 – 45 yrs	16	23.5	11	30.6	27	26.0
More than 46 yrs	2	2.9	0	0	2	1.9
Total	**68**	**100.0**	**36**	**100.0**	**104**	**100.0**
Marital Status						
Single	12	17.6	12	33.3	24	23.0
Married	56	82.4	24	66.7	80	77.0
Total	**68**	**100.0**	**36**	**100.0**	**104**	**100.0**
Level of Education						
SPM/STPM	2	2.9	0	0	2	1.9
Diploma	18	26.5	8	22.2	26	25.1
Degree	44	64.7	24	66.7	68	65.4
Master	4	5.9	4	11.1	8	7.6
Total	**68**	**100.0**	**36**	**100.0**	**104**	**100.0**
Designation						
Top Management	4	5.9	1	2.8	5	4.8
Managers	24	35.3	7	19.4	31	29.8
Executive/Officers	40	58.8	28	77.8	68	65.4
Total	**68**	**100.0**	**36**	**100.0**	**104**	**100.0**

Income (Monthly)	**Top Management**		**Managers**		**Executives/ Officers**		**Total**	
	No.	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**
< than RM2,000	0	0	0	0	12	18.2	12	11.5
RM2,000 to RM4,000	0	0	5	16.7	47	71.2	52	50.0
RM4,001 to RM6,000	0	0	25	83.3	7	10.6	32	30.7
>than RM6,000	5	100.0	0	0	0	0	5	4.8
Missing Data							3	3.0
Total	**0**	**100.0**	**30**	**100.0**	**66**	**100.0**	**104**	**100.0**

Table 2: The Distribution of Selection Criteria Adopted by the Bankers in Accepting *Al-Murabahah/Al-BaiBithamin Ajil* mode of Financing

NO	SELECTION CRITERIA	MEAN	STD DEVIATION
1	The applicant's ability to pay back amount financed on the project being financed	4.72	0.45
2	The viability of a project being financed	4.56	0.62
3	The project profitability	4.49	0.61
4	The availability of collateral offered to the bank/finance company on the project being financed	4.36	0.68
5	The availability of fund from the bank/finance company to finance a project	4.29	0.68
6	The feasibility of the project being implemented	4.25	0.76
7	The moral personality/integrity of the applicant	4.25	0.62
8	The applicant's track record to run a project	4.18	1.01
9	The applicant's level of knowledge in aspects of business	4.06	0.86
10	The appropriateness of the financing techniques used to finance a project	4.00	0.66
11	The applicant's capital contribution to the project	3.84	0.88
12	Bank/finance company's priority given to run a project	3.74	0.73
13	Other bank/ finance company's recommendation	3.20	0.74
14	The ability of bank/finance company to provide adequate administrative assistance to run a project	3.16	0.77
15	The ability of fund from the bank/finance company to finance a project	2.76	0.90

Table 3: The distribution of possible reasons on why *Al-Murabahah/ Al-BaiBithaman Ajil* is widely used

NO	REASON	MEAN	STD DEVIATION
1	Ease of implementing the financing	4.00	0.40
2	Ease of processing application for *Al-Murabahah* and *Al-Bai Bithaman Ajil* financing	3.90	0.71
3	Prospective clients are well-aware of *Al-Murabahah* and *Al-Bai Bithaman Ajil* modes of financing	3.89	0.78
4	Bankers have more knowledge and experiences in *Al-Murabahah* and *Al-Bai Bithaman Ajil* financing	3.85	1.14
5	Lower risk associated with asset to be financed	3.78	1.06
6	Ease of liquidation of the asset in case of default	3.76	0.74
7	Availability of fund	3.72	1.02
8	Availability of honest and trustworthy applicants	3.56	0.86
9	*Al-Murabahah* and *Al-Bai Bithaman Ajil* financing provide a faster cash flow compared to other modes of financing	3.51	0.85
10	Higher profitability of the transaction	3.47	0.94
11	Less legal requirement or government’s procedure imposed	3.25	0.81

Table 4: Summary of Rotated Component Matrix (Varimax) of Six Principles Factor on Selection Criteria Adopted by the Bankers

NO	VARIABLES	COMPONENTS					
		FACTOR 1	FACTOR 2	FACTOR 3	FACTOR 4	FACTOR 5	FACTOR 6
		Viability and profitability of the project	Bankers' technical and administrative assistance	Bankers' policy	Entrepreneur's knowledge and experience	Valued customer	Collateral
1.	The project profitability	0.863					
2.	The viability of a project being financed	0.781					
3.	The applicant's ability to pay back amount financed on the project being financed	0.733					
4.	The applicant's track record to run a project	0.701					
5.	The feasibility of the project being implemented	0.684					
6.	The ability of bank/finance company to provide adequate administrative assistance to run a project		0.877				
7.	The ability of bank/finance company to provide technical assistance to run a project		0.842				
8.	The applicant's capital contribution to the project		0.682				
9.	Bank/finance company's priority given to run a project			0.787			
10.	The appropriateness of the financing techniques use to finance a project			0.712			
11.	The availability of fund from the bank/finance company to finance a project			0.610			
12.	The moral personality/integrity of the applicant				0.857		
13.	The applicant's level of knowledge in aspects of business				0.649		
14.	Other bank/finance company's recommendation					0.816	
15.	The availability of collateral offered to bank/finance company on the project being financed						0.923

Table 5: Summary of the Comparison Between type of banking using ANOVA on the selection criteria adopted

		Sum of Squares	df	Mean Square	F	p value
FACTOR 1 VIABILITY AND PROFITABILITY OF THE PROJECT	Type of banking Unexplained Total	2.939 165.803 168.742	1 99 100	2.939 1.675	1.755	0.188
FACTOR 2 BANKER'S TECHNICAL AND ADMINISTRATIVE ASSISTANCE	Type of banking Unexplained Total	29.502 250.121 279.623	1 99 100	29.502 2.526	11.677	**0.001***
FACTOR 3 BANKER'S POLICY	Type of banking Unexplained Total	1.166 114.995 116.16	1 99 100	1.166 1.162	1.003	0.319
FACTOR 4 ENTREPRENEUR'S KNOWLEDGE AND EXPERIENCE	Type of banking Unexplained Total	1.352 79.96 81.312	1 98 99	1.352 0.816	1.658	0.201
FACTOR 5 VALUED CUSTOMER	Type of banking Unexplained Total	5.14 36.183 41.323	1 99 100	5.14 0.365	14.063	**0.000***
FACTOR 6 COLLATERAL	Type of banking Unexplained Total	0.752 88.326 89.078	1 98 99	0.752 0.901	0.834	0.363