

**FACTORS INFLUENCING PURCHASE INTENTION
IN PERSONAL BANKING: DIRECT AND INDIRECT
EFFECTS**

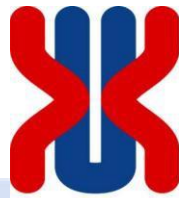


NOORMARIANA BINTI MOHD DIN

UNIVERSITI
MASTER OF ENTREPRENEURSHIP
YEAR 2014

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by

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**A report submitted in fulfillment of the requirement for the
Degree of Master of Entrepreneurship**

**Faculty of Entrepreneurship and Business
UNIVERSITI MALAYSIA KELANTAN**

YEAR 2014

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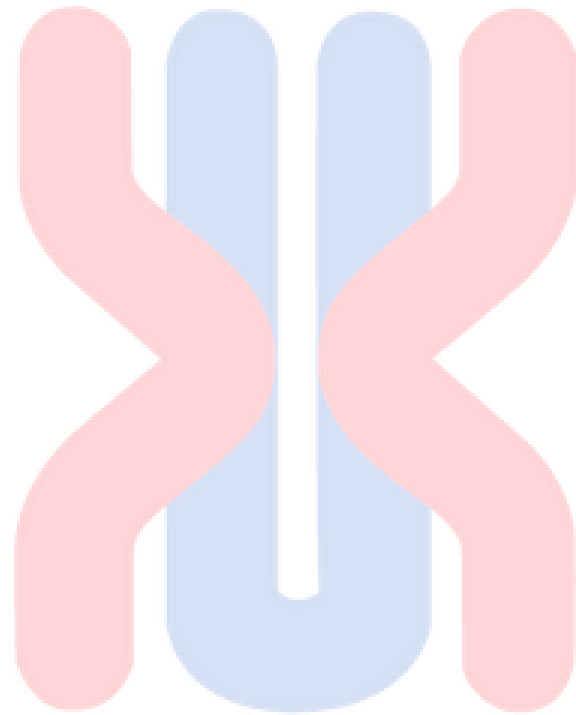
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The logo of the University of Kelantan, featuring a stylized 'U' and 'K' in blue and red colors.

LIST OF FORMULAS

$$\text{Composite Reliability} = \frac{\sum(\text{standardized loading})^2}{\sum(\text{standardized loading}) + \epsilon \sum j}$$

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LISTS OF ABBREVIATIONS AND ACRONYMS

BNM	Bank Negara Malaysia
TPH	Theory of Planned Behaviour
NFU	Need for Uniqueness
GDP	Gross Domestic Product
HSBC	Hong Kong Shanghai Banking Corporation
IMF	International Monetary Fund
PLS	Partial Least Square
SEM	Structural Equation Modeling
SERVQUAL	Service Quality
CFA	Confirmatory Factor Analysis
EFA	Explanatory Factor Analysis
AMOS	Analysis of Moment Structure
GOF	Goodness of Fit
AVE	Average Variance Extracted
GFI	Goodness of Fits Index
AGFI	Adjusted Goodness of Fits Index
NFI	Normed Fit Index
RMSEA	Root Mean Square Approximation

TLI	Tucker Lewis
CFI	Comparative Fit Index



LISTS OF SYMBOLS

%	Percentages
B	Beta
Σ	Sum
χ^2	Chi Square

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Faktor-faktor yang mempengaruhi Niat Pembelian Perbankan: Kesan Langsung dan Tidak Langsung

