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# **CUSTOMERS' PREFERENCES TOWARD SHARIAH COMPLIANT SERVICES IN BANKS AMONG ACADEMICIANS AND NON-ACADEMICIANS IN HIGHER EDUCATION INSTITUTIONS (HEIs) IN PAHANG**

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## **ABSTRACT**

The purpose of this paper is to examine the main factors that influence customers to deal with Shariah compliant services particularly in a dual banking environment in Pahang. This study presents primary data collected by self-administered questionnaires involving a sample of 240 academician and non-academicians in Higher Education Institutions (HEIs) in Pahang. The study was set out to establish a ranking of the various factors which influence their bank selection decision and seek to determine homogeneous academician and non-academician are in relation to their Shariah service selection decision. The factors are analyzed using t-test. This study revealed that the selection of Shariah compliant services appeared to be predominantly a combination between quality services and the lowest service charges by banks. More significant differences in preferences were found when academicians were compared with non-academicians in the Shariah service selection decision.

*Keywords: Shariah service selection criteria, Islamic bank, shariah compliant services*

## INTRODUCTION

Malaysia has gone a long way to position itself as an International Islamic financial hub especially since early 1980s. The establishment of Bank Islam Malaysia Berhad (BIMB) as the first Islamic bank in 1983 had open a new path to Malaysian Financial System especially in the banking system towards the introduction of new products and services that are based on al-Quran and Sunnah. In order to spread the virtues of Islamic banking to all Malaysians, Bank Negara Malaysia (BNM) had decided to allow the existing conventional banks to offer Islamic banking services by introducing a scheme known as 'Interest-Free Banking Scheme' in 1993. The implementation of this scheme had witnessed the emergence of the Islamic banking scheme in the dual banking system where the existing conventional banks are allowed to introduce Islamic banking products to customers alongside their conventional banking service. At the initial stage, only three major commercial banks were interested to get involve in this scheme i.e. Malayan Banking Berhad, Bumiputera Malaysia Berhad and United Malayan Banking Berhad. The positive feedback from the customers had encouraged more conventional banking to participate in this scheme.

In 1 October 1999, a second Islamic bank, Bank Muamalat Malaysia Berhad (BMMB) commenced its operations. By the end of 2000, the Islamic banking system was represented by two Islamic banks, 17 domestic commercial banks, five merchant banks and seven discount houses (Ahmad & Haron, 2004). Currently, three foreign-owned banks from the Middle-East also provide Islamic banking and services in Malaysia. These are Kuwait Finance House, Al-Rajhi Banking & Investment Corporation and a consortium of Islamic financial institutions represented by Qatar Islamic Bank, RUSD Investment Bank Inc. and Global Investment House.

According to Haron and Wan Azmi (2006), the Islamic banking sector has shown a tremendous increase in growth by 19 percent per annum from year 2000 to 2004. This shows that Islamic products and services have made a strong impact to the Malaysian people. Zamani (2007) claimed that the Malaysian Islamic banking system showed strong performance in 2006 with higher profitability, and has remained well capitalized. The total Islamic banking assets amounted to about USD34 billion or 13 percent in term of market share.

Today, the Malaysia International Islamic Financial Centre (MIFC, 2013) reports that Malaysia possesses one of the world's most advanced Islamic financial markets, with an Islamic financial system estimated to be worth around USD1 trillion in assets. However, Islamic banks with their product and services should continue to strengthen their position in the market and able to compete with other conventional banking instruments. Therefore, customer satisfaction and preferences should always be considered to determine their competitiveness and success.

The study conducted by Dusuki and Abdullah (2007) reveals that the selections of Islamic products and services in Malaysia are influenced by the combination of Islamic and financial reputation and quality services offered. Other factors perceived also perceived to be important includes the convenience of the services and price of the product. Meanwhile, the study by Mansur et al. (2007) found that most of the respondents in Malaysia are aware of the different principles between Islamic and conventional banking system but require more knowledge of Islamic banking system before they can decide to use the scheme.

