

***AL-IJARAH THUMMA AL-BAY FACILITY IN
LABUAN CAR MARKETS: AN APPLICATION OF
STRUCTURAL EQUATION MODEL***

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ABSTRACT

This paper presents the factors affecting a bank customer's selection of *Al-Ijarah Thumma Al-Bay* (hereafter AITAB) facility. The study is confined to car markets only in Labuan. A structural equation model analysis was conducted to examine the link between the patronage factors and the selection of AITAB. A total of 150 bank customers were approached to elicit their responses in regard to AITAB facility. Out of these customers, only 148 were managed to be usable and valid for the further analysis of data. It is first of its kind to recommend four factors of interest to determine the selection of AITAB. The findings indicate that 'adherence to *Shariah*', 'financial counseling available' and 'car dealer relationship' were found to be significant. On the other hand, 'pricing of the product' was found to be insignificant determinants. The study provides a latest insight into a thinking of AITAB facility, and provides information to branch managers of Islamic banking institutions for the better future planning of AITAB facility.

Keywords: *AITAB, Labuan, Islamic Retail Financing Product, Structural Equation Model, Malaysia; Car Market*

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Introduction

The growth of Islamic banking system in Malaysia has enhanced to an introduction of Islamic financial innovations. Considering Islamic financial innovations, AITAB is considered as one of the Islamic banking products, which adds the Islamic banking financial menus to serve bank customers better. AITAB facility is of value to practitioners in order to increase the sales of Islamic financing products in addition to their efforts to elevate the customer base. By definition, AITAB refers to lease or hire or rent ending with purchase (Khir *et al.*, 2008). It is likely important to address some of the advantages of the particular Islamic financial innovation. First, the product is of value to meet the current demand and avoid certain risks in the financing of consumer durables and motor vehicles. Second, AITAB can be utilized to finance a wide range of assets, either for individual or corporate customers (Abdullah and Dusuki, 2006). In consonance with these advantages, Khir *et al.* (2008) also argued that AITAB is of importance to secure long-term competitiveness in the financial markets for Islamic banks. Developing a proper plan for AITAB is necessary to make it more competitive than its conventional hire purchase counterpart. To counter this, understanding factors what makes it more acceptable from a demand point of view is then important.

In Malaysia, AITAB is also better known as *ijarah wa-iqtina*. It combines a lease contract and sale contract in one trading document, but the contract of leasing and ale work separately: first, the contract leasing will operate whereby the lessee will pay monthly rental to the lessor within a fixed period. Second, upon expiry of the leasing period, the hirer has the option to enter into a second contract to purchase the goods from the owner at an agreed upon price (Tag El-Din and Abdullah, 2007). Generally, AITAB involves three main parties: customer, financing company and vendor. Using for the sake of illustration, the common example of car financing, AITAB operates as follows (Tag El-Din and Abdullah, 2007):

- a. An Islamic bank buys the vehicle from a car dealer, to the order of a customer.
- b. The bank rents the vehicle to the customer at a rate agreed upon for a specified period of time.
- c. The customer agrees to pay for road tax and insurance coverage. He also will responsible for its maintenance.
- d. At the end of the period, the bank and the customer will sign the sale and purchase agreement.

The importance of AITAB to bank customer has been documented by limited number of published works in the area of Islamic financing. Published works by Khir *et al.* (2008) and Haron and Shanmugam (2001) addressed the concepts and implementations of the product. Meanwhile, a very interesting paper by Tag El-Din and Abdullah (2007) addressed the importance of AITAB from law's perspectives. Abdullah and Dusuki (2006), on the other hand addressed customers' perceptions with regard to Islamic hire purchase. These works, have documented different types of methods and justifications for AITAB. Limited efforts are also found when it comes for the patronage factors for AITAB. Hence, the present study is intended to address these issues, which in turn fill the research gap. In order to response the issues, the present study is of interest to examine two main objectives. First, considering the importance of AITAB for Islamic banks, the study will examine factors affecting the selection of AITAB using survey-based approach, which is similar to that of Haron *et al.* (1994). Second, the study will test the

causal relationship between patronage factors and a dependent variable using structural equation model approach, where model fit indices will be evaluated alongside with some discussions.

