

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **A. Theoretical Framework**

##### **1. Theory of Constraints (TOC)**

Theory of constraints was firstly developed by Goldratt in his book entitled *The Goal* in 1984 explaining that every organization must have constraints. According to Mabin & Balderstone (2003), theory of constraints is when organizations have problem in their company and try to find solution to solve the problem. The objective of TOC is to resolve problem in company, so money or profit obtained by the company will increase. Rand (2000) discusses about Goldratt ideas stating that there are five focusing steps in TOC. Identifying the constraint; developing the system of constraints; subordinating everything and making decision; fixing the system of constraints and the last is going back to step one if step four system is broken.

Because TOC positively effects the organization by eliminating the constraint, so TOC must be implemented for each organization. The constraint is useful to help organization to identify the problems that exist in their organization and try to find solution. If organization doesn't have constraint, it means that the organization already doesn't operate anymore. Each organization must have their own problem, so identifying the problem will help them to improve their performance. Rahman (1998) mentions that

organization must at least have one constraint because it will be their advantages to improve their organization.

TOC will effect the performance of the organization. The improvement in organization doesn't just happen in their performance but also in their marketing performance and financial aspect eventhough the impact may not give bigger impact than the impact on the organization performance. The impact of TOC marketing performance exists after the impact recieved by the organization performance.

TOC is appropriate with problem in this research where Full fledged Sharia banking industry has problem with their number of customer, and need to improve their customer. Banking industry tries to solve problem by finding the constraint that makes their number of customer is lower than the conventional one, although the major population in Indonesia is Islam. Identifying factors that effects willingness of Muslim students as the potential customer for Full fledged Sharia bank can help them to eliminate their constraint and try to improve their performance to obtain bigger number of customers especially Muslim students.

## **2. Sharia Banking**

### **a. Definition of Sharia Banking**

According to Act No 21 2008, Sharia banking is banking activity that is based on the Islamic principle. The other definition of Sharia banking according to Zainul (2012) comes from definition of conventional bank.

Word of bank comes from France *banque* or from Italy *banco* meaning as counter of money changer. Nowadays, bank is a safe place to save money and conduct economic transaction. In conventional bank, there are some activities prohibited in Islam such as interest or trade. Thus, Sharia banking is bank that implements three main principles of Islam :

1. No usury in each transaction
2. Doing business and trade activity based on legal profit achievement
3. Giving zakat (Zainul, 2012)

**b. Function of Sharia Banking**

Yaya (2014) states that the function of Sharia banking is divided into four functions :

1. Investment Manager Function

Sharia bank is as the investment manager of fund owner (*shahibul maal*). The fund must be distributed into productive funding that will give profit between Sharia bank and fund owner.

2. Investor Function

Sharia bank invests their fund in productive sector that has minimum risk and doesn't violate Islamic principle.

3. Social Function

Sharia bank implements social function in two types of instrument. Firstly, in the instrument of *Zakat*, *Infaq*, *Sadaqah*, and *Waqf*. Secondly, the instrument is *Qardul Hasan*.

#### 4. Financial Service Function

The difference of financial service between commercial bank and Sharia bank is that the Sharia bank must follow Islamic principle.

#### c. **Principle of Sharia Banking in Collecting Fund**

Yaya (2014) states principles of sharia banking in collecting fund as follow :

##### 1. *Wadiah*

Entrusted goods between one party to other parties to protect and give it back to the owner anytime the owner wants. *Wadiah* divided into two types :

a. *Wadiah yad-dhamanah* is the receiver of entrusted goods able to utilize the goods until the owner takes back the goods, the profit will goes to receiver of entrusted goods. *Wadiah yad-dhamanah* commonly used in Shariah banking and usually just called as *wadiah*. In collecting the fund, this type of *wadiah* can be in the form of this scheme :

1. *Wadiah* current account means that the third party can withdrawl their money by using check, ATM card or other payment method.
2. *Wadiah mudharabah* saving means that the third party withdrawl their money based on certain requirement such as by using ATM card or other payment method.

- b. *Wadiyah yad amanah* is the receiver of entrusted goods cannot utilize the goods until the owner takes the goods.

## 2. *Mudharabah*

Agreement between one party as the *shahibul maal* (provide the fund) and second party as the *mudharib* (organize the business).

Based on PSAK 105, *mudharabah* divided into three types :

### a. *Mudharabah Mutlaqah*

Types of *mudharabah* that *mudharib* (Sharia bank) has full authority to run the business without any limitation such as limitation of distributor type, customer, or type of business. The profit will divided based on *nisbah* agreement between the Sharia bank and customer of the bank. In collecting the fund, the Sharia bank apply two scheme below :

1. *Mudharabah* Saving is saving that the withdrawl can be done by follow some requirement. Regulation of DSN No.2 year 2000 regulate some requirements of *mudharabah* saving. First, customer is the *shahibul maal* (owner of the fund) and Sharia bank is the *mudharib* (run the business). Second is bank as *mudharib* can run all types of business which not violate Islamic principle. Third, the fund stated in cash not in the form of account receivable. Fourth, there is profit distribution stated in the form of *nisbah*. Fifth is Sharia bank cover the operational expenses by using their

profit from *nisbah* agreement. The last is Sharia bank cannot reduce the customer profit without any agreement from related parties.

