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ISLAMIC WEALTH PLANNING: THE DEVELOPMENT OF INSTRUMENT

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ABSTRACT

The purpose of this paper is to develop new instrument that measures the Islamic wealth planning concept based on the Islamic literature. The concept was conceptualized and transformed into an instrument based on two methods, namely experts' validity (using Lawshe's technique with eight Malaysian certified Islamic financial planners and two representatives from the official Islamic religious departments in Kedah and Perlis states/Malaysia) and focus group session with seven experts in several related areas, i.e. Islamic philosophy, Islamic finance, and Islamic financial planning. This paper used a quantitative approach using questionnaire. The developed instrument was then distributed to 120 respondents to further improve its validity and two analyses were performed: reliability analysis and exploratory factor analysis. The finding of this study is a new validated instrument for the concept of Islamic wealth planning which contains two main sections, i.e. worldly financial planning and hereafter financial planning. The first section consists of income/investment planning, retirement planning, education (for the individual) planning, and Takaful/insurance planning, while the second section consists of education (for his/her family) planning, *Faraid* planning, *Wasiyyah* planning, Zakat/taxes planning, Hajj planning, *Hibah* planning, *Waqf* planning, and charitable financial planning. This paper contributes to the existing scarce studies in the area of Islamic wealth planning and management. In addition, this study contributes in transforming the Islamic wealth planning concept into a measurable instrument that can be used for several parties such as Islamic financial planners, high net worth individuals (HNWI) as well as middle class individuals, Islamic financial institutions, and researchers.

Keywords: Islamic wealth planning, worldly financial planning, hereafter financial planning, instrument validity, Malaysia.

INTRODUCTION

Wealth planning is part of Islamic faith which can be considered as *Ibadah* (an act of worship). Islam calls for a comprehensive system that has a concerted and holistic approach which encompasses all aspects of lives of both worlds (Dusuki, 2011). Thus, Muslims are encouraged to have future plan for their life. Allah (S.W.T) says: “O ye believe, enter into Islam whole-heartedly; and follow not the footsteps of the evil one; for he is to you an avowed enemy” (Al-Quran 2:208). The verse explains that Muslims need to practice Islam in all aspects of life whether it relates to this worldly life or the Hereafter. As Allah (S.W.T) is the sole giver of bounty, Muslims need to have an equal balance between the spiritual and worldly obligations (Noh, 2014). However, nowadays, Malaysians are not paying enough attention to wealth planning which results in many problems. These problems are among issues that concern the central bank of Malaysia (i.e. Bank Negara Malaysia) as well as the Malaysian government.

In its survey on “Financial Capabilities and Inclusion Demand Side Solvency”, Bank Negara Malaysia reported few alarming concerns (Bank Negara Malaysia, 2017). The survey found that most Malaysians are lacking in knowledge on financial planning with majority of individuals only focus on short-term financial (inclined to “live for the moment”) rather than thinking of long-term financial planning. Besides that, only a quarter of Malaysians have some form of investments. The survey also found that more than 75% of individuals find it difficult to save even RM1000 for their emergency needs. Thus, it is very valuable to have knowledge in financial planning. According to the Deputy Governor of Bank Negara Malaysia, it is important for individuals to have financial management knowledge to raise awareness about prudent financial management to be more secure in the future (BNM, 2017).

One example to show the importance of wealth planning relates to the current economic difficulty among many Malaysians which prompted the Malaysian government to provide financial aid known as 1Malaysia People's Aid (BR1M). BR1M is a new scheme given to the poor and middle class individuals to support their life based on level of income (Razak, 2015). For household and individual, BR1M is given based on the income (households with income of less than RM3000 get a government aid of RM1200, for those with income of between RM3001 to RM4001 get RM900, and lastly for those with income of less than RM2000 get RM450. The allocation of BR1M in 2017 which amounted to RM5.41 billion was given to 6,320,769 applicants (Anand, 2017). The huge number of poor and middle class individuals shows that financial planning is very important. This indicates that lack of concern on financial planning has resulted in difficulty to meet future financial needs.