The paper proceeds as follows: the next section considers review of literature. Followed by the section that provides a discussion on methodology of the study. The penultimate section will provide findings of the research in order to support the research objective. Finally in the last part, contributions, practical implications and limitations of the study are discussed.

Review of Literature

Adherence of Shariah

The term *Shariah* has been documented by many published works in relation to Islamic finance (Khair *et al.*, 2008; Iqbal and Mirakhor, 2007). *Shariah* is the “centerpiece and backbone of the religion of Islam.” It is the source of all life – and signifies the way to Allah, as given by Allah (Khair *et al.*, 2008). The *Shariah* is the guide for human action, which includes every aspect of human life and hence, sanctifies and gives religious significance to activities that may appear mundane (Iqbal and Mirakhor, 2007). According to Iqbal and Mirakhor (2007), compliance with the rules of the *Shariah* is essential for the preservation of the community and this is ensured by two factors. Firstly, the behavior of the individual being constrained by the duty of adherence to the binding norms of the socio-economic order. Secondly, by the coercion exercised by the collectivity. The rules deal with:

- a. The individuals’ body and their state of consciousness.
- b. Governing individuals’ relationship with other members of the society.
- c. Guiding individuals’ relationship with the collectivity.
- d. The code of conduct necessary for the community as a whole.

These works indicate the importance of “adherence of *Shariah*” in any one’s business dealing includes for Islamic banking business. Every good deed is of greater interest to reward by the Almighty Allah S.W.T whilst any bad deed is, on the other hand, and certainly is punished by Almighty Allah S.W.T, regardless whether it is in this world or in the world of hereafter.

An interesting paper written by Hossain (2009) documented the reasons of *riba* prohibition in Islamic banking practices. Generally Islamic banks only allow any trade activities which are permissible and at the same time, an agent of change, *man* should perform anything which is ethical and in consonance with Islamic values, foundations, philosophies and thoughts. It is worth to mention, Islam has declared business not just holy, or permissible rather Islam has inspired people to do business (Hossain, 2009). As cited by Hossain (2009), claimed that the Prophet Muhammad ever said that “*Fair and honest businessman will be the company of the Prophet, the truthfuls and the Martyrs*” which indicates the importance of being fair and honest in conducting Islamic banking business, not only in Malaysia but also to other *Muslim* countries.

Mohamed Haneef (1997) examined the human existence by presenting Islamic worldviews and their relation with contemporary Islamic economy practices. He asserted that Islamic and other aspects of life were related and *man* should work toward

the betterment of such relationship. As it is, in Islamic banking dealing, all processes, procedures, and disclosures related to the application of AITAB facility must be in consonance with a good of conduct. In line with this written work, Tag El-Din and Abdullah (2007) provide a valuable discussion with regard to issues in implementing Islamic hire purchase in Malaysian dual banking system. Tag El-Din and Abdullah (2007) found out that Islamic hire purchase to be transacted on the basis two *Shariah* principles namely *ijarah* and *bay*, which are, on the other hand govern the product. In fact, they also, of the opinion that Islamic hire purchase used *takaful* to cover up any unpredictable events which harm a customer.

In consonance with the above works, it is likely preferable for Islamic banks to give greater emphasis on the importance of avoiding asymmetric information and instilling *akhlak* in Islamic banking business, which is also termed as *gharar* from an Islamic perspective. It is anticipated that the variable “adherence of *Shariah*” has a potency to be a key factor for AITAB facility utilization. It is of value for the current study to empirically investigate the said variable, which is also able to enhance our understanding with regard to the association between “adherence of *Shariah*” and “AITAB selection.”

Pricing of the product

Issue whether Islamic banking products are expensive or cheaper is still limited to empirically investigate. Fortunately, there exist several studies, which are relevant in a context of current present. An early work by Haron *et al.* (1992) examined selection decision of customers in Islamic and conventional banking environment. Furthermore, Haron *et al.* (1992) found that pricing was ranked as a third factor of importance among *Muslim* bank customers whilst considered as fourth among non-*Muslim* bank customers. The *Muslim* customers preferred bank products as a first ranked factor whilst the non-*Muslim* customers preferred image as a first ranked factor. These results indicate that the pricing of the product is not a main factor determining the customers’ decision for Islamic banks’ selection.