2. *Mudharabah* Deposit is saving fund method with the scheme *shahibul maal* make an agreement with Sharia bank as the *mudharib* to run the business, and the profit will be divided based on *nisbah*. Withdrawal of *mudharabah* deposit only based on agreed time, in the each month of the date when create the account or the other time is at the beginning of the month or at the end of the month without consider the date when create the account.
- b. *Mudharabah Muqayyadah* is types of *mudharabah* that *shahibul maal* give some limitation to *mudharib* to run the business. Sharia bank has a role as the agent between the *shahibul maal* who provided the fund and customer of *mudharabah muqayyadah* financing as the *mudharib* who run the business. The profit of the business will divided between *shahibul maal* and *mudharib*, the bank just receive fee from their services as the agent.
- c. *Mudharabah Musytarakah* is combination of *mudharabah* and *musytarakah* because *mudharib* not just organize the business, but also provide the fund for the business.

**d. Principle of Sharia Banking in Distributing The Fund**

Yaya (2014) states principles of sharia banking in distributing the fund as follow:

1. Trading

1.1 Trading with *Murabahah* Scheme

Trading activity by explaining how much the acquisition cost and profit between the seller and buyer

1.2 Trading with *Salam* Scheme

Before the ordered product is received, the buyer must pay the product first.

1.3 Trading with *Istishna'* Scheme

Assignment from buyer to seller or producer to provide the product with specific criteria and sell for buyer who orders the product

2. Investment

2.1 Investment with *Mudharabah* Scheme

Bank as the shahibul maal (provide the fund) and customer as the mudharib (organize the business).

2.2 Investment with *Musyarakah* Scheme

Investment between stockholder by combining their stock in certain business and dividing the profit based on agreed profit sharing

### 3. Leasing

#### 3.1 *Ijarah*

Leasing between lessor (bank) and lessee (customer). The lessor gets profit by leasing their product

#### 3.2 *Ijarah Muntahiya Bittamlik (IMBT)*

The difference between regular *ijarah* is that in *IMBT* there is option of changes in ownership at the end of leasing period.

### 3. Full fledged Sharia bank

#### a. Definition of Full fledged Sharia bank

The Sharia banking is divided into three types of Sharia banking. There are Full fledged Sharia bank (*Bank Umum Syariah/BUS*), full branch Sharia bank (*Unit Usaha Syariah/UUS*) and Sharia Rural Bank (*Bank Pembiayaan Rakyat Syariah/BPRS*). Based on the of Act No. 21 2008, Full fledged Sharia bank is a bank that its activity is giving service in payment traffic.

#### b. Business Activity of Full fledged Sharia bank

Based on Act No 21 2008, the business activity of Full fledged Sharia bank are :

1. Collecting fund in the form of saving based on *wadiah* contract
2. Collecting fund in the form of investment based on *mudharabah* contract



3. Distributing profit sharing based on *mudharabah* contract or *musyarakah* contract
4. Distributing the fund based on *murabahah* contract, *salam* contract or *istishna'* contract
5. Distributing the fund based on *qardh* contract
6. Distributing lease based on *ijarah* or *ijarah muntahiya bittamlik* (IMBT)
7. Withdrawal the payable based on *hawalah* contract
8. Applied business debit card or funding card
9. Buying, selling, or guaranteeing the risk of third parties securities based on *ijarah*, *musyarakah*, *mudharabah*, *murabahah*, *kafalah* or *hawalah* contract
10. Receiving the funding from securities claim
11. Transferring of money
12. Being a guidance amanat in *wakalah* contract
13. Giving facility of letter of credit
14. Implementing other activities in banking and social as long as not violating Islamic principle

#### 4. Definition of Usury

##### a. Verse Prohibition of Usury

وَمَا آتَيْتُم مِّن رَّبِّ الِئْرَبُوا فِي أَمْوَالِ النَّاسِ فَلَا يَرْبُوا عِنْدَ اللَّهِ وَمَا آتَيْتُم مِّن زَكَاةٍ تُرِيدُونَ وَجْهَ اللَّهِ فَأُولَئِكَ هُمُ الْمُضَعِفُونَ ﴿٣٩﴾

Q.S. Ar-Rum 39 : “And whatever you give for interest to increase within the wealth of people will not increase with Allah . But what you give in zakah, desiring the countenance of Allah - those are the multipliers.”

**b. Definition of Usury**

Usury comes from the *az-ziyadah* word that means addition. Usury also means grow, developing and purification. Muhamad (2014) mentions usury is the act of lending money at an exorbitant or illegal rate of interest. Adnan (2016) states that usury is taking any additional part of loan unfairly / unjustly in any transactions that can come from loan or lending and from purchasing or buying or selling.

**c. Types of Usury**

Adnan (2016) divides four types of usury :

1. *Riba Qardh*: any addition charged to the debtor
2. *Riba Jahiliyyah*: loan that should be paid more than an original loan due to time or the debtor should pay more because the debtor cannot pay on time
3. *Riba Fadhl*: an exchange of goods which is not equal in quantity or quality.
4. *Riba Nasiyah*: the postponement of delivering / receiving goods due to different quality or due to additional period

#### **d. Transformation of Interest and Usury in Indonesia**

Adnan (2016) argues some changes about how people in the world and in Indonesia treat usury :

1. Globally, Muslim people in the world agree that usury or interest is harmful.
2. Meanwhile, in Indonesia, there are some consideration to treat usury. First, Interest is halal as long as it is applied for productive activity. Second, interest is allowed only in banking of government. Third, usury is fully prohibitted or harmful
3. The last information or fatwa from *MUI* stated that interest is fully prohibitted, except for who are living in an area with no acces to Sharia banking.

