

# ACCEPTABILITY OF DECREASED PARTICIPATION MODEL IN ISLAMIC MICROFINANCE AMONG SMALL BUSINESS OWNERS IN SELANGOR

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**Abstract:** Islamic microfinance modes of financing are reportedly lacking penetration and characterized by high costs of transactions which resulted in the efficiency of many of the existing institutions. In this study, a model based on Decreased Participation has been proposed as an alternative to the modes of financing to improve the efficiency of the institutions. However, investigating the acceptability of innovation is a very important component for its adoption by potential beneficiaries. Using the theory of diffusion of innovation, this study conducted a survey to understand the behaviour of business owners in Klang Valley to determine the factors that are responsible for their acceptability. A total of 208 respondents were collected and analyzed using descriptive techniques, correlation analysis and regression analysis. It is found that all the independent variables are correlated with the dependent variables at a significance level of  $p < .001$ . In the regression analysis as well all the variables investigated were significantly influencing the acceptability of the business owners. With respect to the observed link between acceptability and the dimensions of the theory of diffusion of innovation, the study concludes that the acceptability of Decreased Participation will be influenced significantly by more relative advantage, compatibility, observability, trainability and less complexity.

**Keywords:** Islamic Microfinance, Decreased Participation.

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## 1. RESEARCH BACKGROUND

The global efforts in fighting poverty have succeeded in alleviating poverty of hundreds of millions of people that live at below USD1 per day from 1.2 billion people to 1 billion, especially in the developing countries between 1990 and 2002. The impact of such intervention programmes was more felt in Asian countries (Aslam, 2014). But, more than half of the global population are still in extreme poverty, with a larger proportion of poverty in East Asia and the Pacific. Also, it was estimated that more than 1 billion people are living at less than \$1.25 per day and about 80% of this number is in Sub-Saharan Africa and South Asia. More precisely, this fraction is spread majority in the five largest developing countries: Bangladesh, China, the Democratic Republic of Congo, India, and Nigeria (Adnan & Ajija, 2015). A common reason for poverty in these regions is attributed to the lack of financial access.

The statistics of poverty particularly on the food is more disturbing. According to the World Food Programme (WFP), about one out of nine people in the world do not have enough food to live a healthy life which is about 795 million people. This number is found majorly in the developing world which means that about 12.9% of the people in such areas are malnourished. It is also found that Asia has the highest number of hungriest people with about two-thirds of poor people in the world with more concentration in Western Asia. But hunger is more prevalent in Africa since in almost every four individuals, one person is malnourished. Their study suggests that if women could get access to resources like men about 150 million people will become much less poor (O'Connor et al., 2017). One of the important tools used over the years in addressing financial inclusion is microfinance institutions. The products in the conventional microfinance institutions are interest-based, which is another major reason that Muslims are more excluded due to the prohibition of interest in Islam. Islamic microfinance institutions have been introduced to primarily address the prohibited elements inherent in the conventional microfinance institutions. The products used in the Islamic microfinance are based on Sharia's compliant contracts that try to eliminate the interest component.

## 2. PROBLEM STATEMENT

Instruments of microfinance should aim at reducing the level of poverty of the poor by maintaining a level of cost-effectiveness (Abdul-Razak & Amin, 2013), less risk involvement (Aslam, 2014) and complexities (Mohd Ariffin et al., 2015). The products offered by Islamic microfinance should ideally reflect the true principles of Islamic finance, and most preferably equity-based profit and loss sharing model (Mohd Ariffin et al., 2015).

Unfortunately, the modes of financing offered in Islamic microfinance are suffering from a lack of penetration and high transaction costs, which result in the lack of the efficiency of the institutions in general. Debt-based financing methods such as Murabahah and Ijarah manifest similar traits with the conventional interest-based products making Islamic microfinance unable to provide better products that make it impact on the lives of the poor micro-entrepreneurs (A. Hassan et al., 2015). This is what further contributes to the sluggish growth of Islamic microfinance institutions (Masyita & Ahmed, 2013).