Several writings and studies have been written in relations to the concept of Islamic wealth planning. (Abdullah and Muhammad (2013), Ahmad (2010), Ali (2012), Aziz et al (2014), Billah (2005), Farooq (2014), Ismail (2011), Lahsana (2011), Nabil (2015), Salleh (2012), and Wahab (2014)). Most of these studies are conceptual in its nature. This is perhaps due to the fact that Islamic wealth planning is a relatively new phenomenon with Malaysia being a leading country in this area. To the researchers' best of knowledge, and perhaps because of very limited studies, the researchers could not find any existing empirical study that measures the concept of Islamic wealth planning. Due to the absence of a validated instrument to measure the concept of Islamic wealth planning and because of the above mentioned problems that are facing Malaysians, the researchers were motivated to develop new instrument that can assist Muslims to have a proper wealth planning to achieve their worldly and spiritual needs.

THEORETICAL BACKGROUND OF ISLAMIC WEALTH PLANNING

Wealth in Islam

Wealth literally means the formation of fortune obtained through productive goods and services as well as the monetary value of such productive activities. It can be generated by individual, community, company

or country (Hui, 2003). Based on the conventional perspective, wealth is important in human life and it is defined as a main source of happiness. However, Islam defines wealth as income on daily basis for family and also can be clarified as surplus income (Yusoff, 2001), which has several characteristics. Firstly, all forms of wealth belong to Allah (S.W.T) and it is in abundance rather than scarce (INCEIF, 2006). Secondly, wealth is a gift from Allah. It is given to those who understand its value, and therein follow Allah's path (Wahab, 2014). Wealth belongs to Allah (S.W.T) and is owned by people as a trust, which will be accounted for in the Hereafter. Thirdly, wealth must be purified through several means (such as charity and Zakat) as the prophet Mohammad said: "wealth should be purified by paying Zakat" (Sulaiman, 2011). Lastly, wealth cannot be used for any unethical purposes such as showing off (Shafii et al, 2013). Islam strongly recommend Muslims to retain a share of produced wealth by donating in form of charity, Zakat to the needy, *Qardul Hassan*, and *Waqf*. Allah (S.W.T) says: "For those of you who believe and spend (in charity), for them there is great reward" (Al-Quran, 57:7).

Planning in Islam

Planning can be defined as a distant view in designing and conducting certain programs to achieve goals. Realistic planning consists of requirement of needs that will influence future outcomes (Kaufman, 1972). Islamic scholars define planning as a source of guideline that refers to Al-Quran and Sunnah. Al-Quran and Sunnah contain high validity and specific planning codes which can be used as a basis to build an ethical Muslim's community (Mortada, 2005). The importance of planning is extensively described in the Islamic literature. In the Quran, Allah (S.W.T) says: "O you who believed, fear Allah and let every soul look [be prepared] to what it has put forth for tomorrow" (Al-Quran, 59:18). The practise of prophet Mohammed (PBUH) can be viewed as an evidence to show the importance of planning. During *Hijrah* (the prophet's travel from Makkah to Madinah), detailed planning was part of every aspect of the journey such as securing transportation and food, looking for a partner, appointing a person to deliver the news, and looking for alternatives routes to Madinah (Hilgert and Hogarth, 2003). The prophet Mohammed praised one of his companions (Sa'id ibn Mu'ath) for his vision and plan during the *Battle of Badr* to not fear anyone and trust on the paradise as Allah promised (Burhan and Berdine, 2004).

There are several benefits of financial planning for Muslims. First, it can be used as a tool to carry out all activities which can help achieving their worldly and spiritual goals (Yunus, 2012). Second, it is useful to keep them away from debt which will make them free from *Riba* (interest). Third, Muslims individuals may be able to save a portion of wealth for future uncertainty (Shafii, 2013). Forth, institutions and organizations in Muslim countries will have a proper guidance to ensure that all business activities will expand and act as a tool to regulate economic growth (Aghion et al, 2006). Finally, it will help governments in optimizing the utilization of resources (Nabil, 2015).