#### **5. Willingness**

Willingness is characteristic of customer when they use certain product (Santosa, 2014). When customers use a product, they will give their reaction towards the product that they use. The reaction can be in the form of interest or rejection. When someone is interested with something ,it means that they will choose and use the product.

Sukron (2012) states that willingness must meet some criterias. First criteria is the existence of interest, feeling and thinking towards interested subject. Second is the feeling of happy towards targeted object. Last criteria, there is desire from subject itself to commit it in order to achieve the objective.

From some definitions above, we can conclude that willingness is feeling when someone is interested to something and willing to apply the activity freely without any pressure from other people. Factors of willingness exist to influence people to increase their willingness before they choose a product or before they implement certain activity. Thus, we can conclude that factor of willingness appear before they really implement certain activity.

Willingness to make bank account appears when someone is interested and without pressure to choose the bank. Factor affecting people when they choose the bank is appears before they decide to become bank's customer. Hegazy (1995) states some factors affecting willingness of people when saving at bank such as reference, convenience, physical information, community development, credit availability, safety and security. There are many other factors effecting people when selecting the bank in addition to the research by Hegazy.

Lestari (2016) states three steps in willingness. First step is clear information before choosing the product. The information needed for buyers to determine whether the products give benefit or not. Second is consideration or review before choosing. The last step is decision to choose product. The steps from Lestari (2016) is also applicable when people are willing to be customers of Full fledged Sharia bank. First, customer candidates find all information about Sharia banking, find the regulation, profit sharing and mechanism that is little bit different with commercial bank. Second, customer candidates need to fulfill her/his consideration by choosing the bank. The last

customer candidate make decision whether they decide to be Sharia banking customers or not.

## **6. Recommendation from Parents**

When a customer invites other people to be a customer or buyer to use same product or services like him or her is called the theory of words-of-mouth or WOM (Yaya & Hilda, 2016). Promotion through WOM is able to influence other people. When people satisfy with certain product, they have intention to invite others to use the same product like them. They think that the product gives many benefits for. Thus, people tend to invite others to share same benefit from the product like them. In addition, as a Muslim we need to remind other Muslim to avoid usury by telling the existence and mechanism of Full fledged Sharia bank.

Buttle (1998) mentions five characteristics of WOM :

- a. Valence. Explained it under the word valented, WOM activity influences others and it is not always spreading positive news but there is also negative impact of WOM activity.
- b. Focus. Explained it under the word focus, WOM activity influences customer not only just because there is news and spread it self, but there is also are some factors influencing WOM news received by customer such as internal, influencer, recruitment, referral, supplier or alliance.
- c. Timing. Explained it under the word timing, WOM activity is applied by customer candidate when they are interested to certain product and try to

find information about the product. Thus, this activity is called as pre-purchase information activity.

- d. Socialization. Explained it under the word socialization, WOM applied through socialization from company, so information can be delivered properly.
- e. Intervention. Explained it under the word intervention, company needs to manage and stimulate WOM activity to avoid problem from negative issues that possible happen to through WOM.

Theory of WOM is also applicable when parents give suggestion to his children when making bank account to use the same bank. Parents have more knowledge and experience, so they can explain and give suggestion for their children. Suggestion from parents make children believe with the bank, because children are able to see directly benefits from bank's services that have been received by their parents.

Research by Phuong & Yin Har (2000) states that recommendation will effect people willingness eventhough recommendation is the lowest factor when people save on Full fledged Sharia bank. Their research focused only on regular people without having in certain group for the sample.

There are other previous studies that concern in recommendation by customer toward other people. Research by Yaya & Hilda (2016) states that there is willingness of Muslim and nonMuslim customer in Bali to invite others to become Sharia Bank customer. Asnawi's research (2016) also gives

positive effect of people recommendation in saving at bank. Asnawi's research was conducted on Full fledged Sharia bank in Pangkalpinang.

Marimuthu et al (2010) gives result that Full fledged Sharia bank is lack of promotion and marketing. People don't understand and need information of Sharia banking, so they need advertising from Sharia banking. However, Marimuthu et al (2010) finds that that advertising doesn't give significant effect, and his research finds that promotion by WOM gives significant effect in increasing people willingness.

The intention to invite other people to use same product is also applicable for parents. Research by Blankson et al (2009) finds that students' bank selection criteria in US as a developed country and Ghana as as developing country is not significantly different. He find that parents recommendation gives positive effect in increasing students willingness.

Research by Lewis (1982) states that children are potential customer for banking industry because they will use same bank account started from becoming college students until they graduate. Lewis (1982) finds that students would be effected by their parents in saving at bank because their parents have knowledge about bank and try to recommend it to their children.

## **7. Location**

Weber (1909) states that a company must be in the locational triangles. Locational triangles mean that placing the industry between raw material and markets. Considering the raw materials means that location of industry must consider the cost of raw material, labor, and etc. Location determines the

market it meaning that location determines shipping cost of production and cost that customer needs to arrived at our store. Peoplo who consider cost to arrive at the location are called as people with transpotation oriented (Weber, 1909). When people consider the cost of transportation, they do not only consider the cost in term of money but also in term of time and energy that they use to arrive.

Determining location is based on types of targeted subject. For example, if we want to have market, we need to consider the location of buyer and the feasibility of seller to send the product to market. If we want to build a warehouse, we need to consider the location of raw material and market. If we want to build school, we need to consider the location of students and teacher. Placing the bank is also not really different if we compare with locational triangle location theory from Weber. The ATM machine and bank office need to consider the location of customer.