Moreover, the insufficiency and ineffectiveness of Islamic microfinance products represent a significant issue that needs further investigation as pointed out by several studies (e.g. Sabi, 2016; Morsid & Abdullah, 2014; A. Hassan et al., 2015; El-Komi & Croson, 2013). But even when a new concept is introduced it needs to be compatible in order to be accepted by beneficiaries to alleviate poverty. People generally accept the new concept they perceive as less complicated, less risky, and possessing a relative advantage over their previous experiences. Using the theory of innovation adoption developed by Rogers (2003), participants of Islamic microfinance are expected to accept the proposed Decreased Participation model by testing the five constructs of the theory namely: relative advantage, compatibility, complexity, observability and trialability. Perceived risk is also another construct as suggested by several studies that will further help in predicting the behaviour of participants, especially in this context. Decreased Participation is conceived as closer to the Sharia's spirit as a partnership-based contract. The general application is that it is used for acquiring finances for housing, auto-financing, equipment, financing business enterprises, etc. Of course, it is also suitable for Islamic microfinance, which is still yet to be explored. It can be used to help the micro-entrepreneur in meeting basic needs and also raising working capital. The acceptability of Decreased Participation model will help in overcoming problems of complexities, high risks, ineffectiveness and insufficiency of Islamic microfinance instruments in Islamic microfinance. This research attempt to gauge the entrepreneur's perspective of Decreased Participation instrument in micro-financing mechanism.

## 3. PROPOSED MODEL

Participation Decreased is used for home financing. Saad & Razak (2013) suggest the use of Decreased Participation for home financing in Islamic microfinance. But considering that fact that the main aim of Islamic microfinance institutions is to help the poor by alleviating his poverty, generally the poor may not be able to participate in Decreased Participation home financing since he must pay rent together with an additional amount to purchase the share capital of the financing institution. These reasons make it very difficult for Islamic microfinance institutions to practice Decreased Participation for home financing using this model. Alternatively, this study proposes the use of Decreased Participation for micro-entrepreneurship in raising working capital. This will allow the customer to acquire an asset that will generate income for him and be able to easily buy the share capital of the microfinance bank. Typically, he will be the entrepreneur and the share of his profits will be used to purchase the share of the microfinance institute. Some of the possible ventures suitable for the proposed model are taxi driving, purchase of equipment/machinery or starting a grocery shop, the proposed structure is shown as follows:

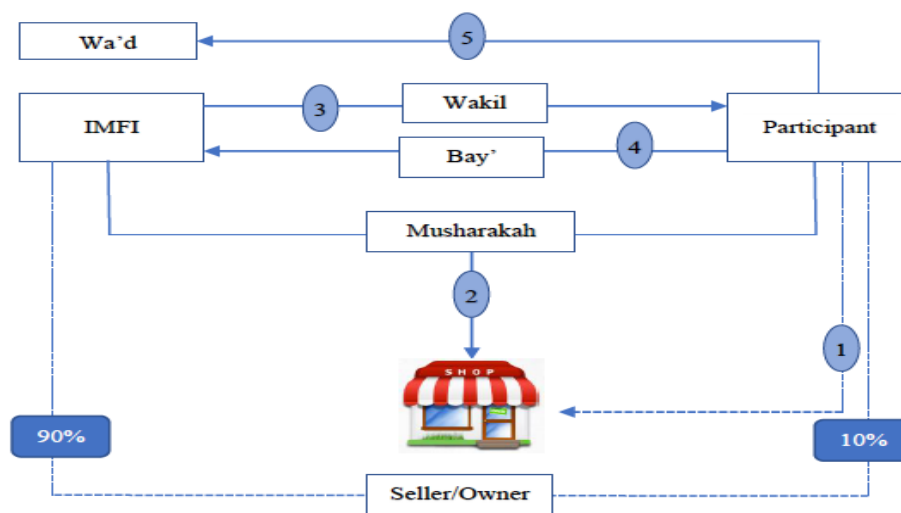


Figure 1: Proposed Decreased Participation Model

#### 4. THEORETICAL FRAMEWORK

Several studies on innovations in Islamic finance adopted the diffusion of innovation theory. The theory by Rogers (1999) explains the adoption process of a particular idea or object. According to Rogers (1999) innovation refers to an idea, practice or object that is perceived as new by individuals (Amin et al., 2014). This theory one of the popular theories that explain the factors that affect how individuals accept to adopt an innovation or new business ideas. DIT explains how, why and at what rate new ideas and technology spreads through cultures. Diffusion in this theory means the adoption of an innovation “over time by the given social system”. Hence, the consequence of diffusion is that it leads to the acceptance or penetration of a new idea, behaviour or practice. According to Rogers, there are several attributes that are the key factors responsible for the adoption and acceptance of an innovation, namely: relative advantage, complexity, compatibility, trialability, and observability (Al-Jabri & Sohail, 2012).

The theory has been well accepted in the fields of marketing, information systems and internet banking. The findings have repeatedly reported these attributes as good predictors of innovations particularly relative advantage, ease of use, and compatibility, as the most frequently salient factors for adoption of the Internet and mobile technologies (for example, Koenig-Lewis, Palmer and Moll 2010; Liu & Li 2010; Papies & Clement 2008; Park & Chen 2007; Vijayasarathy 2004).