Islamic wealth planning

The Islamic teachings are designed to achieve *Maqasid Al-Shariah* (objectives of the Islamic law). This should be achieved to secure and protect five essentials, these are religion, self, intellect, posterity, and wealth (Al-Ghazali, 1937). *Maqasid Al-Shariah* is meant to realize the *Maslahah* (public interest) of these essentials on the basis of enjoining performance of good deeds as well as to discourage people from wrong and evils. Moreover, it should benefit all people by preventing harm, thus creating peace, harmony, and stability in the society. Allah (S.W.T) says in *Al-Quran* (21:107): "and We have sent you (O Muhammad) not but as a mercy for all 'Alamin (mankind, jinn, and all existence.). In other words, *Maqasid Al-Shariah* shows, to a certain degree, the reasoning and rational of the Islamic law by providing an overall understanding that leads to the protection of public interest in all aspect of life. As such, it needs to have some degree of flexibility in its implementation. Imam Al-Ghazali explained that the objective of the Islamic law is to promote the well-being of all mankind, which lies in protecting the said five essentials, and as a result, any measure ensures these essentials that serves the public interest is

commendable (Hurayra, 2015). As wealth is one of the said essentials, wealth planning is very important since it is concerned with finding ways to protect existing wealth and to secure wealth for future needs. Al-Quran (12: 46-55) tells the story of prophet Yusuf (Joseph) when he proposed a wealth plan that involved savings food within the first seven productive harvest years to secure the people's need in the coming dreadful years. The excellent planning made the Egyptian King appointed prophet Yusuf to be the country's minister of finance at that time, thus enabled Egypt to survive the tough dried years. Islam encourages Muslims to accumulate wealth and have enough savings to face possible challenges and difficulties in the future. Accumulation of wealth is allowed and must be acquired through Halal (permissible) and legal means. This is consistent with Affandi's (2001) study which emphasized that wealth must be accumulated as a saving for life by saving little surplus from the income. More importantly, Muslims need to have a proper planning in their life in order to be successful in this world and hereafter (Lahsasna, 2010).

From the conventional perspective, wealth planning is defined as structuring, building and preserving wealth for the benefit of the next generation through succession planning (Bueren, 2015). From the Islamic point of view, wealth planning can be viewed as planning of wealth that is permissible in Islam, to ensure that Muslims are able to achieve comfortable lifestyle and seek blessings from Allah (Hamzah, 2009). Incorporating planning for both this life and the hereafter is another difference between the conventional and Islamic wealth planning (Sarasin, 2011). While conventional wealth planning is focusing on generating more wealth in worldly dimension only, Islamic wealth planning is looking for ways to achieve success in both worldly and hereafter dimensions. Whereas conventional wealth planning aims to have a good life during retirement through wealth generation, accumulation, protection, enhancement and distribution activities which may contradict with *Shariah*, Islamic wealth planning aims to create wealth and enough resources in order to fulfil the people's needs and desires which must be aligned with *Shariah* (Billah, 2005). Finally, conventional wealth planning is designed mainly for high net wealth individuals (HNWI), whereas Islamic wealth planning is designed for HNWI and middle class as well as for working individuals.

An individual cannot have a proper wealth planning without savings. Savings can be defined as the difference between income and consumption. It is the remaining amount of individuals' income after deducting their expenses. Generally speaking, savings can be understood as a control consumption of wealth in order to have a better lifestyle in the future (Laurence, Kotlikoff, & Lawrence, 1981). In addition, it should have a positive impact in improving the economics of societies (Lewis, 1954). However, excessive savings can be viewed as a key source of global imbalances and even a major cause for international financial crisis (Bernanke, 2005). Therefore, there is a need for wealth planning to make sure there is enough money for future needs without neglecting the present economic circumstances. Muslims are encouraged to have such balance that includes having enough savings as a preparation for the future by avoiding excessive consumption and waste of wealth (Al-Quran, 17:29). A proper planning for the savings is part of the preparation of Muslims to face possible hardest situations to reduce a family's financial hardship, such as the death of the breadwinner. Such planning is considered as a part of worship to Allah (S.W.T) which will be accounted for in the Hereafter (Financial Planning Association of Malaysia and Islamic Banking and Finance Malaysia, 2009).