Based on the explanation above, we can conclude that location is important factor for customers because they consider how far the store or bank location when they are interested with the product. If the cost to arrive to the store is high, customer maybe will choose other places that have lower cost of transpotation.

If the customer of the bank is students, it means that in addition to consider location of students house, we need to consider the location of the campus of the students. Mostly, each campus has some bank branch offices. The existence of bank in campus will help students to pay education cost.



Students also consider the location of ATM machine because students get money from parents usually transferred to them each month. ATM machine location must be in the strategic place over the city of students.

There are some researches in overseas supporting the positive effect of location, one of them is Naser (1999). Naser et al (1999) believes that location is major factor in saving at bank. His research was held for customer of the bank in Jordan.

Research in Indonesia by Bank Indonesia & UNIBRAW (2000) about people willingness in East Java find that there is positive effect on location towards people willingness in saving at Full fledged Sharia bank. Researches by Asnawi (2016) held in Pangkalpinang, Arviyan (2016) held in Yogyakarta especially Muhammadiyah people, Lestari (2016) held for Jogokaryan people, and Masyaroh (2014) also find that there is positive effect on location towards people willingness. The result of Indonesian Muslim researches indicate that there is no significant differences on the effect of location towards Muslim people willingness between the research compared to around the world.

If some researches above were held for regular people, some other researches such as from Blankson, et al (2009), Chigamba & Fatoki (2011), Rao & Sharma (2010), Naser et al (1999) and Phuong & Yin Har (2000) were conducted for students. They believe that location give positive effect in increasing the willingness of students in saving at Full fledged Sharia bank. Each of the researchers held the study for students in differences countries, such as Blankson's research in US & Ghana, Chigamba & Fatoki's research in

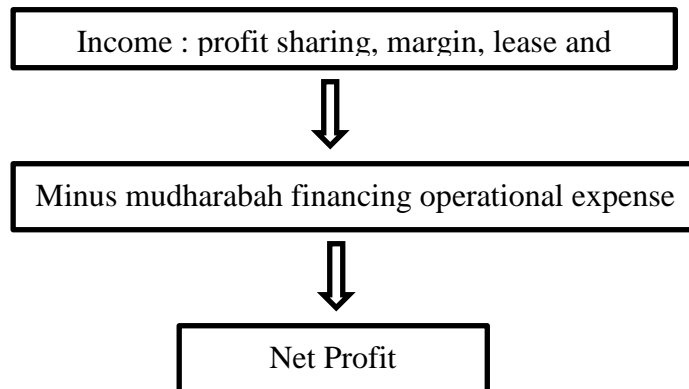
South Africa, Rao & Sharma's research in Delhi, Phuong & Yin Har's research in Singapore. All of the researches above indicate that almost students around the world choose location as their criteria.

## **8. Profit Sharing**

Profit sharing is distribution of profit between bank and customer based on agreed nisbah or calculation. The nisbah between customer and the bank is based on their agreement, can be 65% for bank or can be 65% for customer. However, before determining the nisbah, there are some steps in calculating profit sharing. The steps are explained below :

### **a. Determine principle of sharing the profit**

In determining how much the profit that will be divided for customer and bank, firstly we must determine the principle in profit distribution. The principle in profit distribution is divided into two types revenue sharing (gross profit sharing) and profit sharing. Revenue sharing in practice is treated like gross profit sharing because profit distributed is not actual pure profit from revenue, but profit distributed is from gross margin. Gross margin comes from sales minus cost of goods sold. For profit sharing method, distribution comes from gross profit minus all expenses, so net profit is obtained. This research focuses on the profit sharing. The calculation of profit sharing method is explained below :



PICTURE 1.1

Net Profit Determination in Profit Sharing Method

Source : Yaya, 2014

b. Calculate revenue that will be divided

After determining the principle, we calculate the revenue that will be shared. Calculating daily average balance of sources fund or *Rata – Rata Saldo Harian Sumber Dana (RSSD)* is done by calculating all balance in a month divided by number of days. After that, calculating daily average fund of financing or *Rata – Rata Saldo Harian Pembiayaan (RSP)* is done by calculating all balance in a month divided by number of days.

c. Distribution of profit

The last is distribution of profit sharing for customers based on agreed *nisbah*. Revenue that has been calculated is divided between bank and customer. Nisbah determined by bank and customer starts from when customers officially become the customer of Sharia banking.

Most of people consider the profit they will obtain when selecting Full fledged Sharia bank. Kurniawati (2014) mentions in her research that

profit sharing and services give influence on willingness of people in saving at Full fledged Sharia bank. Her research was held for people who are already the customers of Full fledged Sharia bank.

People will be profit oriented eventhough profit sharing is not as major factor. Erol & El-Bdour (1989) state that even though the title is Sharia banking, the religiosity is not being a major factor. People are more profit oriented in choosing Full fledged Sharia bank. Moreover, there is research from Marimuthu et al (2010) argues that people are more profit oriented rather than religious oriented, even though both of them have positive effect.

## **9. Religiosity**

Religiosity stimuli means that when someone choses an activity especially economic activity, they would consider the Islamic principle, whether the activity violate the Islamic principle or not. When someone has good reliquisity, it means that they have good knowledge of what activity appropriate with Islamic principle. Knowledge of Islamic principle must be applied by all Muslim in order to avoid sin.

