



**The Effects of Brand Equity, Brand Trust, Product Involvement, Value Consciousness, Attitude and Shariah Compliance on Halal Purchase Intention in Bangladesh: Religiosity as a Moderator**

by

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## LIST OF ABBREVIATIONS

OIC	Organization of Islamic Countries
UAE	United Arab Emirates
IDB	Islamic Development Bank
BIMB	Bank Islam Malaysia Berhad
IBBL	Islami Bank Bangladesh Limited
BDT	Bangladeshi Taka (currency of Bangladesh)
TRA	Theory of Reasoned Action
TPB	Theory of Planned Behavior
SET	Social Exchange Theory
UTAUT	Unified Theory of Acceptance Use of Technology
CBBE	Customer Based Brand Equity
CR	Composite Reliability
IVs	Independent Variables
LTD	Limited
PLS	Partial Least Squares
PLS-SEM	Partial Least Squares- Structural Equation Modeling
SEM	Structural Equation Modeling
SPSS	Statistical Package for Social Science

## LIST OF SYMBOLS

$f^2$	Effect size assessment
$Q^2$	Predictive relevance
$R^2$	Coefficient of determination
%	Percentage
>	Greater than
<	Less than
t	T statistic
p	P value
$\beta$	Path coefficient
*	Multiplication
+	Addition
->	Direction

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**Kesan Ekuiti Jenama, Kepercayaan Jenama, Penglibatan Produk, Kesedaran Nilai, Sikap dan Pematuhan Syariah terhadap Niat Pembelian Halal dalam Bangladesh: keagamaan sebagai Penyederhanaan**

**ABSTRAK**

Niat pembelian ialah istilah yang sangat penting dalam tingkah laku pengguna dan mempunyai hasil yang positif jika dipupuk dengan betul. Oleh itu, para pemasar menekankan hal ini dalam usaha untuk mencapai prestasi perniagaan yang lebih baik. Niat pembelian halal ialah istilah baru dalam bidang pemasaran dan penjenamaan Islam. Niat pembelian halal ialah niat untuk memilih produk/perkhidmatan halal (dibenarkan oleh undang-undang Islam) untuk pembelian atau penggunaan. Kajian ini menumpukan kepada niat pembelian produk kewangan Islam yang mematuhi syariah yang ditawarkan oleh bank Islam. Dalam hal ini, pelanggan dan bakal pelanggan yang menitikberatkan penggunaan produk halal dan menetap di Bangladesh telah dipilih sebagai sampel kajian. Beberapa pembolehubah telah diekstrak menerusi kajian literatur yang luas untuk mengkaji pengaruh-pengaruhnya terhadap niat pembelian produk perbankan Islam dalam konteks Bangladesh. Pembolehubah termasuklah ekuiti jenama, kepercayaan jenama, penglibatan produk, kesedaran nilai, sikap dan pematuhan syariah sementara religiositi telah digunakan sebagai moderator dalam hubungan antara enam IV tersebut dengan niat pembelian halal. *Partial Least Square-Structural Equation Modeling* (PLS-SEM) telah digunakan untuk menguji hipotesis kajian ini. Dapatan kajian menunjukkan bahawa ekuiti jenama, kepercayaan jenama, penglibatan produk, pematuhan syariah dan sikap adalah faktor penting yang mempengaruhi niat pembelian halal bank Islam. Antara lima pembolehubah ini, penglibatan produk didapati menjadi factor yang paling utama diikuti oleh kepercayaan jenama, sikap, pematuhan syariah dan ekuiti jenama. Dalam kajian religiositi sebagai moderator, didapati bahawa hubungan antara ekuiti jenama, penglibatan produk, kesedaran nilai dan niat pembelian halal tidak dimoderasikan oleh religiositi; hubungan antara kepercayaan jenama, pematuhan syariah, sikap dan niat pembelian halal didapati dimoderasikan oleh religiositi. Kajian semasa mengumpulkan pendapat daripada pelbagai kumpulan peserta mengenai faktor-faktor yang mempengaruhi niat pembelian halal. Oleh itu, ia melengkapi bukti empirikal untuk menangani jurang penyelidikan dan bertindak balas terhadap keperluan untuk mengkaji niat pembelian halal terhadap produk perbankan Islam. Keputusan yang diperolehi daripada kajian ini memberikan beberapa implikasi praktikal bagi pengurus bank dan pembuat dasar khususnya, dari segi cara untuk menilai, membina dan menambah baik niat pembelian pelanggan. Justeru, ia akan membantu para pengurus untuk membuat keputusan pemasaran yang berkaitan dengan permintaan produk, segmentasi pasaran dan strategi promosi.

