

Factors Affecting Customer Intentions To Seek Islamic Microfinancing: Evidence From Indonesia

Amanda Riany Putri
Faculty of Economics and Business
Universitas Indonesia
Depok, Indonesia
amandarp96@gmail.com

Irfani Fithria
Faculty of Economics and Business
Universitas Indonesia
Depok, Indonesia
irfanifithria@gmail.com

Rahmatina Awaliah Kasri
Faculty of Economics and Business
Universitas Indonesia
Depok, Indonesia
unirahma@gmail.com

Abstract—Abstract—Micro, small, and medium-sized enterprises (MSMEs) contribute significantly to global GDP and employment, especially in developing economies like Indonesia. Unfortunately, MSMEs have little access to formal sources of external finance. The rise of Islamic microfinance potentially can overcome this constraint. This study analyzes five factors that determine MSMEs' intention to seek Islamic microfinance as a source of business financing. Drawing upon the Theory of Planned Behavior, we sample 160 customers from four branches of two Islamic microfinance institutions in Indonesia. Using partial least squares structural equation modeling, we measured the influences of five variables on their microfinancing intentions: attitude, subjective norms, perceived behavioral control, pricing, and religiosity. Results show that attitude, subjective norms, perceived behavioral control, and religiosity influence intention to seek Islamic microfinance. Pricing had a negative effect. These results help Islamic financial institutions to improve attract clients and design strategies to expand markets.

Keywords— Islamic microfinance, theory of planned behavior, religious factor, pricing factor, intention to use, MSMEs, Islamic microfinance institutions

I. INTRODUCTION

Micro, small, and medium-sized enterprises (MSMEs) contribute significantly to global GDP and employment [1]. During the past five years, their contribution to Indonesia's GDP has grown from 57.84% to 60.34% [2].

However, MSMEs globally and in Indonesia have limited access to capital [3] threatening their viability. Few banks serve remote areas of Indonesia, and MSMEs might not fulfill conventional lending requirements. About 60%–70% of MSMEs in Indonesia have been unable to access financing or bank credit [4]

Sharia-compliant banking offers a solution to these problems and is growing worldwide because its practices accord with Islamic principles. As a subset of Sharia-compliant banking, microfinance institutions have succeeded in Muslim-majority countries such as Bangladesh, Pakistan,

and Turkey [5] and they have attained prominence in Indonesia (Table 1.1).

TABLE 1.1. NUMBER OF ISLAMIC MICROFINANCE INSTITUTION IN INDONESIA

Type of Institution	Year	Amount
BPRS	2017	441 units
BMT & sharia cooperative	2016	2.253 units

^a Source: Statistics of Sharia Banking OJK&Ministry of Cooperatives and SMEs

of Indonesians who seek Islamic financing. To realize that potential, Indonesia's microfinance institutions must understand the factors that attract customers. Drawing upon the Theory of Planned Behavior (TPB), we empirically investigate five factors that influence intentions to use Islamic microfinance: attitude, subjective norms, perceived behavioral control, pricing, and religiosity.

Previous studies focus on intentions to use Sharia-compliant financial products generally—e.g., personal loans, savings, and home financing. Few examine Islamic financial products within the scope of microfinance. None uses the TPB to explain what draws customers to seek Sharia-compliant microfinance

II. LITERATURE REVIEW

2.1 Concept of Financing in Islam

Indonesian law defines Sharia banking as the provision of financial products and services that comply with Sharia law. Those include:

- profit-sharing transactions such as mudaraba (trust contracts) and musharaka (partnership);
- lease transactions such as ijara (rent to buy) or lease purchase such as ijarah muntahiya bittamlik (profit and principal financing);
- sale and purchase transactions such as accounts receivable like murabahah (sale), salam (the subject