ABSTRAK

Perubahan dalam pasaran kewangan telah meletakkan tekanan yang besar ke atas penyedia perkhidmatan kewangan. Ia telah mewujudkan produk kewangan yang kompetitif di pasaran. Oleh itu, adalah penting untuk meningkatkan kelebihan daya saing mereka dengan memahami tingkah laku pengguna dalam membeli produk dan kepuasan mereka. Dalam hal ini, kajian sebelum ini telah menyelidik niat pembelian sebenar pengguna dan kepuasan pelanggan. Kertas ini bertujuan untuk menangani isu-isu ini. Kajian ini membina satu model hubungan di antara kepuasan pelanggan dan niat pembelian dalam industri kewangan, memberi tumpuan kepada perbankan peribadi. Peranan penengah terhadap kepuasan pelanggan dalam niat pembelian ditekankan dalam model kajian ini. Kajian ini diukur melalui niat pembelian dan kualiti tiga elemen - perkhidmatan, reputasi dan campuran pemasaran dengan mengumpulkan data menggunakan soal selidik yang ditadbir sendiri. Data dianalisis dengan menggunakan model persamaan berstruktur (SEM) dan SPSS. Keputusan menunjukkan bahawa responden dari perbankan peribadi Islam menyatakan niat pembelian tinggi dipengaruhi oleh kualiti perkhidmatan dan reputasi. Walau bagaimanapun, perbankan peribadi konvensional menunjukkan yang niat membeli mempunyai pengaruh terhadap kualiti perkhidmatan dan pemasaran secara gabungan. Kepuasan pelanggan didapati elemen pengantaraan yang aktif antara kualiti perkhidmatan dan niat pembelian untuk perbankan peribadi. Walaupun hasil menyokong kajian sebelum ini, keputusan telah diperolehi daripada saiz sampel kecil dengan pengagihan yang tidak sekata antara jenis-jenis bank. Ini menghadkan keseluruhan keputusan yang memerlukan penyelidikan lanjut. Walau bagaimanapun, boleh dikatakan keputusan ini menyumbang

kepada mewujudkan peningkatan dalam kewangan dan industri perkhidmatan dengan mengenal pasti dan membangunkan strategi pemasaran untuk jangka masa panjang.

Factors influencing Purchase Intention in Personal Banking: Direct and Indirect Effects

ABSTRACT

The changes in the financial market have put a great pressure on financial service providers. It had created the competitive financial product and services emerging in the market. Therefore, it is important to enhance their competitive advantages by understanding the consumer behaviour in purchasing certain product relative to satisfaction. In this regard, previous research has fallen short in examining consumer's actual purchase intention and customer satisfaction. This paper sought to address this issue. This study developed a model of the relationship between customer satisfaction and purchase intention in finance industry focusing on personal banking. The mediating role of customer satisfaction in purchase intention is emphasized in this research model. This study measured purchase intention and three elements- service quality, reputation and marketing mix by collecting the data using self-administered questionnaire. Data were analysed using the structural equation model (SEM) and SPSS. The results showed that respondents from Islamic personal banking expressed a high purchase intention influenced by service quality and reputation. However, conventional personal banking showed that purchase intention had influenced the service quality and marketing mix. Customer satisfaction was found to be an active mediator between service quality and purchase intention for personal banking. Although the outcomes support previous studies, the results were derived from small sample size with an uneven distribution between the types of banks. This limited the generalizability of the results which calls for further research. However, practically this result contributed to create the improvement in finance and service industry by identifying and developing marketing strategies for the long run.



CHAPTER 1

INTRODUCTION

1.1 Research Background

Finance and financial institutions are at the heart of modern economies, reflecting the sensitivity of macroeconomics variables to changes in the financial sector. The banking and financial industry have been increasingly integrated in recent years since the performance of banking and financing system act as an important element in influencing the development of a country. Therefore, the financial institution are experiencing rapid transformation due to financial liberalization, rapid advancement in technology, and the emergence of more innovative products and distribution channels (Zaleha, 2009; Shafie, 2004). As a result, banks are now facing high and intense competition (Yaacob, 2012; Shafie, 2004).

In Malaysia financial system today presented the dual financial system that is divided into two institutions; the conventional which practices the capitalism system and the Islamic finance institution which is based on the Shariah principle (BNM, 2010). Therefore it had created the intense competition leads to the establishment of Islamic banking and financial institution. Based on MIDA (2012), Malaysia financial system consists of the conventional and Islamic systems which operate in parallel. Moreover, this country is the first nation to have successfully adopted a dual banking system, where a fully-fledged Islamic system operates side by side with the conventional banking system (Chan, 2003). Although Islamic banking is relatively new as compared to conventional banking, it has spread well to all corners of the globe and received wide acceptance by both Muslims and non-Muslims communities (Iqbal, 2005). The main mission of the banks is to get achievement of social and economic development through the delivery of financial services either in the conventional or in line with the principles and teachings in Islamic. At present, Islamic banking is making its most promising progress in Malaysia. This country has one of the least repressive financial systems, no fiscal deficits, low inflation, low interest rates, and a dynamic and vibrant equity market as well as a strong private sector (Abbas, 1997).