In Islam, there is verse from Al- Baqarah 208 stating that “O you who have believed, enter into Islam completely [and perfectly] and do not follow the footsteps of Satan. Indeed, he is to you a clear enemy”. From these verse, it is clear that if we become full Muslim, we must be obedient to Allah by avoiding satan’s persuasion. By avoiding interest, we try to follow Allah’s command. Actually not just Islam that prohibits usury, other religions such as

Christian, Catholic, Hindu, and Buddha also avoid interest because they do not give benefits for all parties.

Stark & Glock (1968) states some dimensions of religiosity :

1. Belief dimension means how far the degree of a Muslim trusts Islam lesson. Islam means the truth of Allah, paradise, hell or about Allah creatures such as angel or satan.
2. Religious practice dimension means how far the degree of a Muslim obedient with Allah's command by implementing activity that is permitted and getting *pahala* such as by performing pray, *zakat*, fasting, hajj, reading Al-Quran or etc.
3. Experience dimension means how far a Muslim applies Islamic principle that comes from Al-Quran or hadist to be implemented in daily life related to ourself or relationship between other human being such as being honest, helping each other and etc.

Previous research found that there is effect of religiosity to people willingness. Research by Awan & Shahzad (2011) finds that religiosity is able to influence people eventhough it is not a major factor in saving at Sharia financial institution. In addition to religious factor, there are other factors such as product and services quality.

In line with the previous ideas, Sayani & Miniaoui (2013) states that religiosity is the biggest factor when saving at commercial bank. Sayani & Miniaoui's research (2013) failed to meet their expectation that profit oriented or reputation will be major factor when saving at Full fledged Sharia bank.

## **10. Knowledge**

Knowledge comes from education, experience and training. Measuring someone's knowledge is done by some dimension. Each researcher has their own dimensions of knowledge. Conklin (2005) states that Bloom's classic dimensions are divided into three dimensions. First, knowledge level means that if someone has good knowledge, they will remember the concept and principle. Second is comprehension, which means that someone understands the material and able re-explain the material with their own language. The last is application which means that someone has already fulfilled two previous stages of knowledge and comprehension, so they are able to implement the material in real life to solve some problems.

Knowledge related to Full fledged Sharia bank is about information of the product, services, mechanism or activity. Students knowledge of bank especially Sharia can be found from education in the class. University with the background of Islamic education always connects lesson with Islamic principle. Moreover, knowledge of Islamic economy can be from news or internet.

From the explanation of Conklin (2005), students good knowledge of Full fledged Sharia banking can be measured from some steps. First, students are able to remember what Full fledged Sharia bank is and remember the Sharia banking concept. Second, students are able to re-explain the concept or principle in Sharia banking which must follow Islamic principle that avoids usury. Third, students are able to interpret and give opinion about Full

fledged Sharia banking. Fourth, students understand the concept of Sharia commercial banking that there is no interest or usury in Full fledged Sharia banking making them choose Full fledged Sharia banking as their bank account.

Actually, there are three other stages of Bloom's classic dimension after three stages of remembering, understanding and applying called as Bloom's great classic dimension (Conklin, 2005). The other three stages are analyzing, evaluating and creating. After someone understands the knowledge, they will analyze the information to know if there any positive or negative effect of the knowledge. After that they will evaluate the information or material by giving comment or suggestion. The last stage is creating the other similiar knowledge related to the previous knowledge.

The research done by Rammal & Zurbruegg (2007) find that Muslim people need to increase their knowledge of Sharia banking in order to understand the mechanism of Sharia banking. Therefore, if they understand the Sharia banking, they will be interested toward Full fledged Sharia bank. Hippy & Bokuu (2014) state that knowledge has significant positive influence on the customer willingness in saving at Full fledged Sharia bank. Their research was held for customers of Bank Muamalat in Gorontalo. Research by Faisal (2016) held for EKPI students of UMY support the statement stating that there is positive impact of knowledge toward willingness of Muslim students.

## **11. Financial information disclosure**

Suwardjono (2013) mentions that financial information disclosure means concept, method and media about how accounting information is delivered to responsible parties. It means that disclosure delivers relevant financial information based on financial statement and disclosure useful as interpretative tools. Disclosure is not just quantitative but also qualitative and descriptive.

From the definition above, we can conclude that financial information disclosure is about the financial statement that provides information for users. The financial information disclosure is actually not just the financial statement but also other information including management information that is useful for users to make decision (Suwardjono, 2013).

Suwardjono (2013) divides the objective of disclosure into three. First objective is to protect the users, because there is possibility of management to unfair and close information. Second objective is for informative purpose it means that information disclosure is useful for users as the reference to make decision. Last objective is for specific needs. It is compilation of two objectives.

Disclosure method related to problem on how information can be served for user in one financial statement package with other related information. Information of financial statement can be in the form of financial statement post which can be in the form of balance sheet, income statement, changes of equity statement and cashflow statement; footnotes or notes to financial



statements; usage of technical terminology; explanation in brackets, attachment; explanation of auditor in auditor report and the last is management communication in the form of legal statement (Suwardjono, 2013).

Students need information of Full fledged Sharia bank as part of pre-purchase product or services in Full fledged Sharia bank. The information can be from bank's financial report or from news that can be found from internet. After students achieve all information needed about Full fledged Sharia banking, it will help them to make decision.

## **B. Developing Hypothesis**

### **1. Effect of parents recommendation towards Muslim students in saving at Full fledged Sharia bank**

When parents already know the performance of bank and the service of bank is good, they try to suggest or recommend the bank for their children. The money to save in bank comes from their parents, so their parents give advice to their children to use and save the money properly. Parents have more knowledge and experience, so they can explain and give suggestion for their children.