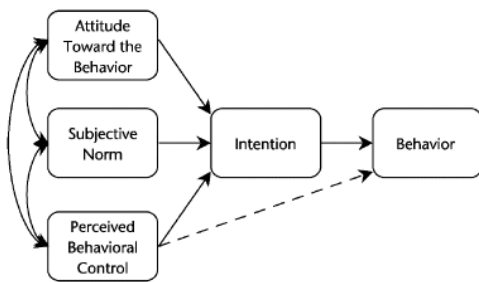
can be anything), and istishna (the subject is manufacture);

- d) lending and borrowing such as qardh (loan/debt); and
- e) service lease transactions such as ijarah for multilateral transactions, based on agreements between a Sharia Bank and/or UUS and another party requiring the party financed and/or granted a fund facility to refund the funds after a stipulated period in exchange for ujah without rewards, or profit sharing.

Islam supports transfer of wealth that assists the needy [6]. Islamic financing has two goals: channeling resources from surplus to deficit units and meeting human needs whereby Muslims improve their welfare (Kahf and Khan, 1992). Debt must be based on genuine need, and Islam enjoins its followers to have no debt [7].

2.2 Conceptual Framework and Hypothesis Development

TPB holds that three factors influence intention: attitude, subjective norms, and perceived behavioral controls. This theory is an update from the Theory of Reasoned Action by entering perceived behavioral control to produce the framework in Figure 2.1



Source: Ajzen, 2005

Fig 2.1. Theory of planned behavior

2.2.1. Intention

Country governance is an essential facet in Islamic bank According to Ramdhani [8], intention is a personal determination to perform an act. Intention indicates the extent to which someone wants to engage in a behavior [9]. TPB measures three influences on intention: attitude, subjective norms, and perceived behavioral control. Someone who intends to engage in a behavior responds to those influences; whoever does not respond to them is less likely to engage in the behavior [10].

2.2.2. Attitude

Attitude is our personal assessment of whether consequences of our behavior will be positive or negative. Amin et al. [6] find that attitude greatly affects intentions to seek personal financing through Islamic banks in Malaysia. Other studies confirm that finding attitude also has a contribution to the intention of financing KPR sharia in Malaysia [11].

We propose Hypothesis 1:

H1: Attitude has a positive influence on the intention to seek Islamic microfinance financing.

2.2.3 Subjective Norms

Ramdhani [8] defines subjective norms as our perception of how people important to us will regard our behavior. Ali, Ali, and Hong [12] find that subjective norms influence the intention to seek Islamic personal financing in Pakistan. Other studies find that subjective norms enhance the intention to seek Sharia financing for Malaysia [11]

We propose Hypothesis 2:

H2: Subjective norms has a positive influence on the intention to seek Islamic microfinance

2.2.4 Perceived Behavioral Control

Perceived behavioral control (PBC) is our perception of the effort needed to affect a behavior [9] and how strongly we believe we control whether we do so. PBC is determined by our beliefs about factors that may facilitate or hinder an action. Jaffar and Musa (2015) call it the strongest predictor of whether MSME entrepreneurs seek Sharia financing. Their finding is supported by studies that establish a relation between PBC and the intention to finance homes through Sharia banks [6,13]

We propose Hypothesis 3:

H3: PBC has a positive influence on the intention to seek Islamic microfinance

2.2.5 Pricing

Generally, price refers to amounts Islamic finance institutions charge for products and services In setting an appropriate price, they balance their profits and customers' benefits and compete with non-Islamic institutions for customers. Hududin and Rahman (2011) find that sizably negative prices diminish Muslims' intention to seek personal financing with Islamic banks. Ali et al. [7] find that pricing exerts a negative and significant influence on use of Islamic financing.

We propose Hypothesis 4:

H4: Price has a negative influence on the intention to seek Islamic microfinance

2.2.6 Religiosity

Generally, price refers to amounts Islamic finance institutions charge for products and services In setting an appropriate price

Johnson, et al. [14] define religiosity as a commitment to religious teachings that is reflected in daily behavior. Reni and Ahmad (2016) find that religion has a significant influence influences choosing Islamic banking in Indonesia. Alam et al (2015) find that same result for Malaysia.