A study conducted by Olson and Zoubi (2008) argued that Islamic banks used profit and loss sharing in charging the financial transactions services. The concept of interest however is forbidden in Islamic banks while the concept of profit and loss sharing is allowed. Further, a mark-up for delayed payments and trade-financing commissions are also allowed under the Islamic banking model. This procedure has influenced an Islamic bank to charge higher prices for Islamic financing products on average. Charging higher prices for Islamic banking financing is permissible provided that they are operationalised in line with Islamic business philosophy (Haron and Shanmugam, 2001).

In line with Haron *et al.* (1992), Olson and Zoubi (2008) and Haron and Shanmugam (2001), Maali *et al.* (2006) also supply necessary evidence for pricing in Islamic financing products. They explained the pricing mechanism in the context of Islamic home financing. Explained in more detail, a bank customer specifies the house he wants to acquire and the bank purchases the house from the supplier/ developer at its normal price for cash and resells them to the client at a higher price, in which the mark-up is applied. The customer, thus, pays back the price on the instalment basis (Maali *et al.*, 2006).

Another interesting study to review is by Abdullah and Dusuki (2006) which is related to the current study's topic, although some differences do remain, in terms of methodologies and scope of research. Abdullah and Dusuki (2006) found that majority of respondents seemed to be uncertain with regard to the pricing issue for AITAB facility. Despite this uncertainty, some of the respondents were of the opinion that AITAB was expensive when compared to conventional hire purchase counterpart. It is perhaps that Islamic banks impose a fixed rate for Islamic financing products, where the price of financing is locked from the commencement of the contract until the completion of the contract (Rosly, 1999). Inflation and deflation do not have associations with the pricing system.

Further the study by Abdullah and Dusuki (2006) argued that majority of respondents seemed to be unsure about the issue of "AITAB is too costly" for Islamic hire purchase. Explained in more detail, some of the respondents argued, AITAB was expensive whereas others seemed confusing. This is stemmed from the fact that the respondents were not well-versed with respect to AITAB. Previous studies have noted that bank customers are not, at their own effort, trying to understand better about Islamic banking terminologies although those terminologies are widely available both printed and online mediums (Rammal and Zurbruegg, 2006; Hamid and Nordin, 2001; Gerrard and Cunningham, 1997).

Financial counseling available

Generally, financial counseling can be defined as a interaction between a bank officer and a bank customer with regard to AITAB facility. It is aimed to assist the customer to better understand on the procedures, pricing planning, documentations, third party selling, maintenance costs, and insurance of the given facility. In this study, it is related to professional advice provided by the bank officer.

Evidently, previous studies have featured limited evidence regarding the importance of financial counseling in the context of Malaysian banking environment (Devlin , 2002; Haron *et al.* 1994; Haron *et al.*, 1992). In view of Devlin (2002), he found that professional advice was the most common choice criteria. Additionally, interest rates, loan availability, and previous relationship with the bank were also considered to be important factors in selecting a mortgage provider. On the other hand, recommendation from friends, family members and others was found to be least important. Haron *et al.* (1994) found that fast and efficient services, speed of transactions, friendliness of bank personnel and confidentiality of bank are important factors affecting banking selection. The results also indicated that Islamic banks do not need to rely on the religious factor as a strategy in attracting customers, but they should focus more on provision of quality and efficient services. In a similar study by Haron *et al.* (1992), financial counselling available was found a key factor affecting a bank customer bank selection especially for those of *Muslim* whilst for non-*Muslim*, financial counselling available was a third factor considered by them in selecting a bank to patronage.

The above studies, specifically, attempt to present the importance of a bank professional advice in addition to other factors. Nevertheless, the link between the advice with AITAB facility is very scarce to study. Therefore, this study is undertaken in order to fill the gap.

Car dealer relationship

Previous studies have featured very limited evidence in “car dealer relationship”. For instance, the study by Abdullah and Dusuki (2006) examined Islamic car financing based on a survey method, yet it is fail to address any links between “car dealer relationship” and “the selection of AITAB.” Other studies are also silent in this matter (Devlin , 2002; Haron *et al.* 1994; Haron *et al.*, 1992). In view of these studies, there exists limited information with regard to the association with car dealer and an Islamic bank. The reasons of allowing this variable ‘car dealer relationship’ are twofold. First, it is a trend for many car dealers to make a record on the list of banks, which can provide a better financing product to their customers. Second, industrial networking is considered fundamental if an Islamic bank decides to penetrate into a new car market segment alongside with the existing facilities offered.