Islamic wealth planning cannot be achieved without two main activities, namely (1) proper capital accumulation of individuals' savings and (2) controlling spending based on specified goals. Capital accumulation includes acquiring more assets to help generate more wealth in the future (Chow, 1993; Choudhury and Alam, 2012). The process must be in line with the Islamic way of earning through *Halal* (permissible) resources and free from any *Haram* (forbidden) elements, such as *Gharar* (uncertainty), gambling, *Riba* (interest), and monopoly (Siddiqi, 2007; Bassens et al., 2010). This is in line with the *Quranic* teaching as Allah (S.W.T) says: "O you who have believed, do not consume one another's wealth unjustly but only [in lawful] business by mutual consent" (Al-Quran, 4:29). With respect to

spending, Muslims should set their goals and priorities starting with *Dharuriyyat* (basic human needs that cannot be compromised such as life, intellect, religion, descent, and property) and *Hajiyyat* (needs to facilitate humans' life which absence causes inconvenience but can be compromised). In addition, spending on *Tahsiniyyat* (complementary which refers to things that give extra comfort and their absent will not results in any hardship of humans' life) is less important, thus Muslims may reduce their spending on *Tahsiniyyat* in order to increase their savings which will improve the consumption behavior of Muslims in mobilizing their resources in the present time and in the future (Al-Qaradawi, 1998; Iqbal and Mirakhor, 2007).

Wealth purification is incorporated in every type of Islamic wealth planning. There are two types of purification: physical and spiritual. Physical purification involves following the Islamic principles and avoiding mixing the wealth with any prohibited elements such as Riba (interest), uncertainty, unjust transaction, cheating, stealing, doing business in Haram (forbidden in Islam) products, and gambling (Chowdhury and Shaker, 2015). The physical purification will be achieved by following the Shariah. Moreover, spiritual purification includes gratitude to Allah (S.W.T), happiness in helping others, and freedom from hatred, jealousy, selfishness, uneasiness, and greed (Cheah, 2000). In other words, both types of purification are meant to cleanse the Muslim's physical wealth and soul. There are several Islamic methods to attain purification through wealth, such as *Infaq* (spending) for family, *Zakat*, *Hajj*, *Sadaqah* (charity), *Qardul Hassan* (interest-free loan), *Hibah* (gift), and *Waqf* (endowment).

It is vital for Muslims to look after their basic worldly needs such as marriage and household needs, savings and investment, obligation towards family, retirement planning (Shahir, 2002), as well as their religious needs including performing *Hajj*, *Zakat*, and *Faraid* (the Islamic law of inheritance) (Abdullah and Muhammad, 2013). Equally important, such planning should also comprise every aspect of contemporary life considerations such as tax planning, wealth protection, estate planning, as well as business succession planning. Without having proper wealth planning, wealth may disappear within few years, thus negatively affecting one of the Islamic essentials.

In Islam, wealth must be honestly acquired, accumulated, and responsibly managed as clearly stated in the Al-Quran (57:7). Good overall planning of wealth in accordance with the guidance of Allah (S.W.T) and His prophet Mohammed (PBUH) will assist and facilitate Muslims to achieve *Falah* (happiness and success in this world and hereafter). Devoted Muslims are encouraged to ask Allah (S.W.T) for an enjoyable life in this world, and more importantly to enter *Al-Jannah* (paradise) in the Hereafter. Al-Quran (2:201-202) says: "And there are men who say: Our Lord! Give us good in this world and good in the hereafter, and defend us from the torment of the fire. They shall have a share of they have asked for".

It is the Islamic approach to be moderate in pursuing success for this life and hereafter. Allah (S.W.T) says: "Whoever does righteousness, whether male or female, while he/she is a true believer – We will surely give him/her a good life, and We will surely give them their reward [in the Hereafter] according to the best of what they used to do" (Al-Quran, 16:97). Muslims are taught to be reasonable and moderate in spending their wealth as Allah (S.W.T) loves those who are not extravagant and not miserly (Al-Mubarak and Osmani, 2010). Since Islamic wealth planning aims to achieve *Al-Falah* and encourages *Zuhd* (abstinence), thus Muslims should neither forgo wealth completely nor being greedy in pursuing wealth accumulation (Sabri et al, 2008). Accordingly, they should live a moderate and a pious life by balancing between their spiritual and worldly needs.