Eventhough, there is different background of Islamic education economy in college almost all Muslim students consider their parents suggestion. Different background in college does not only give different impact if parents recommendation involve in their bank saving at process because parents suggestion is important for both of these two groups.

Many previous researches support the statement that recommendation will positively effect other people willingness. Such as the research from Phuong & Yin Har (2000) applied for citizens and Yaya & Hilda (2016) applied for Full fledged Sharia bank customers. The intention to invite other people to use same product also applicable for parents. Previous research from Blankson, et al (2009), Asnawi (2016) and Lewis (1982) also support the statement. Parents have more knowledge and experience, so they can explain and give suggestion for their children.

Thus, parents recommendation is important factor for students in increasing their willingness when saving at Sharia banking.

H1a : There is significant positive effect of parents recommendation toward willingness of Muslim students with Islamic economic education background in saving at Full fledged Sharia bank.

H1b : There is significant positive effect of parents recommendation toward willingness of Muslim students without Islamic economic education background in saving at Full fledged Sharia bank.

## **2. Effect of location towards Muslim students in saving at Full fledged Sharia bank**

People usually prefer go to the bank when the location is strategic. They consider the location of bank and ATM machine. For students in Indonesia, they prefer to save their money from their parents in bank that is near with their campus or their house. Students usually have bank account that the bank has branch office or ATM machine in their campus.

Beside location of bank in their campus, they also consider if the bank has office or ATM machine in strategic place in city or not. Thus, location will positively effect willingness of students in saving at Full fledged Sharia bank account.

Eventhough, there is different background of Islamic education economy in college, almost all Muslim students consider the location of bank. Research by Risdayanti (2014) conducted for non Muslim students in Yogyakarta also finds positive effect on location toward students willingness. Her research was conducted in Universitas Sanata Dharma (USD), Universitas Kristen Duta Wacana (UKDW) and Universitas Atmajaya Yogyakarta (UAJY). Her research indicates that all people, eventhough they are non Muslim students also consider location when saving at Full fledged Sharia bank. Different background in college does not give different impact if location involve in their bank saving at process.

There are some researches that do not support with the effect of location towards people willngness. Ramadhan (2015) states that location gives negative impact towards people to become member of BMT. The other research from Ernawati (2016) also states that there is no influence of location. Ernawati (2016) mentions that even there is bank in certain area, it does not guarantee most of people arround the bank will be the customer of that bank. However, there are some researches who state that there is positive effect of location explained as follow.

There are some researches in overseas supporting the positive effect of location such as Naser (1999) conducted the research in Jordan, and a research in Indonesia by Bank Indonesia & UNIBRAW (2000) conducted the research for East Java people. If some researches above were conducted for regular people, other researches were conducted for students such as researches from Blankson, et al (2009), Chigamba & Fatoki (2011), Rao & Sharma (2010), Phuong & Yin Har (2000) and Risdayanti (2014). Risdayanti (2014) indicates that all non Muslim students also consider location of bank that is near with their house.

Thus, location is important factor for students in increasing their willingness when saving at Sharia banking.

H2a : There is significant positive effect of location toward willingness of Muslim students with Islamic economic education background in saving at Full fledged Sharia bank.

H2b : There is significant positive effect of location toward willingness of Muslim students without Islamic economic education background in saving at Full fledged Sharia bank.

### **3. Effect of profit sharing towards Muslim students in saving at Full fledged Sharia bank**

Most of people consider the profit they will obtain when selecting full Fledged Sharia bank. Eventhough, they also consider the bank from religisuity aspect, people usually also like high nisbah from profit distribution. Higher *nisbah* distribution means higher money will be

obtained from the agreement or transaction with the bank. Students also consider the profit sharing they will obtain because as non-income earners, they need to save their cost in college and try to obtain money. By selecting the bank with high profit sharing distribution for them, it will make them obtain additional money.

Previous research also supports the statement that profit sharing will effect people willingness in saving at Sharia bank such as research from Kurniawati (2014), Erol & El-Bdour (1989), and Marimuthu et al (2010). Research by Risdayanti (2014) was conducted for students also found that non Muslim students also consider the profit they will obtain. All type of students with and without background of Islamic economy education in their college, most of them consider the profit they will obtain. As non-income earners, they need to save their cost in college and try to obtain money.

Thus, profit sharing will effect students's willingness in saving at Full fledged Sharia bank.

H3a : There is significant positive effect of profit sharing toward willingness of Muslim students with Islamic economic education background in saving at Full fledged Sharia bank

H3b : There is significant positive effect of profit sharing toward willingness of Muslim students without Islamic economic education background in saving at Full fledged Sharia bank.

#### **4. Effect of religiosity towards Muslim students in saving at Full fledged Sharia bank**

Religiosity is the tendency of people when they implement an activity or choose something considering the factor of religion whether the activity will violate their religion or not. When a Muslim has knowledge about Islamic principle, he/she will choose an activity that will not violate Islamic principle. In financial activity, a Muslim will consider the factor of usury because usury or interest is prohibited in Islam. In addition when students have good religiosity and they understand Islamic principle, they will try to obey to Allah, so it will make them consider that the usury is not accepted in Full fledged Sharia bank. Both Muslim students with and without background of Islamic education will consider their interest in Full fledged Sharia bank if they have good religiosity.