This paper is designed to identify the preferences of academicians and non-academicians in Higher Education Institutions (HEIs) in Pahang towards shariah compliant services in Malaysia particularly in a dual banking environment. Aspects studied were the existing usage of Islamic banking facilities, levels of understanding of Islamic banking features and the criteria for the selection of Islamic products and services. The research hopefully can help us understand whether different education levels will affect the customer preferences to Islamic product and services.

## **LITERATURE REVIEW**

In Quran, Al Baqarah, part of verse 275 stated that '*...but Allah has permitted trade but forbidden riba (interest)....*'. Islamic financing is based upon the principle that the use of *Riba* (interest) is prohibited (Syed Mohd Ghazali Wafa, Muhammad Nasri and Mohd Hizam, 2007). This prohibition is based upon *Shariah* ruling. Since Muslims cannot receive or pay interest, they are unable to conduct business with conventional banks. According to Jaffe (2002), to service this niche market, Islamic financial institutions have developed a range of *halal*

interest-free financing instruments that conform to *Shariah* ruling, and therefore are acceptable to their clients.

Saeed (1996) stated that the conference of foreign ministers of Muslim countries in 1973, has decided to establish the Islamic Development Bank with the aim of fostering economic development and social progress of Muslim countries is the first major collective step taken by Muslim countries to promote the Islamic financial system. As a result, the Islamic finance has appeared as one of the fastest growing industries over the past three decades (Iqbal and Molyneux, 2005). Ghannadian et al. (2004) claimed that, by early 2003 there were at least 176 Islamic banks around the world, with deposits in excess of US\$147billion. Zeti Akhtar (2008) stated that the Islamic finance industry worth more than \$1 trillion and growing at a rate of 15 to 20 percent annually, with projected growth to reach \$2 trillion in the next 3 to 5 years, as more countries around the world seek to further develop Islamic finance within their jurisdictions.

Wilson (1995) argued that the growing of Islamic product makes it as one of the most important players in service industry today. Islamic product is no longer regarded as a business entity to fulfil the religious obligations, but more significantly, as a business that is ineluctably in need for winning over customers whilst retaining the old ones. Day (2003) stated that among the market leaders in this industry are Citigroup, HSBC, J.P. Morgan, and Standard Chartered who provides Islamic financing products through the use of Islamic windows. Islamic window is a special facilities offered by conventional banks to provide services to Muslims who wish to engage in Islamic banking.

Dusuki and Abdullah (2006) argued that, customers' positive perception towards Islamic banking is far more crucial mainly due to the fact that Islamic banks have to compete with the long established conventional banks in a dual-banking system. According to Zeti Akhtar (2005), the Islamic banking industry in Malaysia has been growing at an average rate of 18 percent per annum in terms of assets since year 2000. Zamani (2007) claimed that that Malaysian Islamic banking system saw strong performance in 2006 with higher profitability, and has remained well capitalized. Islamic banking assets are amounting to about USD34 billion or 13 percent in terms of market share.

While a number of Islamic finance products are now available, the most widely recognized is profit-and-loss sharing instruments

agreement. Metwally (1994) identified three significant differences tools between Islamic financial and conventional financial: *Musharaka* (Partnership), *Mudarabah or Quiradh* (Investment with no participation in management) and *Murabaha* (Resale Contract). The financier of the venture is known as the *Rabb-ul-mal*, and the entrepreneur responsible for the management and execution of the project is referred to as the *Mudarib*. The parties achieve their returns by sharing in the profits of the venture, which are divided on a proportional basis (Hussain et al., 2006).