In order to understand the Islamic wealth planning based on the Islamic divine sources, the two sides (i.e. this life and hereafter) should be the centre focus of the financial planning process. As much as Islam emphasizes about this life and its importance, it should be highlighted that preparing for the hereafter is even more important than this life. Allah (S.W.T) warned Muslims from trading this life along with everything in it, with the hereafter as it will lead to His punishment. This is evident in Al-Quran (2:86) as

Allah says: “These are the people who buy the life of this world at the price of the Hereafter: their penalty shall not be lightened nor shall they be helped”, Allah (S.W.T) explains the value of life in comparison with the hereafter: “what is the life of this world but play and amusement? But best is the home in the hereafter, for those who are righteous” (Al-Quran, 6:32). In addition, many verses in Al-Quran connected the importance of this life with the hereafter. The authors observation of the Arabic term *Dunia* (refers to worldly life) throughout Al-Quran found that *Dunia* is mentioned 111 times. Out of the 111 times, 98 times the word *Dunia* is associated with the hereafter. On the other hand, the hereafter is mentioned more than 200 times, thus indicating that it is more important for Muslims to plan, care, and prepare for the hereafter than for this life. In line with that, Al-Quran says (14:3): “Those who love the life of this world more than the hereafter, who hinder from the path of Allah and seek therein something crooked: they are astray by a long distance”. Similarly, Allah (S.W.T) says: “This is because they love the life of this world more than the hereafter: and Allah will not guide the disbelievers” (Al-Quran, 16:107). Another example is mentioned in Al-Quran (29:64) as Allah (S.W.T) says: “And this life of the world is only amusement and play. Verily, the home of the hereafter, that is the life indeed (i.e. the eternal life that will never end), if they but knew”. Hence, this study suggests two types of Islamic wealth planning: *Dunia* (worldly) financial planning and *Akhirat* (Hereafter) financial planning.

Dunia (worldly) financial planning

Dunia financial planning emphasizes on developing a plan to achieve financial goals that are permissible in Islam and enjoyable for all human beings. It aims at securing a good and decent lifestyle for the present time and in the future. Hence, *Dunia* financial planning consists of four major aspects: income/investment planning, retirement planning, education (for the individual) planning, and Takaful/insurance planning. Though Muslims and non-Muslims are seeking the same worldly aspects, Muslims are required to follow the *Shariah* in attaining worldly desires with the intention purely for the sake of Allah (S.W.T). This is supported by Al-Quran (6: 161) when it describes the true Muslim: “Indeed, my prayer, my rites of sacrifice, my life and my death are for Allah”.

Akhirat (Hereafter) financial planning

Akhirat (Hereafter) financial planning focuses on developing a plan to achieve divine goals through wealth in which the realization of the reward will be in the Hereafter. It has two main categories: *Wajib* (compulsory) financial planning and *Mustahab* (voluntary and encouraged) financial planning. *Wajib* financial planning is meant to fulfil the Muslims’ obligatory responsibilities in this life, which includes education (for his/her family) planning, *Faraid* planning, Zakat/taxes planning, and Hajj planning. As for *Mustahab* financial planning, which refers to the recommended deeds that promise more reward in the Hereafter involves three types of planning: *Hibah* planning, *Waqf* planning, and charitable financial planning. It is worth noting that the main difference between *Akhirat* financial planning and *Dunia* financial planning is that the main motivation for *Akhirat* financial planning is to seek the pleasure of Allah only.

THE DEVELOPMENT OF THE INSTRUMENT

Based on the above, the researchers presented the concept of Islamic wealth planning into two parts: worldly and hereafter. To properly develop the new instrument for the concept, this study carried out the following four steps: experts’ validity, focus group, reliability analysis, and exploratory factor analysis (EFA).

This study has developed the instrument through two main aspects: the technicality in writing (form) and the content (substance). For the technical part, the researchers referred to several examples of conventional wealth planning due to the absence of any format on Islamic wealth planning. The study

used a 5 Likert-type scale to obtain the respondents' feedback on the Worldly Financial Planning and the Hereafter Financial Planning where 1=AY (Absolutely "Yes"), 2=Y (I Think "Yes"), 3=DK (I Don't Know), 4=N (I Think "No") and 5=AN (Absolutely "Not") as below:

| | | | | |
|------------------|---------------|--------------|--------------|----------------|
| Absolutely "Yes" | I Think "Yes" | I Don't Know | I Think "No" | Absolutely Not |
|------------------|---------------|--------------|--------------|----------------|

As for the substance, the new instrument (for the concept of Islamic wealth planning) has been developed by referring to the main Islamic sources, Al-Quran and Sunnah, as well as other recent studies, including the main available book on Islamic financial planning and wealth management (Shafii et al, 2013). The new instrument (i.e. questionnaire), consisted of two main parts: Worldly Financial Planning (WFP) and Hereafter Financial Planning (HFP), has been constructed in this study. Overall, the instrument had 59 items in total.