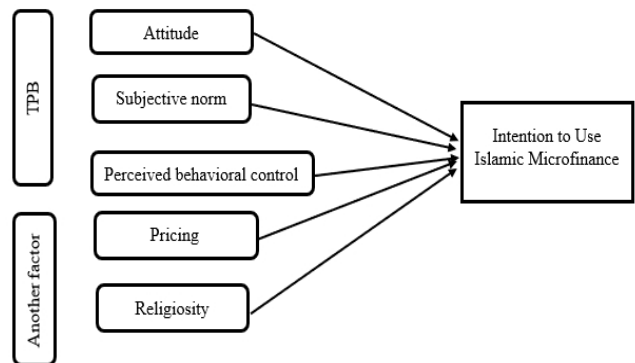


Fig 2.2. Framework of research model

III. METHOD

We obtained primary data from survey questionnaires distributed to 160 microfinance customers of Islamic institutions in Jakarta, Bogor, Depok, and Tangerang. The institutions are Baitul Maal wa Tamwil (two branches) and Bank Pembiayaan Rakyat Syariah (two branches).

We employed nonprobability and convenience sampling. Convenience sampling determines respondents by chance—i.e., anyone who encounters the researcher can be a suitable data source [15].

To analyze factors that influence intention to seek Islamic microfinance we used partial least squares structural equation modeling (PLS-SEM). Used to test new theories [16]. SEM indicates whether data support a model and analyzes multi-variables better than ordinary multi-regression, especially data that do not meet normality conditions. PLS-SEM is excellent for confirmation and exploration research and does not require an excessive number of samples. PLS-SEM is suitable for use to research models that have not been ascertained [17]. SEM-PLS analysis requires the researcher to analyze a measurement model and a structural model.

IV. RESULT AND DISCUSSION

The questionnaire was divided into two sections: demographic data and independent variables. Table 4.1 profiles the 160 respondents:

Analysis of SEM-PLS

We used Smart PLS 3.0 for the PLS analysis of the measurement model and the structural model.

1. Measurement Model Analysis

Measurement analysis determines the model's validity and reliability and each variable's significance. To analyze the measurement model we calculated the loading factor (AVE method), composite reliability, Cronbach's alpha, cross-loading, and T-values. Convergent validity is evident from factor loading (AVE) values > 0.5 [18]. Discriminant validity is evident from cross-loading; a value is sound if it correlates strongly to the latent variable. Reliability is evident in composite reliability values > 0.7 and Cronbach's alpha > 0.6 [19]. The significance of the measurement model is evident if T-values > 1.645 (one tailed).

Testing confirmed all measurement indicators. Models and indicators are valid and reliable, and each variable is statistically significant.

2.3 Analysis of Structural Models

The structural model shows the relation between the independent and dependent variables [20] to assess the structural model we calculate R² and communality (h²) to find goodness of fit (GoF) and test hypotheses.

Significance values of structural models are in Table 4.4. Not all independent variables significantly influence the dependent variable. Variables that bolster intention to seek Islamic microfinance at 95% confidence are attitude, subjective norms, behavior control, and religiosity.

TABLE 4.1. DEMOGRAPHIC PROFILE RESPONDENTS

No	Demographic Items	Frequency	Percentile
1	Gender		
	Male	100	62.5%
	Female	60	37.5%
2	Age		
	<25	1	0.63%
	25-34	29	18.13%
	35-44	74	46.25%
	45-54	38	23.75%
	55-64	16	10.00%
	>64	2	1.25%
3	Marital Status		
	Married	156	97.50%
	Single	1	0.63%
	Widower/widow	3	1.88%
4	Level of Education		
	Not in school	1	0.63%
	Elementary school	18	11.25%
	Junior high school	39	24.38%
	Senior high school	83	51.88%
	Diploma	11	6.88%
	Bachelor	8	5%
	Institution		
BMT	61	61.88%	
BPRS	99	38.13%	