Under a *Mudaraba* agreement, the parties must decide on a rate for sharing of the profits prior to the commencement of the business activity. After the business is completed the financier receives the principal and the pre-agreed share of the profit (Metwally, 1994; Gafoor, 1996 and Usmani, 1998). *Musharaka* is a joint partnership formed for conducting business in which all partners share the profit according to a specific ratio while the loss is shared according to the ratio of the contribution. (Lewis et al., 2001; Metwally, 1994; Usmani, 1998 and Haron et al., 1994). *Murabaha* is financing where the bank purchases for a client certain commodity and the client promises to buy the goods from the bank on a pre-agreed profit basis (Metwally, 1994).

There are numerous literatures on customers' preference towards financial products and service criteria. According to Metawa and Almoosawi (1998), customers' preferences towards banking criteria have been heavily investigated over the past two decades. Among the areas studied and attributes found are availability of credit, relatives' advice and recommendations, friends' advice and recommendation, convenient location, variety of banking services, the quality of services, availability of ATM, adequate bank hours, return on investment, friendliness of personnel, understanding financial needs, special services for women, and bank name.

Hegazy (1995) studied the bank selection criteria for both Islamic banks and commercial banks. He concluded that the most important factor attributes for Islamic banks was the advice and recommendations made by relatives and friends. Dusuki and Abdullah (2006) found that the customer satisfaction often depends on the quality of services provided by Islamic banks. The study by Haron et al. (1994) shown that Muslims and non-Muslims who preferred commercial banks have a common perception in selecting their banks. This means that, the Islamic bank should not rely on the religion factor

as a strategy in its effort to attract more customers. Erol and El-Bdour (1989), found that interpersonal contact and individual effort played an important role in terms of attracting individuals to utilize financing services. Religious motivation did not appear to be a primary criterion. Erol et al. (1990) found that bank customers did not differentiate between the services offered by conventional banks and Islamic banks. Naser et al. (1999) stressed that a large majority of customers' was satisfied with the Islamic bank's name and image and with the bank's ability to provide confidentiality. Their findings also indicate that a large majority of the respondents patronage with the Islamic finance because of its reputation. These findings were difference from Erol and El-Bdour (1989) and by El-Bdour et al. (1990) studied in that, they reported that customers rely heavily on criteria like the bank's reputation and image and the confidentiality of the bank when choosing a bank. Metawa and Almoosawi (1998) reveals that adherence to Islamic tenets is the main motivating factor for customers to preferring Islamic banks in Bahrain. The results also indicate that bank employees and bank equipment play an important role towards customer's preferences.

Referring to Metawa and Almoosawi also found that, academic background is among the important criteria in deciding Islamic product preferences. Metawa and Almoosawi (1998) reported that the majority of Islamic bank customers are well educated, with more than 40 percent holding a high school diploma and about 50 percent holding a bachelor degree or above. These findings indicate that Islamic banking in Bahrain is predominantly the habit of well-educated persons. Dusuki and Abdullah (2006) reported that the majority of respondents in Malaysia are well educated, with more than 24 percent holding college diploma, matriculation or a-level certificates and about 45 percent holding a bachelor degree or above. Naser et al. (1999) studied in Jordan found that more than 52 percent of the respondents held a bachelor degree with another 25 percent having at least a high school qualification.

Abdul Aziz, Rokiah and Ahmad Azrin (2012) found that Islamic services are well-received by non-Muslims especially in the city area of Malaysia. They also found that, educated non-Muslims with age group between 19 – 35 years old, have better knowledge and understanding of Islamic banking services. However, there was no specific demographic profile of non-Muslim customers that were found in the selection of Islamic banking services. Meanwhile, Mokhtar and

Izah (2010) found that non-Muslim customers choose Islamic banking services because of higher return given, safety deposit fund, fast services and efficient transaction, and better service quality.

## **METHODOLOGY**

A sample of 120 academic and 120 non-academic staffs of Higher Education Institutions around Pahang was chosen based on random sampling technique. Six higher education institutions were selected such University Tenaga Nasional (UNITEN), Universiti Malaysia Pahang (UMP), International Islamic University (IIUM), Open University of Malaysia (OUM), IKIP College and Shahputra College. From the 120 questionnaires distributed to academic staffs, only 62 have been returned and 47 out of 120 among non-academicians.