An interesting survey study by CEE Automative Retail Leader (2009) provides a valuable knowledge in regard to car dealers market in the European countries. One of the findings of the study, which is related to the present study, is on “form of cooperation with a national distributor.” The study found out that the majority (87 per cent) of dealership surveyed cooperates with a national distributor through contract whilst 3 per cent owned by a local distributor. The remaining 10 per cent indicated other forms of operation including “sub-dealer”, “individual imports” and “combined the contract and other forms of operations.” This study, however, did not attempt to highlight specifically the relationship between “bank” and “car dealer” relationship, but only provides a generic finding on the form of cooperation. This is proven that there exists limited efforts to investigate the importance of the construct in the existing literature. Due to paucity of studies regarding the said variable, it is expected that this study will able to increase the information, which is presently limited to explore.

Methodology

Sample

Data were collected in Labuan. Bank customers purchased their car using AITAB facility facilities from Islamic banking institutions were targeted as target respondents. A total of 150 bank customers from various banks in Labuan voluntarily agreed to participate in this study. Questionnaires were completed by the customers somewhere in November 2009. Using enumerators, the respondents were briefed on the importance of the study and informed that the data collected were strictly confidential and to be used for the purpose of the research only. The respondents were also given a token of appreciation due to their sincere involvement and support to make the study conducted successfully.

Measures

The research used a self-administered instrument as the data collection technique. This study is first of its kind to examine the factors affecting AITAB facility selection among Malaysian bank customers. For the purpose, the research used questionnaire to elicit responses of the respondents of the study. It was constructed in two sections. The first section was constructed to elicit the respondents’ level of agreement with regard to the following factors toward AITAB facility selection:

- a. Adherence to *Shariah* (ATS).
- b. Pricing of the product (POP).
- c. Financial counseling available (FCA).

d. Car dealer relationship (CDR).

The variables above were measured on a five point likert scale, ranging from ‘5=very important’ to ‘1=not important at all’. Many of these factors were adapted from Haron *et al.* (1992) mainly the second and the third whilst the first was similar to that of Amin (2008). “Car dealer relationship” variable was developed based on its importance to generate an opportunity to make Islamic banks able to promote AITAB to buyers via a car dealer. Previous studies have featured limited evidence of the variable in a context of AITAB facility at Islamic banks’ branches (Amin, 2008; Haron *et al.*, 1992). The second section was constructed to gather the respondents’ personal particulars. This approach is very common and similar to that of Haron *et al.* (1992). The questionnaire was originally written in English. Yet, it was then translated into Bahasa Malaysia because of convenience purposes of the respondents. The questionnaire was pilot tested before the actual survey using 10 bank customers resided in Labuan. The feedback from the test was used to revise the questionnaire contents and layouts.

Specification of model

Structural equation model was employed using analysis of moment structure to identify the relationship between the factors affecting AITAB facility selection and the selection itself. Along with this, the model was also used to digest the model fit of the study’s model. The model of the study was written as follows:

$$Y_1 = \beta_0 + \beta_1 ATS_1 + \beta_2 POP_2 + \beta_3 FCA_3 + \beta_4 CDR_4 + e_1 \quad (1)$$

$$Y_2 = \beta_0 + \beta_1 ATS_1 + e_2 \quad (2)$$

$$Y_3 = \beta_0 + \beta_1 POP_1 + e_3 \quad (3)$$

$$Y_4 = \beta_0 + \beta_1 CDR_1 + e_4 \quad (4)$$

The regression equations were tested using an analysis of moment structure. The first equation (1) tests the relationship between four independent variables and the selection of AITAB facility. The second equation (2) tests the relationship between ATS and the selection of AITAB facility. The third equation (3) tests the relationship between POP and the selection of AITAB facility. Similarly, the fourth equation (4) tests the relationship between CDR and the selection of AITAB facility. ATS, POP, FCA and CDR stand for “adherence to *Shariah*”, “pricing of the product”, “financial counseling available” and “car dealer relationship” respectively.