TABLE 4.2. OUTPUT MEASUREMENT MODEL INTENTION TO SEEK ISLAMIC MICROFINANCE

6	AVE	Composite Reliability	Cronbach's Alpha	Cross-loading	T-Values
ATT	0.753	0.938	0.917	The largest in the ATT variable	Significant
SN	0.618	0.889	0.849	The largest in the SN variable	Significant
PBC	0.743	0.920	0.885	The largest in the PCB variable	Significant
R	0.738	0.932	0.910	The largest in the R variable	Significant
P	0.661	0.906	0.884	The largest in the P variable	Significant
INT	0.727	0.929	0.902	The largest in the INT variable	Significant

We conclude from the values of R² and h² that the GoF = 0.7226. GoF = 0.10 qualifies as small, GoF = 0.25 medium, and GoF = 0.36 large (Latan & Ghozali, 2012). GoF scores in our model are high-category.

TABLE 4.3. GOODNESS OF FIT ANALYSIS

Variable	R2	Communality
ATT	-	0.753
SN	-	0.618
PBC	-	0.743
R	-	0.738
P	-	0.661
INT	0.739	0.727
Average	0.739	0.706667

TABLE 4.4. HYPOTHESIS TEST ANALYSIS

Variable	Original Sample	T-Statistics	Information
ATT ke INT	0.274	3.185	Positive & Significant
SN ke INT	0.130	2.408	Positive & Significant
PBC ke INT	0.454	5.266	Positive & Significant
R ke INT	0.181	4.213	Positive & Signifikan
P ke INT	-0.107	1.539	Negative & Not Significant

In Table 4.4, the attitude variable (ATT) has a correlation of 0.274 to intention (INT) (t-statistic > 1.645). H1 is confirmed. Attitude positively and significantly affects intention to seek Islamic microfinance. These results accord with Ali, Raza, and Chin-hong (2015) and Amin et al [6].

In Table 4.4, the subjective norm variable (SN) has a correlation of 0.130 to intention (INT) (t-statistic > 1.645) H2 is confirmed. Approval of people who are important to the customer bolsters the intention to seek Islamic microfinance. This finding supports M. Ali et al. [12] and Amin et al. [6]

In Table 4.4, the correlation for PBC has a correlation of 0.454 to intention (INT) (t-statistic > 1.645). H3 is confirmed. PBC positively and significantly affects intention to seek Islamic microfinance. This finding accords with Ali et al. [12] and Nature et al. (2012). Customers in this study feel they have the ability to seek Islamic microfinance and control over doing so.

In Table 4.4, the coefficient of price (P) is the smallest among all variables (-0.107), negative, and not statistically significant (t-statistic < 1.654). H4 is confirmed. This finding seems counterintuitive. One explanation is that MSMEs have limited access to external financing and will take available opportunities despite a higher price. Another explanation is that Muslim customers are concerned with securing Sharia-compliant financing irrespective of price. That likelihood is confirmed by Dusuki and Abdullah (2006), Reni and Ahmad (2016), M. S. I. Ali & Athambawa [22], and our findings concerning Hypothesis 4

In Table 4.4, the religiosity variable (R) has a correlation of 0.181 to intention (INT) (t-statistic > 1.645). Customers' daily commitment to Islam faith and its precepts positively and significantly influences intentions to seek Islamic microfinance. H5 is confirmed. This result is supported by Ibrahim, Fisol, and Hajj-Othman [21], Ali et al [7], Nature et al (2012), and Amin et al [6].

V. CONCLUSION AND IMPLICATION

Data and analysis confirm that attitude, SNs, PBC, and religiosity bolster customers' intentions to seek Islamic microfinancing. Intentions to seek Islamic microfinance are stronger when customers respond affirmatively to the idea, when their social network endorses it, when they feel capable of engaging in Islamic microfinance, and when they observe their faith in daily life.

Results also confirm that customers are not influenced by the cost of Islamic microfinance products and services.

We examined only four branches of two Islamic microfinance institutions in Jakarta, Bogor, Depok, and Tangerang. More geographically dispersed research involving more banks and branches could expand our

findings and their generalizability. Further research also should include additional variables.

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