**The Effects of Brand Equity, Brand Trust, Product Involvement, Value Consciousness, Attitude and Shariah Compliance on Halal Purchase Intention in Bangladesh: Religiosity as a Moderator**

**ABSTRACT**

Purchase intention is a very important term in consumer behavior and has positive outcome if nurtured properly. Marketers thus emphasize precisely in this in order to have better business performance. *Halal* purchase intention is a new term in the realm of Islamic marketing and branding. *Halal* purchase intention is the intention to choose *halal* (permissible by Islamic law) product/ service for purchase or use. This study focuses on the intention of the purchase of *shariah* compliant Islamic financial products that the Islamic banks are offering. In this regards, customers and prospective customers who bother about consumption of *halal* products and reside in Bangladesh are selected as the sample of the study. A number of variables have been extracted through extensive literature review to investigate their influence on halal purchase intention of Islamic banking products in the context of Bangladesh. The variables include brand equity, brand trust, product involvement, value consciousness, attitude and shariah compliance while religiosity have been used as the moderators in the relationship between these six IVs and halal purchase intention. The Partial Least Square Structural Equation Modeling (PLS-SEM) was used to test the hypotheses of this study. It was found that brand equity, brand trust, product involvement, shariah compliance and attitude were significant factors influencing halal purchase intention of Islamic banks. Among these five determinants, product involvement was found to be the most significant followed by brand trust, attitude, shariah compliance and brand equity. In the moderating effect test of religiosity, it was found that the relationship between brand equity, product involvement, value consciousness and halal purchase intention was not moderated by religiosity; the relationship between brand trust, shariah compliance, attitude and halal purchase intention was found to be moderated by religiosity. The current study gathers opinions from the diverse group of participants on the factors influencing the halal purchase intention. Thus it supplements empirical evidence to address the research gaps and responds to the calls for examining the halal purchase intention of Islamic banking products. The results derived from this research provide several practical implications for bank managers and policy makers specifically, in terms of how to evaluate, build and improve the purchase intention of customer. Thereby, it will help managers to make marketing decisions related to product demand, market segmentation and promotional strategies.

## CHAPTER 1: INTRODUCTION

### 1.1 Introduction

Success of institutions or brands depends on the extent of intention to patronage it. Purchase intention is such a term used in consumer behavior which can influence the augmentation of the brand's performance. Islamic banking is amongst the frontrunner performers in service industry today. Since the past thirty years, Islamic banking has aroused as one of the quickest developing business sector. Having recognized by both Muslims and non-Muslims, Islamic banking expanded in every parts of the world (Iqbal and Molyneux, 2005). It is no more considered as just a business unit that fulfils the religious requirements of the Muslims, but also as a business which is certainly attracting new customers whilst engaging the old ones (Wilson, 1995).

In marketing literature, one of the core concept is purchase intention. The curiosity of marketing scholars on buying purposes derives from its affiliation to buying behavior. It is found that there is a clear connection between purchase intentions and purchase behavior in numerous researches (Morwitz and Schmittlein, 1992; Morwitz et al. 1996). Besides, marketing managers are curious about customer purchase intentions for estimating sales of current and/or new products and services (Tsiotsou, 2006).

For understanding customers' consumption intention, it is essential to understand the customer behavior processes. This process includes how individuals select, purchase, use, or dispose off products, services, ideas, or experiences in order to satisfy their needs and requirements. From the consumer behavior theories, it is also found that the ethical service is a function of consumption (Adnan, 2011). The service purpose for persons in the Islamic structure include a new variable – prize or punishment in the life after death

(Al-Zarqa, 1992). It is also stated that the fractional connection between prizes (which depends on one's faith and stability of intentions and activities in this world) and consumption. *Halal* purchase Intention, thus, indicate the Muslim consumers a rationale to patronize Islamic brands.

One of the accelerated growing religion is Islam. From various sources it is forecasted that, by 2070, Islam will out compete other religion like Christianity (Shirley, 2016). As a result of this, there is an increased interest for the goods and services which are referred to as allowable by Islamic regulations, also known as "*halal*" goods and services (Sarah, Rahayu, Hati, & Daryanti, 2016). One of the very important product, which is mostly ignored by many Muslims, is the financial product. The growing number of Islamic Financial institutes in Muslim countries requires immense concern to study their marketing and branding issues.