The above multiple regression models could also be stated in the following way based on structural equation model:

$$AITAB_i = \beta_0 + \beta_1 ATS_i + \beta_2 POP_i + \beta_3 FCA_i + \beta_4 CDR_i + \varepsilon_1 \quad (5)$$

$$AITAB_i = \alpha_0 + \alpha_1 \beta ATS_i + \varepsilon_2 \quad (6)$$

$$AITAB_i = \varphi_0 + \varphi_1 \beta POP_i + \varepsilon_3 \quad (7)$$

$$AITAB_i = \psi_0 + \psi_1 \beta CDR_i + \varepsilon_4 \quad (8)$$

Equation (5), (6), (7) and (8) were analysed using structural equation model to determine the relationship between the selection of AITAB facility (AITAB in the equation), ATS, POP, FCA and CDR variables. β , α , φ , and ψ are coefficients to be estimated and ε s are the error terms. Structural equation model was also employed to

analyze the goodness-of-fit of the model (Kline, 1998; Schumacker and Lomax, 2004). Many of the model fit criteria are computed based on knowledge of the saturated model, independence model, sample size, degrees of freedom and or the χ^2 values to formulate an index of model fit that ranges in value from 0 to 1. The various model fit indices, however are subjectively assessed as to what is an acceptable model fit (Schumacker and Lomax, 2004). Some researchers suggested that a structural equation model with a model fit value of .95 or higher is acceptable (Baldwin, 1989; Bentler and Bonett, 1980), whereas more recently a noncentrality parameter close to zero has been suggested (Browne and Cudeck, 1993; Steiger, 1990). On the basis of these scholars' assertion for structural equation model, thus the study tends to examine the following indices. The details of the indices are also provided:

$$\text{GFI} = 1 - (\chi^2_{\text{model}} / \chi^2_{\text{null}}) \quad (9)$$

$$\text{NFI} = (\chi^2_{\text{model}} / \chi^2_{\text{null}}) / \chi^2_{\text{null}} \quad (10)$$

$$\text{TLI} = [(\chi^2_{\text{null}} / df_{\text{null}}) - (\chi^2_{\text{model}} / df_{\text{model}})] / (\chi^2_{\text{null}} / df_{\text{null}} - 1) \quad (11)$$

$$\text{CFI} = 1 - [(\chi^2_{\text{model}} - df_{\text{model}}) / (\chi^2_{\text{null}} / df_{\text{null}})] \quad (12)$$

$$\text{RMSEA} = \sqrt{[x2_M - df_M] / [(N - 1)df_M]} \quad (13)$$

These model fit statistics can also expressed in terms of the noncentrality parameter (NCP), designated λ . The estimate of NCP (λ) using the maximum likelihood χ^2 is χ^2 -df. A simple substitution reexpresses these model fit statistics using NCP (Schumacker and Lomax, 2004). For instance, TLI, CFI and RMSEA are:

$$\text{TLI} = 1 - [(\lambda_M / df_M) / (\lambda_N / df_N)] \quad (14)$$

$$\text{CFI} = 1 - (\lambda_M / df_N) \quad (15)$$

$$\text{RMSEA} = \sqrt{\lambda_M / [(N - 1)df_M]} \quad (16)$$

Results and discussions

In this section, the statistical analysis was conducted in two main ways. First, it considers the outcomes of regression model, which was derived from analysis of moment structure. All items were aggregated automatically using the statistical software. Second, it considers the model fit of the model of the study, which was analyzed using GFI, NFI, TLI, CFI and RMSEA.

Table 1, presents the regression results. The results indicate that 'financial counseling available' was insignificantly related to 'pricing of the product' ($p > .05$). This means, the two constructs are found to be unrelated in determining the selection of AITAB facility. Nevertheless, it is reported that 'financial counseling available' was found to be associated with 'car dealer relationship' and 'adherence to *Shariah*' at 5 percent significance level or even lower at 1 percent level. This means, 'financial counseling availbale' has indirect impact to the selection of AITAB facility, via 'car dealer relationship' and 'adherence to *Shariah*'. Both results indicate that 'financial counseling available' is of utmost importance to generate bank customers' awareness and patronage to AITAB facility in financing their automobile. Owing to the outcomes, it is likely important to improve AITAB facility of banks by providing a consistent service of

financial counseling. On the banking management, it is important to eradicate asymmetric information among bank customers. These results somewhat lend support to Haron *et al.*'s (1992) findings. Haron *et al.* (1992) documented the importance of financial counseling for both *Muslim* and non-*Muslim* bank customers, as the *Muslim* customers rated financial counseling as the much more important as their non-*Muslim* customers counterparts.