Data collection was obtained from a questionnaire designed by the researcher based on the review of the literature. Some of the instruments have been applied from the previous studies. Analysis of data in this research involved both descriptive and inferential statistics. We have employed the SPSS Version 15.0 as a statistical tool to conduct the reliability test on our data distribution and we also examine the means different and t-test using the same software in measuring the most important factors in selecting Shariah-compliant product and services.

The questionnaire was divided into four sections. Section A based on the demographic profile of the respondents. Section B comprises the selection criteria in choosing Shariah product and services. The five-point Likert scales ranging from very important (scale 1) to not important at all (scale 5) was used to measure the academicians and non-academicians preferences criteria. Section C measured the knowledge of Islamic banking. Lastly, Section D consist the usage of shariah services and concepts applied in the transaction.

## **FINDINGS**

This finding is based on 62 respondents among academician and 47 respondents among non-academician. From Table 1 it shows that the highest percentage on age is between 25 to 29 years old for academician and for non-academician which represented by 37.1 percent and 51.1 percent. Most of female respondent give their respond towards this survey. This is shown by the highest percentage for both groups (academician and non-academician) which represented by 75.8 percent



and 68.1 percent. Most of academicians obtained their PhD and Master Degree which represented by 46.8 percent and Bachelor Degree by 48.4 percent. Meanwhile, most of the non-academician obtained their Bachelor Degree as the highest qualification which represented by 42.6 percent and about 4.3 percent obtained a PhD or Master Degree. The majority of the respondents are Muslims represented by 95.2 percent and Non-Muslims that represent 4.8 percent of the total sample.

**Table 1: Profile of Respondents**

	Academicians N = 62 (%)		Non – Academicians N = 47 (%)	
<i>Age</i>				
20-24 years	6	9.7	7	14.9
25-29 years	23	37.1	24	51.1
30-36 years	23	37.1	8	17.0
35-39 years	2	3.2	5	10.6
> 40 years	8	12.9	3	6.4
<i>Gender</i>				
Male	15	24.2	15	31.9
Female	47	75.8	32	68.1
<i>Race</i>				
Malays	59	95.2	47	100.0
Chinese	2	3.2	-	
Indian	1	1.6	-	
<i>Level of Education</i>				
PhD / Master Degree	29	46.8	2	4.3
Diploma	30	48.4	20	42.6
Certificate	2	3.2	17	36.2
SPM	1	1.6	3	6.4
Others	-	-	4	8.5
	-	-	1	2.1
<i>Working Experience</i>				
< 1 year	6	9.7	2	4.3
1-5 years	28	45.2	27	57.4
6-10 years	19	30.6	10	21.2
>10 years	9	14.5	8	17.1
<i>Religion</i>				
Muslim	59	95.2	47	100
Non-Muslim	3	4.8	-	-



**Reliability Test**

Cronbach Alpha was used to identify the reliability of the questionnaire. From the questionnaire shows that all the factors which measured the respondents' preference and service selection criteria are valid. It is shown in Table 2 that all factors have coefficient more than 0.962. The values are which is above the required level of 0.7 as suggested by Nunnally (1978).

**Table 2:** Reliability Analysis Statistics

<b>Factors</b>	<b>Number of items</b>	<b>Cronbach's Alpha</b>
Services Selection Criteria	11	0.962

**Determinants of Services Selection Criteria**

From the survey, the result shows that a few differences in terms of order of importance for both academicians and non-academicians in choosing shariah compliant services. The most important factor considered by academicians when selecting their preferred shariah compliant services is "convenient payment method and transaction" and this factor was ranked as the third factors by non-academicians. "Lower service charges", considered as the most important factor by non-academician, is ranked third by an academician. "Attractive benefits from the product and services" and "able to fulfill individual or personal needs", considered as the second and fourth factor by academicians while non-academicians ranked as fourth factor and a third factor. An academician considered "Reputation and image of product and services" as fifth important factor, but non-academicians ranked these factors as a seventh important factor. The list of score and rank of all factors is shown in Table 3.