The recent bloom in Islamic marketing acquired attention in the educational field of the Islamic world and others (Alserhan, 2010) . This phenomenon is turning in to an important part of major deliberations for the educational sphere (Wilson & Liu, 2010). In accordance with Alserhan (2010), the term Islamic branding or *halal* branding is the concept of branding that is compassionate towards the *Shariah* values. Acknowledging this, the ultimate aim is to involve Muslim customers, outspreading from necessary *Shariah* neighborliness to full *Shariah* steadiness in every portion of a brand's individuality, conduct, and transactions. Since Muslim customers are willing to invest in goods and services that support Islamic edicts and systems, the study of purchase intention is a real potential for the marketing research in patronizing Islamic brands.

This chapter begins with an introduction about the topic and a background of the study is discussed. A synopsis of Islamic banking and Islamic banking in Bangladesh is presented. Then a problem statement is outlined followed by research questions and

objectives. The scope of the study is then discussed after which significance of the study has been mentioned where the theoretical and practical contributions are highlighted. Lastly, the definitions of different terms are outlined.

## 1.2 Overview of Islamic Banking

Islamic financial system started its journey from 1970s. The first Islamic banks was found in Dubai UAE, in 1975, and also the Islamic Development Bank (IDB) in Saudi Arabia (Zaid et al., 2011). The Islamic financial products offered are: *Mudarabah* (profit sharing), *Wadiah* (safekeeping), *Musharakah* (joint venture), *Murabahah* (cost plus finance), *Ijara* (leasing), *Hawala* (an international fund transfer system), *Takaful* (Islamic insurance) and *Sukuk* (Islamic bonds). The choice of brands is persuaded by a powerful reputation of Islamic brand, which also improved economic and banking services (Islamic financial products) (Ahmad, Rustam, & Dent, 2011). However, to patronize the Islamic financial product, requires to study the consumer behavior of this segment.

Presently, Islamic finance developed into a thorough and competing form of economic intermediation which provides for all kinds of customers and industries. The industry of Islamic finance is presently valued more than one trillion dollar and is increasing by 15-20% yearly, anticipations suggest that it would reach two trillion dollar in the subsequent three to five years, since growing numbers of countries across the globe are seeking to further advance in Islamic finance within their dominions. The demand of Islamic finance has headed numerous reputable traditional players to come into the industry, hence expanding the assortment of Islamic monetary organizations and its product range. Nevertheless, this inspiring evolution is not only limited to the Muslim

world, but also throughout the West and the Asia Pacific regions where the evolution is compelled by commercial and business attentions (Aziz, 2007).

Almost all 56 nations of OIC countries have introduced Islamic finance, the Middle East, South-East Asia and South Asia Muslim majority countries have emerged as the leading Islamic Financial Industry centres. Iran and Sudan have adopted fully Shariah-complaint financial systems. Based on 2012 data, among other major Muslim countries, Islamic banking market share of total banking industry in Kuwait is above 60% followed by Saudi Arabia (33%), Qatar, UAE, Malaysia and Bangladesh (20%) and Syria, Bahrain, Yemen and Jordan (10%). Countries having below 10% Islamic banking market share include Egypt, Turkey, Pakistan and Indonesia.

In Malaysia Islamic banking have achieved the reputation of shariah banking centre (hub) of the world. The United Kingdom and Singapore are also striving to attract Islamic banking in emerging markets with a limited number of Islamic banking products. In South Asia, Bangladesh is considered as one of the emerging economies. That is why Bangladesh has the possibilities to be a significant center of Islamic banking world-wide with the help of competent leadership, motivations and suitable branding (Mannan, 2012).

The remarkable progress of Islamic banks around the globe has captivated the attention of bankers, business community and bank customers, which includes Bangladesh as well. The remarkable growth of this industry (Islamic banking) implies and gives the world a message that Islamic banking is a worthy substitute to that of traditional finance. There lies the enormous need of formation of important brand equity, which needs them to achieve the peak of the brand pyramid. In constructing a stable brand, the initial task is to make sure of the identification of the brand with consumers. Hence, research is required to consider as a means of creating stronger brands, thereby increasing the overall performance. In spite of its spectacular growth, Islamic banking is

still vastly misunderstood by many (Akbar, 2014). The major misconceptions are about the concepts and practices of Islamic banking and its products. The major variances between Islamic and conventional banking are not well inferred although religion is thought as a chief motivator for choosing Islamic banking (Ahmad, Rustam and Dent, 2011).