Table 1: Regression Weights from Analysis of Moment Structure

Employed variables		Estimate	S.E.	C.R.	P
Pricing of the product	<== Financial counseling available	.012	.060	.192	.848
Car dealer relationship	<== Financial counseling available	.489	.069	7.056	**
Adherence to <i>Shariah</i>	<== Financial counseling available	.565	.066	8.591	**
Selection of AITAB	<== Adherence to <i>Shariah</i>	.371	.089	4.171	**
Selection of AITAB	<== Financial counseling available	.418	.092	4.563	**
Selection of AITAB	<== Car dealer relationship	.263	.092	2.856	**
Selection of AITAB	<== Pricing of the product	-.103	.071	-1.458	.145

Note: * $p < 0.05$; ** $p < 0.01$

For the direct relationship, all the antecedents were found to be significantly related to the selection of AITAB facility, except 'pricing of the product'. The variable was insignificantly related since the p -value of the variable was higher than the critical value ($p > .05$). By way of contrast, 'financial counseling available' produced a strong association with the selection of AITAB facility which means it plays a fundamental factor to determine a bank customer's tendency to select AITAB facility for his car financing. Followed of this, 'adherence to *Shariah*' was also found to be an influential determinant for the selection of AITAB. This finding is consistent to the published work by Haron and Shanmugam (2001) who asserted that Islamic banks of their utmost importance to operate Islamic banking activities in consonance with the amalgamation of moral and profit motivates. In an Islamic religion, taking profit activities are permissible.

Yet morality elements such as honesty, fairness, and respect others need are among of many Islamic values, which need to be inculcated in any dealings of Islamic financial transactions. The importance of 'adherence of *Shariah*' is also addressed by Ahmad and Haron (2002). Ahmad and Haron (2002) were of the opinion that Malaysian corporate clients considered both religion and economics when patronizing Islamic banking products and services.

Further, ‘car dealer relationship’ is also of interest to be expounded. Islamic bank branch managers of Islamic bank, are of interest to study carefully the importance of this relationship. It has a profound effect to influence one’s selection for Islamic banking products and services. The variable was rejected at 5 percent significance level, which means, ‘car dealer relationship’ is also one of the factors influencing the selection of AITAB facility. Relatively, previous studies have documented a few evidence with regard to the ‘car dealer relationship’ (Devlin and Gerrard, 2005; Almosawi, 2001; Haron *et al.*, 1992). Perhaps it is due to the fact that the present study specifically investigated a specific Islamic banking product whilst the said studies are investigated banking selection in general.

Table 2: Model Fit

Indices	Recommended value	Present findings	Remarks
χ^2/df	≤ 3.0	1.776	Good fit
Tucker-lewis index (TLI)	.90	.966	Good fit
Goodness-of fit index (GFI)	.90	.903	Good fit
Comparative fit index (CFI)	.90	.975	Good fit
Normal fit index (NFI)	.90	.945	Good fit
	<.50 (Good fit)		
Root mean square error of approximation (RMSEA)	.50-.10 (Moderate fit)	.072	Moderate fit
	>.10 (Poor fit)		

It is likely essential to verify that all the indices for the study’s model are in acceptable range whilst RMSEA is found to be moderately fit. Although RMSEA of the study did not reach <.05, yet it is considered as conceivable and acceptable in a research context. The study is generally has acceptable indices which refer to TLI, GFI, CFI, and NFIA which are found to be in a great value of acceptance. With respect to TLI, it was initially developed by Tucker and Lewis (1973) as quoted in Schumacker and Lomax (2004). The measure can be used to compare alternative models or a proposed model against a null model. Schumacker and Lomax (2004) argued that, the scale of TLI can be 0 (no fit) to 1 (perfect fit). The argument of the Schumacker and Lomax (2004) is consistent to that of Kline (2005). The study’s TLI was .966, which implies it is good fit in a study context. In a similar vein, the inclusion of CFI is also important to understand the model fit. According to Kline (2005), GFI = 1.0 indicates perfect model fit, GFI > .90 may indicate good fit, and values close to zero indicate very poor fit. However, values of the GFI can fall outside the range 0–1.0. Values greater than 1.0 can be found with justidentified models or with overidentified 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 > .90, this on the other hand, explains that the study’s model is in an acceptable range.