The Islamic banks offer more or less similar products and services as the conventional banks such as current accounts, credit cards, investment in securities,

cheque collection, and others. The principal difference is that Islamic banking adheres to Islamic transaction rules or principles in carrying out their business in which any payment or receipt of interest is strictly prohibited (Dusuki, 2007). Llias (2008), summarizes the different between conventional and focused on the Islamic banking as follows:

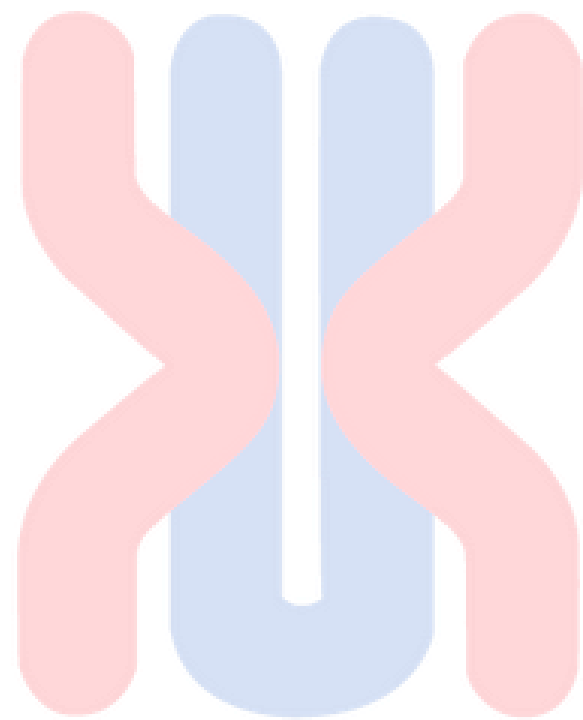
- i. Riba free transactions where any kind of interest is considered usurious and prohibited under Islamic law;
- ii. Musharaka where every party involved in a financial transaction shares the associated risks and profits;
- iii. Uncertainty is disallowed unless all of the terms and conditions of the risk are clearly understood by all parties to a financial transaction; and
- iv. Emphasizing ethical investments where any investment in immoral activities such as gambling and liquor production and selling are prohibited.

It is different with conventional banking theories whereas banks earn profits by purchasing deposits from the depositors at a low-interest rate, then reselling those funds to the borrowers at a higher interest, based on its competitive advantage at gathering information and underwriting risk (Santos, 2000). Besides that, this banking system is based on pure financial model, and makes profit in the difference of rate of interests between borrowing and lending of money. Moreover, conventional banks also earn from the services they provide such as the issuance of

letters of credits. One drawback of conventional banking is that it prohibits from trading in the shareholding of the borrowing, and produce derivative deposits which helps multiply their low cost resources (Ahmad, 2011).

Unfortunately, the capitalist system practiced by the conventional banks brought to economic crisis which is directly affected by the current crisis and thus pulls the global economy into recession (Khali, 2011). Malaysian banking sector experienced the problems similar to those of Asian countries suffering from financial crisis because of this capitalist system. The direct reasons for the problems include a downturn of the economy and collapse of the property in management which had been managed by the conventional system (S.-N. Oh, 2010). This crisis has taxed the capability of international financial institution to provide loans, particularly to poor countries. The consequences of this crisis could have a destabilizing effect of increasing social intolerance and political instability (Abu Saud, 2002). It leads to the slow growth in the global economic demand that created a ripple effect across the countries. It also leads to mismanagement, abuse and violation of business ethic that could increase the competitiveness to control the market.

This condition presents an opportunity for Islamic banks to take advantage of the current financial crisis to increase their financial services worldwide (Rahman, 1992). Due to the lack of confidence among customers towards the



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