### **1.3 Islamic Banking in Bangladesh**

Islamic banking in Bangladesh started its operation from March, 1983 through the establishment of Islami Bank Bangladesh. According to Mannan (2012), former managing director of Islami Bank Bangladesh Limited (IBBL), it was registered as the first shariah –based Bank in South-East Asia. Later, to date, other eight Islamic banks gradually came up with their *shariah*—based *halal* financial products and services. Globally Islamic banking has 38 million customers. Of these, 13 million or 35 percent are in Bangladesh only. Besides, the major *shariah*-based Islamic bank in Bangladesh contains 50 percent of the global microcredit (Mannan, 2012).

Since the inception, the Islamic banking sector maintained robust growth. After 1990s the Islamic banking sector gained further momentum and recently it has more than one-fifth share of the entire banking system. According to the financial stability report of Bangladesh Bank 2013, there are 56 commercial banks of which 8 private sector banks have been functioning as full-fledged Islamic Banks. In addition, 19 branches of 8 conventional banks and 25 windows of 7 conventional commercial banks are also offering Islamic banking services. Total deposits of the Islamic banks stood BDT 1335.61 billion at the end of June 2014 which accounts 21 percent share of the entire banking industry. Among total deposits, 8 full-fledged Islamic banks have mobilized deposits of BDT

1266.62 billion (94%), Islamic banking branches of conventional commercial banks have collected BDT48.18 billion and Islamic banking branches of conventional commercial banks have gathered BDT20.80 billion. Islamic Bank Bangladesh Limited has the biggest share of deposits (39.36%). The total amount of investments in Islamic Banking sector stood at BDT 1137.96 billion at the end of June 2014 which represents 24 percent share of the whole banking industry. Thus, Islamic banks invest in all key sectors of the economy of Bangladesh.

#### **1.4 The Research Problem**

Bangladesh being a Muslim majority country, most of the people still transact in conventional banks. According to Wikipedia, there are only nine full-fledged shariah based Islamic banks which is offering *halal* financial products. Muslims of Bangladesh are more concerned about direct consumption of *halal* food but very reluctant about the *halal* financial products. Therefore, it is very timely to know the *halal* purchase intention of the Muslims for Islamic banking. *Halal* plays important roles in the life of a Muslim's belief, necessary daily living, ethical system, and emotional peace. Therefore, structuring a reliable *halal* brand allows business to attract the customers emotionally (Wilson and Liu 2010).

##### **1.4.1 Theoretical Issues**

There is enormous need that the marketer ought to comprehend the Islamic worldview of customer behavior for better understanding the behavior of Muslim consumers. Muslims are an important segment which is essential to see the worldview to

direct their consumption behavior. Their consumption pattern is thought-out as a mechanism of this worldly welfares, as well as a means that support the complete surrender to God's (Allah's) orders (Adnan, 2011). As mentioned in a study by Kahf (2011), Muslims are known to have a different time prospect of consumption while distinguished with other traditional customers. The result of a Muslim's consumption is considered to be taken in to account not only in this life, but also life after the death. Thereby the utility of Muslim customers' choice is resultant of the current worth of the above mentioned two effects (Kahf, 2011). So this is obvious that Muslim customers who are more religious does not evaluate the worth of the product/ services based on the financial rationale only. Thus their purchase intention would also differ from conventional buyers. Past researches declared that extremely religious customers are usually more price conscious, value conscious, quality concerned and attempt to get the right compensation or worth of their purchased product/services (Sood & Nasu, 1995).

From past studies (Sara S. et al, Roozy et.al, 2014; Tsiotsou, Rodoula, 2006; Shah Adeel et. al 2016; Borzooei, Mahdi Asgari, Maryam, 2013; Buaprommee, 2016; Jalilvand et. al, 2011; Shaari & Arifin, 2010; Muhammad, 2016) it is found that purchase intention has been studied from different dimensions. However, the study with *halal* brand purchase intention is rare. Especially, consumer behavioral study of a particular market segment (Muslims) is not so profound. There are some research on *halal* food products, cosmetics, tourism, but purchase intention of *halal* banking product relating to brands is very rare. Lack of research in the Islamic banking industry in Bangladesh lead to difficult situations for managers to understand how customers perceive Islamic bank brands. Thus, Islamic banks presently hold misconception about customers. At the same time, customers also hold misconception about Islamic banks. In this perspective, it is very timely and pertinent not only to find the antecedents of *halal* purchase intention but also

to construct a research model of *halal* purchase intention in the Islamic banking industry. In Bangladesh, this kind of research on halal purchase intention is not yet done.