As of CFI, a rule of thumb for the CFI and other incremental indexes is that values greater than roughly .90 may indicate reasonably good fit of the researcher's model (Hu and Bentler, 1999). The study's CFI was exceeding .90, which leads us to make a conclusion that the study's has good fit for CFI. Along the same line, a brief discussion is also rendered to NFI. As depicted in Table 2, NFI was considered to be good fit as evidenced by .945 of its value. This result is somehow supported by Bentler and Bonett (1980). In addition, as noted earlier, Kline (2005) suggested the acceptable value of NFI in order to make it good fit is $NFI > .90$.

$$RMSEA = \sqrt{[x^2_M - df_M]/[(N-1)df_M]} \quad (13)$$

To compute RMSEA, the above equation was employed. This equation shows that the RMSEA estimates the amount of error of approximation per model degree of freedom and takes sample size into account. A rule of thumb is that $RMSEA < .05$ indicates close approximate fit, values between .05 and .08 suggest reasonable error of approximation, and $RMSEA > .10$ suggests poor fit (Browne and Cudeck, 1993). The study's RMSEA was considered moderate fit.

Conclusions and Practical Implications

This study has succeeded to make a link between the patronage factors and the selection of AITAB facility using a structural equation model. It is only a few studies conducted in the area of AITAB facility in a Malaysia Islamic banking context. An earlier attempt of AITAB facility study has been conducted by Abdullah and Dusuki (2006) who examined customers' perception of Islamic hire purchase. The present study, consequently, adds to existing academic understanding of AITAB facility, as the question of patronage factors of the facilities has been overlooked in previous studies. This study embarks a new approach of conducting study by amalgamating both Islamic finance knowledge and structural equation model, which is, to our opinion, is limited investigated.

Moreover, the findings of the study are of value to branch managers of Islamic banking institutions generally in the case of expanding their sales for AITAB facility, thus expanding customer base. For the purpose, the following are the lessons, which are extracted from the findings of this study:

1. Adherence to *Shariah* ~ it is found to be a key factor to explain why bank customers choose AITAB facility. In this case, branch managers play a significant role to promote the importance of 'adherence of *Shariah*'. The managers, therefore, necessary to provide bank customers with competent bank officers who are knowledgeable in the *tawheed*, *akhlak* and *fiqh* to serve the customers better. This is of value strategy to Islamic banking institutions to consider. This is owing to the fact that the customers need bank officers who can treat them honestly, fairly and diligently in any dealings of Islamic financial transactions. As a point of advantage, the officer should be firm and humble in the transactions.
2. Pricing of the product ~ it is reported that pricing of the product to be an unrelated factor for the selection of AITAB facility. The finding indicates that pricing of AITAB facility is, certainly cheaper. Therefore, it means that, the current practice of pricing of the product needs to be maintained and consistently offered. A slight enhancement effort is only required to make the pricing of the product attractive in the eyes of bank customers.

3. Financial counseling available ~ consistent with the Islamic business philosophy, branch managers of Islamic banking institutions, should develop a cogent financial counseling services to their customers. For this understanding, the banks should build a counseling room, which is able to provide information and guidance to the customers specifically. This effort, in fact, could enhance the customers' information with AITAB facility, which in turn leading to the patronage of the facility in the near future. The main point from the counseling is "disclosure" which is upheld the concept of justice, as given priority in the *Quran*.
4. Car dealer relationship~ in order to remain competitive, Islamic banking institutions should establish not only 'bank-bank customer relationship' but also 'bank-car dealer relationship.' This relationship will render the institutions ways to develop and exploit new opportunities mainly in increasing profits and customers base. A signed agreement between any car dealers could be possible to build a relationship. It is also important to conduct a follow up procedures to ensure better network between the bank and the car dealer.

This study is also of importance to recommend a few things for future studies. One of the key limitations of the study was the fact that the scope of this study was limited to Islamic banking institutions offered AITAB facility (N=150) and therefore the sample size was 148, after made the screening work to the questionnaires. This would lead to further investigation by conducting similar studies with a large sample size to verify and extend the results of this research. Future research should work to compare the extent of AITAB financing facility in different Islamic banking institutions in Labuan or any other cities elsewhere in Malaysia.

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