Conceptualizing Islamic wealth planning through experts' validity

The said initial instrument was given to experts for further enhancement and improve improvement, as shown in Table 1. The researchers met personally with ten experts, who are certified Islamic Financial Planners, and explained to them about the study. After that, copies of the initial instrument were distributed to them, with only eight of them responded to the researchers. In addition, two representatives from Mufti (the official Islamic religious departments in Kedah and Perlis states/Malaysia) had also responded to the said instrument.

Table 1:

Experts' Profile

| Variable | Characteristics | Number | Percentage |
|---------------------------|--------------------------------------|-----------|-------------|
| Gender | Male | 8 | 80% |
| | Female | 2 | 20% |
| Age | 30-39 years | 5 | 50% |
| | 40-49 years | 3 | 30% |
| | Above 50 years | 2 | 20% |
| Experts | Certified Islamic financial planners | 8 | 80% |
| | Mufti | 2 | 20% |
| Working Experience | 5-10 years | 4 | 40% |
| | Above 10 years | 6 | 60% |
| Total | | 10 | 100% |

Using Lawshe's technique for content validity quantification, experts were asked to indicate their perspective on every item to what extent each item is "essential", "useful but not essential", or "not necessary" in understanding every topic/part of Islamic wealth planning. The researchers further provided, at the end of every part/section, two more blank rows allowing the experts to add new items that should be included along with the existing items. This technique is a suitable method to indicate an agreement on how essential a particular item is among the experts. Based on Lawshe (1975), a level of 50% agreement gives some assurance of content validity.

After running Lawshe's technique, the main overall structure of the instrument was maintained (though few items were suggested to be added (and other items removed) with one exception that relate to hereafter financial planning. The researchers decided to combine two sections, i.e. *Sadaqah Jariah* planning and *Qardul Hassan* planning, to be in one section labeled as "charitable financial planning" because their items look similar and both are meant to help the poor and the needy.

There were other few suggestions and recommendations (to add new items to the instrument) given but were not added due to the similarity with other existing items. The following are examples of such items:

1. Section A: income/investment planning: the suggested items are "*How did you know if your portfolio complies with Shariah or otherwise?*" [similar to the existing item number 7]; and "*What type of investment is being conducted?*" [similar to the existing item number 6].
2. Section B: retirement planning: the suggested items are "*What are the types of investment for retirement?*" [similar to the existing item number 5].
3. Section C: education planning (individual): the suggested item is "*How do you finance your education costs?*" [similar to the existing item number 3].

Conceptualizing Islamic wealth planning through focus group

After amending and improving the instrument based on experts' opinions, the researchers conducted a focus group session to strengthen the instrument and make sure it is applicable to be used in reality (Cooper and Schindler, 2003). There were seven participants in the session. The participants are experts in several related areas, such as Islamic philosophy, Islamic finance, and Islamic financial planning (as presented in Table 2). After welcoming the participants, the session started with a short presentation explaining the initial steps in developing the instrument. The session continued with a discussion about the structure of the instrument as well giving recommendations for improvements. In general, they agreed with most of the items with few changes, especially in using different words that are easier and more understandable by the potential respondents. They also suggested the integration of few items that have similar content within the same section. After compiling all changes and corrections from participants, the researchers amended the instrument accordingly.