In this study the most relevant component of Theory of Planned Behavior used is attitude toward a product or services. The attitude towards a behavior is initiated from a composite behavioral belief as for example belief of that whether the product is *halal*, which could lead to positive outlooks like having intention to purchase (Aziz & Chok, 2013). Nevertheless, in the framework of this study, subjective norms and perceived behavioral control are not included as there is product involvement included as an independent variable. This study Incorporates some of the basic marketing and branding theories that are considered to be significant to understand the *halal* concept related to purchase intention.

Cobb-Walgren et al. (1995) studied brands from both service and product categories where they found that the higher the brand equity, the greater the consumer purchase intention. Yoo and Donthu (2001) found that the brand equity and purchase intention dimensions were highly correlated. The higher the level of brand equity, the more it drives repurchase of the similar brand. Brands are evidenced to be strong sources of high purchasing decision-making and building durable relationships since last decades. Higher brand equity levels lead to more consumer preferences and purchase intention (Cobb-Walgren et al. 1995). From the several literature reviews it is found that brand equity ultimately impacts consumer preferences and purchase intentions or intention to use and finally leads to brand choice (Roozy et. al,2014), (Cobb-Walgren, Ruble, & Donthu, 1995) , (Shah, Adeel, Hanif, & Khan, 2016), (Buaprommee & Polyorat, 2016) & (Banks, 1950). Brands with higher equity is found to create significantly greater customer preference and purchase intentions.

In social exchange theory, commitment is inclined by trust, rewards and reciprocity in bank-customer relationships. There have been numerous researches on brand trust in previous literatures (Lau & Lee, 1999; Ballester & Aleman, 2005; Kim et al., 2008; Mohammad, 2012). The variable brand trust is a significant mediating influence on the consumer behaviors before and after buying the product. Very limited studies on brand trust as independent variable affecting *halal* purchase intention have been done. This study identified brand trust as an independent variable which influences *halal* purchase intention.

According to Zaichokowsky (1985), product involvement is known as the perceived relevance of a product class on the basis of customers' inherent needs, interests and values. Product involvement also affects the purchase intention (Tsiotsou, 2006). The level of product involvement highly affects purchase intention. It is being experimentally proved in a study that product involvement has positive relation with that of brand perception and preference (Dholakia, 2001). According to the theory of Technology Acceptance Model, Product involvement have a significant impact on the Web consumer (Koufaris, 2002).

Past study recommends that values directly influence customers' choice criteria, and indirectly influence their attitudes, intentions and purchase behavior. It is also found that values influence choice criteria constituted by customers and impact customer's acknowledgement of a problem, information search and beliefs. The product class which is not correlated to customer's value system will be disregarded. Customers' attitudes, intentions and purchase behavior are indirectly affected by values (Pitts and Woodside, 1984).

Religiosity is another variable which is found as moderator. As the study is on Muslim consumers, religiosity plays important role in the purchase behavior of

individuals. Studies shows that religiosity can effect behavioral intention formation as well as actual behavior (Eid, 2013; Mattila et al., 2001; Mokhlis, 2009; Zamani-Farahani & Henderson, 2010; Zamani-Farahani & Musa, 2012). Very few literature is available regarding the moderating role of religiosity with purchase intention and its antecedents. This research thus attempts to fill up the theoretical and conceptual gap in the existing literature. This research is adding a new dimension in Muslim consumer behavior and Islamic marketing.

#### **1.4.2 Practical Issues**

According to Nabi, G. et al. (2015), despite of Islamic banking industry in Bangladesh has achieved more than 20 percent annual growth, the industry has immense potentials for further expansion as Bangladesh is a Muslim majority. Regardless of the growth of Islamic banks over the last 30 years, most of the customers of Islamic banks are not familiar with Shariah based deposit and investment products. Most Islamic banks have no financial literacy program to educate the customers to have understanding of the key concepts of Islamic finance (Nabi et al., 2015). It is very essential to know the purchase intention of the target customers in order to take proper policy to attract them for Islamic banking.

Bangladesh is considered as a Muslim majority country. However the proper knowledge about Islamic Financial System lacks remarkably. Most of the people are indifferent about their financial transaction than direct consumption of *Halal* product and services. Being dominated by a secular governance, the majority of population still transact on conventional commercial banks. Lack of proper understanding of the *Shariah* issues (legal aspects), terms of the various financial instruments used are still ambiguous