There are some researches from Gandasari (2016), Lestari (2016), Setiwan (2016) stating that people religiosity does not give significant impact in saving at Full fledged Sharia bank. Lestari's research subject was people of Jogokarian. Meanwhile, Gandasari's reseach subject was people in Cirebon and Setiwan for students of Muslim school. Setiawan (2016) mentions effect of social life in Indonesia which prefer to use conventional bank rather than Sharia bank effected students willingness. However, there are some researches stating that religiuisity gives positive impact.

Some researches give result that religiosity gives positive impact, such as research from Gandasari (2016) and Lestari (2016). Both of them were conducted for citizens in different city. There are also researches stating that religiosity gives positive effect to students willingness. Research from Risdianti (2016) whose her respondents were EKPI students, and Istiqomah (2015) whose respondents coming from STAIN Salatiga students indicate that Muslim students willingness will increase if effected by their religiosity degree. Students who understand Islamic principle will try to obey Allah, so it will make them consider the usury that is not accepted in Full Fledged Sharia bank.

Thus, the hypothesis in this research is Muslim students religiosity will positively effect students in saving at bank.

H4a : There is significant positive effect of religiosity toward willingness of Muslim students with Islamic economic education background in saving at Full fledged Sharia bank.

H4b : There is significant positive effect of religiosity toward willingness of Muslim students without Islamic economic education background in saving at Full fledged Sharia bank.

## **5. Effect of knowledge towards Muslim students in saving at Full fledged Sharia bank**

Knowledge comes from education, experience and training. When someone has good knowledge in Islamic economy, it means that they understand and try to avoid prohibition in Islam such as interest in

commercial bank because it is *harm* or prohibited. Knowledge of Islam can be in the form of lesson at school, reading Al Quran & hadist or can be lesson from parents. Knowledge of Islam is needed for each Muslim to know what is prohibited activity and permitted activity in order to be obedient human being to Allah SWT.

If Muslim people have knowledge that interest in conventional bank is prohibited, they will choose Full fledged Sharia bank because in Sharia bank, there is no interest and all transaction is clear. The effect of knowledge is also applicable for students. When students have good knowledge of Islamic economic, it means they understand the regulation in Islam to avoid interest, and then they try to avoid interest. To avoid interest students with background of Islamic economics education have possibility to choose Full fledged Sharia bank rather than commercial bank because in Full fledged Sharia bank there is no interest.

Muslim students without background of Islamic economy on their own education need to learn about Islamic economy because their universities do not always involve Islamic principle in every lecture. Students without background of Islamic economy education can learn by reading Al – Quran, news or by internet to find out Sharia banking mechanism. If Muslim students with or without Islamic economy education have knowledge of Islamic principle and Sharia banking, they will try to avoid interest involved in commercial bank.



The previous researches also state that there is positive effect of knowledge such as from Hippy & Boku (2014) who conducted their research on Full fledged Sharia bank customer for Gorontalo citizens. Moreover, there is research that is applicable for students by Faisal (2016) that was conducted for Islamic economy students in UMY. Students have good knowledge of Islamic economic means they understand the regulation in Islam to avoid interest, and then they try to avoid interest.

H5a : There is significant positive effect of knowledge toward willingness of Muslim students with Islamic economic education background in saving at Full fledged Sharia bank.

H5b : There is significant positive effect of knowledge toward willingness of Muslim students without Islamic economic education background in saving at Full fledged Sharia bank.

## **6. Effect of financial information disclosure towards Muslim students in saving at Full fledged Sharia bank**

In Indonesia, Sharia banking's problem is the number of customers that is very few. Eventhough, majority people in Indonesia are Muslim, they still have mindset that Sharia bank mechanism and information is same like conventional bank (tribunnews.com , 2014). Research from Rammal & Zurbruegg (2007) states that Muslim people in Australia are interested with Sharia banking, but they lack of information and understanding. Thus, they don't want to become Full fledged Sharia bank's customer. The case in Australia also happens in Indonesia because

Indonesian Muslim people also lack of information. Many people think that there is no differences between Sharia and commercial bank, making them prefer to choose conventional bank. Thus, information is needed for people to know and understand usefulness of Sharia bank.

Objective of disclosure is to protect the users, because there is possibility of management to unfair and closed information. The other objective is for informative purpose. It means that information disclosure is useful for user as the reference to make decision. We know that disclosure of information especially financial information is useful for people to help them in making decision whether the bank is good or not for them, whether the bank is appropriate with students or not and also help students know about the profit they will obtain from profit sharing distribution.

The usefulness of information disclosure is also applicable for students. If students know the information of the bank, they will trust to save their money in Sharia bank because they are familiar with a Full fledged Sharia bank. Students will understand that mechanism and transaction in Full fledged Sharia bank is a clear form interest. Information of Full fledged is also able to be implemented for non-Muslim students. They need information of the Full fledged Sharia bank to support their decision when choosing the bank. It means that students with and without background of Islamic education consider the information of the bank when making the decision to become bank's customers.