#### 5. METHODOLOGY

This study selected 40 questionnaires were distributed to at Registrar of Company client (Sijil Sharikah Malaysia) and two Secretary Companies for the purpose of the pilot test. A total of 30 valid questionnaires were returned and used in this pilot study. The data was obtained online (online questionnaires on the [www.surveymshare.com](http://www.surveymshare.com) site), and the questionnaire includes two parts, the first part contains demographic information for the study sample, while the second part contains six basic designs that are linked to Decreased Participation.

#### 6. INSTRUMENT’S RELIABILITY

the pilot test determines the reliability of the grading tools before the real monitoring work is performed. In Gay and Airasian (2006), reliability determines the level at which the test measures what is constant. Furthermore, the basic consistent quality of the internal consistency of the information contained in the experimental study is estimated using Alpha Cronbach's (Cronbach, 1984). Zander and Kogut (1995), alpha Cronbach value can be expanded in a number of things or a natural relationship.

**Table 1: Scale Reliability Alpha – Pilot Test of Model’s Questionnaire (N=30)**

Construct Name	Code	No of Items	Deleted Items	Pilot test Cronbach Alpha
Acceptability	A	5	0	.828
Compatibility	CT	5	0	.808
Complexity	CX	4	0	.758
Observability	Ob	3	0	.670
Relative Advantage	RA	5	0	.765
Trialability	T	3	1	.619

#### 7. SUMMARY

The main objective was to find the factors that determine the acceptability of Decreased Participation in Islamic microfinance among business entrepreneurs and financiers. A total of 30 respondents were used as the sample of the study to understand their level of acceptance and factors that determine their acceptability. To achieve the objective of this research, a field study was conducted containing questions on both the dependent and independent variables to test the relationship between acceptability and independent variables: relative advantage, compatibility, complexity, observability and trialability. Based on the analysis conducted it was determined that all the independent variables have a significant positive relationship on acceptability. This implies that the variables of diffusion of innovation theory are significant determinants of people’s acceptability to Decreased Participation in Islamic microfinance. As the study tests the acceptability of Decreased Participation for Islamic microfinance, theoretically, it creates awareness and awareness on the Decreased Participation and the determinants of or its acceptability. The study employs the Theory of Diffusion of Innovation to test the acceptability, examining how its relevance in Islamic microfinance products. The findings show that this theory is a well fit for Islamic microfinance and Decreased Participation in particular. The study highlights that the

determinants of Theory of Diffusion of Innovation, namely: compatibility, complexity, observability, relative advantage and trialability are all influential determinants of acceptability. As such, the findings imply that the Islamic microfinance institutions should consider using Decreased Participation model as a product. In addition, the determinants found in this study that will make influence the acceptability should also be put in place. The study recommended and suggested improved and increased the number of respondents, and use other variables related to acceptability and adoption such as attitude, subjective norms and perceived behavioral control may be used in further understanding the behaviour of respondents to Decreased Participation financing and may make the study more robust. It is suggested that further study should conduct a longitudinal study to find the impact of Decreased Participation over a long period of time to understand how Decreased Participation may improve the lives of participants. Future research work based on this study may identify more modes of financing and how they can impact on small businesses. It is hoped that the outcomes of this study may guide entrepreneurs, bankers, governments and the poor on better ways of microfinancing in a less complicated and less expensive model. The limitation of this study is that the samples are only focused mostly on entrepreneurs and few beneficiaries of Islamic microfinance products and services. The study may not represent the real beneficiaries of Islamic microfinance in Malaysia.

The use of modern accounting information systems contributes to increasing the efficiency and effectiveness of companies. In addition, in the position of industrial companies, these systems have become very necessary. To this end, current research examines the requirements for the use of modern accounting information systems in the context of industrial companies.

The results obtained indicate that both the environment and infrastructure available in industrial companies are suitable for the application of modern accounting information systems. In addition, the study provides more knowledge about the current state of management awareness in companies of the importance of modern accounting information systems. In addition, the study found that respondents in industrial companies already have sufficient knowledge in addition to awareness about the adoption and use of contemporary accounting information systems in their field. However, there are also barriers and obstacles that may hinder the actual use of contemporary accounting information systems, including the fear of management from applying these systems in addition to their high cost. Therefore, further studies should be carried out. However, as this research found, participants were well aware of the limitations on the use of contemporary accounting information systems to support and improve the quality of financial reports of industrial companies.

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