**Table 3: Ranking Importance of Services Selection Criteria**

	Academicians			Non-Academicians		
	t	Mean	Rank	t	Mean	Rank
Convenience payment	13.340	1.581	1	11.880	2.043	3
Attractive benefits	14.281	1.645	2	12.552	2.085	4
Lower charges	12.252	1.645	3	11.339	1.915	1
Fulfill individual needs	16.598	1.661	4	12.480	2.043	3
Product reputation	15.373	1.710	5	12.270	2.298	7
Lower profit on loan	13.372	1.758	6	12.347	2.085	4
Principles app	12.964	1.774	7	13.013	2.255	6
Speed of transaction	13.524	1.790	8	11.616	2.085	4
High profit on saving	12.769	1.823	9	12.675	2.021	2
Product knowledge	14.500	1.871	10	12.065	2.128	5
Product advise	16.276	1.919	11	14.563	2.298	7

### ***Knowledge of Islamic Banking Services***

As shown in Table 4, almost 100 percent of the non-academicians population are aware of the existence of Islamic products and services offered by both banks (Islamic bank and conventional bank). However, about 4.8 percent indicated that they did not know the existing of shariah compliant product. The sources of knowledge were mainly from newspapers and magazines, television and radio programmes, friends and family members.

From this survey, it showed that about 72.6 percent among academicians have understood partially and 63.8 percent among non-academicians, the differences between the Islamic and conventional banking. Only a small portion of respondent's fully understood the differences between Islamic and conventional banking. About 72.6 percent of the academicians and 59.6 percent non-academicians believed that the Islamic bank was absolutely not for Muslim customers only. In addition, in terms of why people more preferred the Islamic or Shariah product and services, about 62.9 percent of the academicians and 70.2 percent among non-academicians believe that religion and profit are the reason why they preferred to choose Islamic services.

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More than half of both respondent groups have indicated the possibility of establishing a relationship with the Islamic bank if they have a complete understanding about the operations of an Islamic bank.

**Table 4:** Knowledge of Islamic Product and Services

	<b>Academicians (%)</b>	<b>Non-Academicians (%)</b>
Knowing the existence of Islamic services		
Yes	95.2	100
No	4.8	-
Source of knowledge of Islamic services		
Newspapers and magazines	88.7	83.0
Television and radio	77.4	74.5
Friends and family members	66.1	59.6
Meetings (e.g. club, business)	12.9	12.8
Staff of Islamic and conventional banks	32.3	27.7
Went to Islamic and conventional banks and ask	24.2	23.4
Understanding the differences between Islamic banking and conventional banking:		
Complete Understanding	17.7	19.1
Partial Understanding	72.6	63.8
Not Sure	8.1	10.6
Hardly understand	1.6	2.1
Absolutely no understanding	-	-
No answer	-	4.3
Islamic banking is for Muslim customers		
Absolutely	6.5	6.4
Possibly	4.8	12.8
Unsure	1.6	8.5
May not be	14.5	12.8
Absolutely not	72.6	59.6
Reasons why people patronize Islamic services		
Strictly religion	27.4	14.9
Profitability	3.2	8.5
Both religion and profit	62.9	70.2
Other reasons	6.5	6.4

The possibility of respondents establishing relationship with the organization after having a complete understanding of the operations of Islamic banks		
Absolutely yes	45.2	29.8
Yes	35.5	55.3
Not sure	16.1	14.9
No	-	-
Absolutely not	-	-
No answer	3.2	-