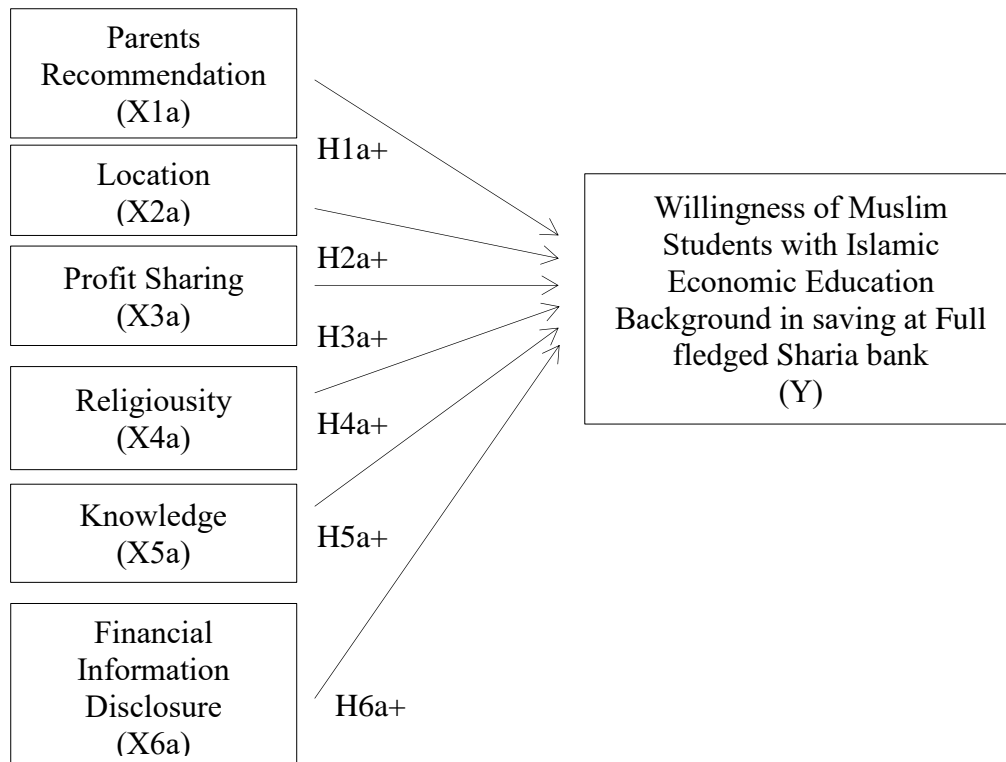
There are some researches that support the effects of financial information disclosure, but there is also research result that also gives negative result of financial information disclosure. The research from Rangkuti (2009) states that there is no positive effect of financial information disclosure towards bank's customer willingness. Based on [tribunnews.com](http://tribunnews.com) (2014), eventhough, majority people in Indonesia are Muslim, they still have mindset that Sharia bank mechanism and information is same like conventional bank. It makes them still have conventional bank account even they have information about the bank.

Some researches such as by Dianto (2016) and Risdayanti (2011) state that there is positive effect. Research by Risdayanti (2011) was conducted for non-Muslim students in Yogyakarta. People think that information disclosure is useful for users as the reference to make decision.

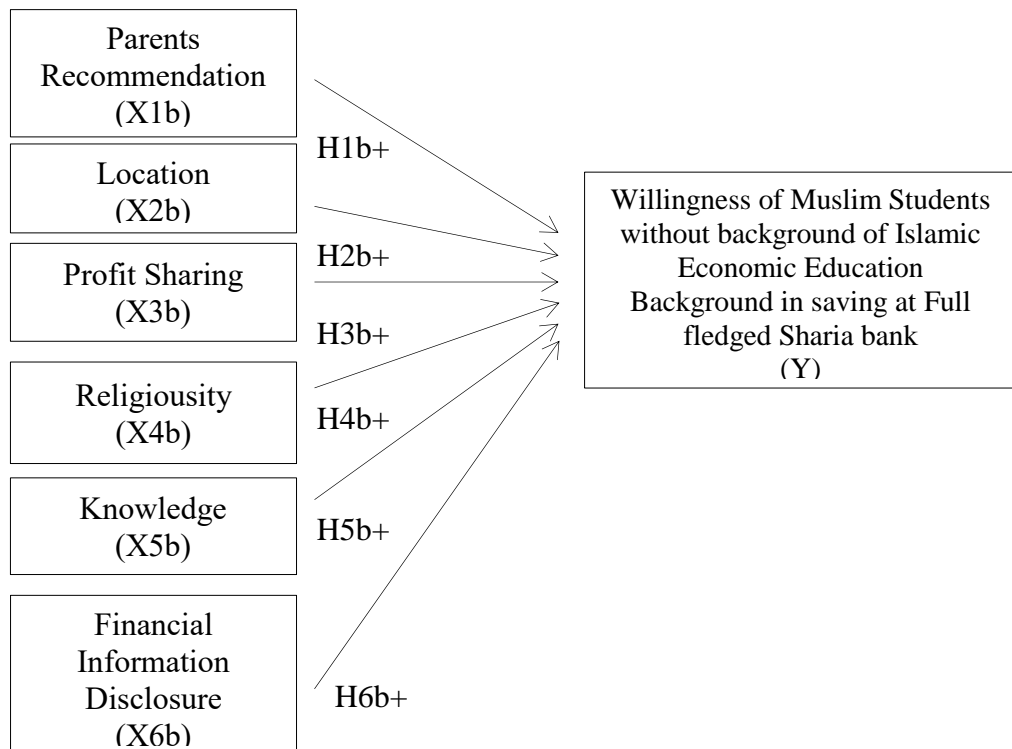
H6a : There is significant positive effect of financial information disclosure toward willingness of Muslim students with Islamic economic education background in saving at Full fledged Sharia bank

H6b : There is significant positive effect of financial information disclosure toward willingness of Muslim students without Islamic economic education background in saving at Full fledged Sharia bank

### C. Research Model



PICTURE 2. 1  
Research Model 1



PICTURE 2.2  
Research Model 2