Table 2:

Profile of focus group participants

| Variable | Characteristics | Number | Percentage |
|---------------------------|----------------------------|----------|-------------|
| Gender | Male | 5 | 71.43% |
| | Female | 2 | 28.57% |
| Area of expertise | Islamic philosophy | 1 | 28.57% |
| | Islamic finance | 3 | 28.57% |
| | Islamic financial planning | 3 | 42.86% |
| Working Experience | 5-10 years | 3 | 42.86% |
| | Above 10 years | 4 | 57.14% |
| Total | | 7 | 100% |

As illustrated in Table 3, the main underlying structure of the instrument remained the same despite several changes and improvements made in the previous two steps (experts' validity and focus group)

Table 3:

Instrument's items before and after the experts' validity and focus group

| S/N | Type of planning | Original number of items | Items retained |
|-------------------------------------|---------------------------------------|--------------------------|----------------|
| WORDLY FINANCIAL PLANNING | | | |
| 1 | Income / Investment Planning (IIP) | 10 | 6 |
| 2 | Retirement Planning (RP) | 5 | 7 |
| 3 | Education Planning (Individual) (EPI) | 4 | 4 |
| 4 | Takaful / Insurance Planning (TIP) | 6 | 8 |
| HEREAFTER FINANCIAL PLANNING | | | |
| Compulsory | | | |
| 5 | Education Planning (Family) (EPF) | 5 | 5 |
| 6 | Faraid Planning (FP) | 5 | 4 |
| 7 | Wasiyyah Planning (WP) | 3 | 3 |
| 8 | Zakat / Taxes Planning (ZTP) | 4 | 5 |
| 9 | Hajj Planning (HP) | 4 | 4 |
| Recommended | | | |
| 10 | Hibah Planning (HP) | 3 | 4 |
| 11 | Waqf Planning (WP) | 3 | 3 |
| 12 | Charitable Financial Planning (CFP) | 7 | 5 |

Reliability analysis

The developed instrument was then personally distributed to 120 respondents using cluster sampling method in three different districts, i.e. Batu Gajah, Bukit Merah and Parit Buntar in Perak state, Malaysia. The decision to choose three different locations in Perak state is to increase the non-bias possibility in the study. It was done by categorizing the population of Perak state into convenient clusters with respondents randomly chosen to help study and investigate all items of the instrument, in which each districts within Perak State. The distribution of questionnaires was meant to enhance the instrument's validity through reliability analysis as well as exploratory factor analysis (EFA). As presented in Table 4 that shows the participants' profile, there were more male participants (53.3 %) than female participants (46.7 %) with the majority (75%) of them being married. In terms of education, most participants have bachelor degree, master, or Ph.D with representative ratios of 45.8%, 20%, and 13.3% respectively. Most participants are at the age groups of 30-49 years old (60.8%) with working experience of more than 5 years (76.6%). Whereas majority of them work in the government sector (79.2%), others work in the private sector (20.8%). In terms of income, those with monthly incomes between RM4000- RM6000 represent the highest portion (39.2%), followed by less than RM4000 (24.2%), RM8000- RM10000 (20.0%), RM6000- RM8000 (11.7%) and more than RM12000 are the lowest (5.0%).

Table 4:

Profile of respondents

| Variable | Characteristics | Number | Percentage |
|---------------|-----------------|--------|------------|
| Gender | Male | 64 | 53.3% |
| | Female | 56 | 46.7% |
| Age | Below 30 years | 27 | 22.5% |
| | 30-39 years | 39 | 32.5% |

| | | | |
|-------------------------------|-------------------|------------|-------------|
| | 40-49 years | 34 | 28.3% |
| | Above 50 years | 20 | 16.7% |
| Marital Status | Married | 90 | 75% |
| | Single | 30 | 25% |
| Academic Qualification | Diploma | 25 | 20.8% |
| | Bachelor Degree | 55 | 45.8% |
| | Master | 24 | 20.0% |
| | PhD | 16 | 13.3% |
| Occupation | Government | 95 | 79.2% |
| | Private | 25 | 20.8% |
| Working Experience | Below 5 years | 28 | 23.3% |
| | 5-10 years | 43 | 35.8% |
| | Above 10 years | 49 | 40.8% |
| Monthly Income | Less than RM4000 | 29 | 24.2% |
| | RM4000 – RM6000 | 47 | 39.2% |
| | RM6000 – RM8000 | 14 | 11.7% |
| | RM8000 – RM10000 | 24 | 20.0% |
| | More than RM10000 | 6 | 5.0% |
| Total | | 120 | 100% |

According to Nunnally & Bernstein (1987), reliability can be defined as a consistent measurement in which an instrument gives same repeated results under the same condition and the same subjects each time it is being used. Cronbach's alpha was calculated as a reliability test to make sure that items of every variable have internal consistency. Hair et al., (2010) suggest that the lower limit for Cronbach's alpha is 0.70 and probably decreases to 0.60 for an exploratory study. As illustrated in Table 5, the reliability results of this study show that all variables have a Cronbach's alpha above 0.70 which shows the instrument has internal consistency and reliable. To improve the measurement, only two items (i.e. item number 1 and item number 2 from Zakat and tax planning) were deleted and excluded from the EFA analysis.