### *Usage of Shariah Services*

The type of services used by the respondents is shown in Table 5. Most of the respondent used saving account for their daily transaction. The findings highlighted in Table 4 concerned with the services that were frequently used by retail customers. It showed that, the facility was frequently used by both groups of respondents was savings account, followed closely by automated teller machine (ATM). This situation indicates that both groups of respondent more prefer banking facilities which can give them a return in short term period and make use of the convenience facility such ATM. From the survey also, it can also be found that, travelers' cheques were frequently used by academicians. This is because travellers' cheque (also travellers cheque, traveller's check, or traveller's check) is a pre-printed, fixed-amount cheque designed to allow the person signing it to make an unconditional payment to someone else as a result of having paid the issuer for that privilege. Since the traveller's cheque can be replaced if it was lost or stolen, they were often used by people on vacation in place of cash. Other facilities such as property financing, current account personal loan, standing instruction and credit cards are seldom used by both groups of respondents.

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**Table 5:** The Usage of Shariah Services

	Academicians			Non – Academicians		
	T	Mean	Rank	t	Mean	Rank
Savings Account-i	24.072	1.177	1	21.119	1.170	1
ATM Service	24.072	1.177	1	20.496	1.511	2
Travellers' Cheques	22.975	1.468	2	-	-	-
Property Financing-i	30.215	1.726	3	-	-	-
Stock Broking Services	32.062	1.758	4	-	-	-
Current Account-i	34.349	1.790	5	28.288	1.766	4
Personal Loan Facility-i	34.349	1.790	5	23.754	1.660	3
Standing Instruction	34.349	1.790	5	93.000	1.979	11
Accepted Bills-i	41.125	1.855	6	93.000	1.979	11
Telebanking	41.125	1.855	6	33.022	1.830	6
Hire Purchase-i	46.572	1.887	7	33.022	1.830	6
Credit Card-i	46.572	1.887	7	29.618	1.787	5
Letter of Credit-i	50.278	1.903	8	65.773	1.957	10
Unit trust Financing-i	61.532	1.935	9	65.773	1.900	8
Telegraphic/ Funds Transfer	61.532	1.935	9	53.720	1.936	9
Working Capital Financing-i	86.983	1.968	10	-	-	-
Share Financing-i	123.000	1.984	11	-	-	-
Home/ house Financing-i	123.000	1.984	11	35.263	1.851	7
Investment Account- i	123.000	1.984	11	65.773	1.957	10

***Limitation of Findings***

All the information gathered for this study was obtained among academic and non-academic staffs of higher education institutions in Kuantan and Muadzam Shah, Pahang. Therefore, the sample is limited to that particular area and did not represent the population of academicians and non-academicians in Pahang.

## CONCLUSION

The purpose of this study is to determine the significant factors which academic and non-academic staffs perceive as relevant to their selection of Shariah-compliant services. The most significant fact revealed from this study is that there was a significant difference in selection criteria in shariah-compliant services among academic and non-academic staffs. The study found that academic staffs were concerned with the high value of their time and they also expected that their transaction can be accomplished as soon as possible. On the contrary, the non-academic staffs were more concerned about charges by the bank. They seek for the lower charges for products or services that they choose.

In terms of product knowledge, this study revealed that there was still inadequate information regarding the concept applied in that particular service. Both groups of respondents did not fully understand the differences between Islamic and conventional banks. To overcome this problem, both Islamic and conventional banks should be information oriented. Their banking personnel should provide information to the customers regarding the concept applied for each Shariah products and services. This study also revealed that both groups of respondents use only the basic commercial facilities in their daily activities such as saving accounts and automated teller machine (ATM). For improvement, commercial banks should put more effort in promoting other services that are based on shariah principles such as traveler's cheques, housing loan, hire purchase loan, standing instruction and credit card. Islamic bank especially, should be aggressive in implementing their marketing strategies in order to compete with other financial institutions within this globalization era.

It is hoped that this research will expose the academic and non-academic staffs in higher education institutions (HEIs) specifically, and the public in general concerning the need to be properly informed with. Also, the study found there was a need to search for the correct information on shariah compliant services offered by either Islamic or conventional banks.

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