Table 5:

Reliability analysis (N= 120)

| Variable | No of items before deletion | No of items after deletion | Cronbach's Alpha after deletion |
|--|------------------------------------|-----------------------------------|--|
| Income / Investment Planning | 6 | 6 | 0.83 |
| Retirement Planning | 7 | 7 | 0.92 |
| Education Planning (Individual) | 4 | 4 | 0.97 |
| Takaful / Insurance Planning | 8 | 8 | 0.85 |
| Education Planning (Family) | 5 | 5 | 0.96 |
| Faraid Planning | 4 | 4 | 0.77 |
| Wasiyyah Planning | 3 | 3 | 0.87 |
| Zakat / Taxes Planning | 5 | 3 | 0.75 |
| Hajj Planning | 4 | 4 | 0.77 |
| Hibah Planning | 4 | 4 | 0.87 |
| Waqf Planning | 3 | 3 | 0.92 |
| Charitable Financial Planning | 5 | 5 | 0.93 |

Exploratory Factor Analysis (EFA)

The final step in developing the instrument was running the exploratory factor analysis (EFA). EFA is being conducted to validate the developed instrument. In addition, it was used to identify new components (if any) within every construct which will help in having a deeper understanding of the construct. Hair et al., (2010) stated that grouping items, in form of construct, is a way which can be used due to the reliability to combine the items together with new components. In order to get the reliable result for EFA, the data of this study were initially screened using several quality standards, i.e. Kaiser-Myer-Olkin (KMO), Approx. Chi-square, Degree of freedom, and its Significant (as shown in Table 6) with all items for each construct are within the range of justifiable level. These standards are considered important in assessing the appropriateness of applying factor analysis (Cooper et al., 2003; Zikmund, 2003).

Table 6:

Quality standards for exploratory factor analysis

| IWP | Type of Planning | Kaiser-Myer-Olkin (KMO) | Approx. Chi-Square | Degree of freedom (df) | Significant |
|-------------------------------------|---------------------------------|-------------------------|--------------------|------------------------|-------------|
| Worldly financial planning | Income/ Investment Planning | 0.83 | 375.170 | 15 | 0.000 |
| | Retirement Planning | 0.86 | 766.688 | 21 | 0.000 |
| | Education Planning (Individual) | 0.84 | 712.589 | 6 | 0.000 |
| | Takaful / Insurance Planning | 0.82 | 805.872 | 28 | 0.000 |
| Hereafter financial planning | Education Planning (Family) | 0.86 | 769.518 | 10 | 0.000 |
| | Faraid Planning | 0.70 | 167.097 | 6 | 0.000 |
| | Wasiyyah Planning | 0.71 | 195.454 | 3 | 0.000 |
| | Zakat / Taxes Planning | 0.60 | 174.437 | 10 | 0.000 |
| | Hajj Planning | 0.75 | 367.600 | 6 | 0.000 |
| | Hibah Planning | 0.77 | 330.290 | 6 | 0.000 |
| | Waqf Planning | 0.70 | 324.198 | 3 | 0.000 |
| | Charitable Financial Planning | 0.84 | 513.809 | 10 | 0.000 |

As shown in Table 7, the results of EFA for worldly financial planning showed four constructs, with two constructs, namely income/investment planning and Takaful/insurance planning producing two new components respectively. As for income/investment planning, the first component is labelled as “*Shariah* investment planning” which consists of three items while the second component is labelled as “risk planning” also consists of three items. For Takaful/insurance planning, the first component is labelled as “confident level of using Takaful” which consists of two items, while the second component is labelled as “influencing factors in choosing Takaful” which consists of six items.

Table 7:

Exploratory factor analysis for worldly financial planning

| Type of | New | Item | Item | Factor |
|---------|-----|------|------|--------|
|---------|-----|------|------|--------|

| Planning | components | no | | Leading | |
|--|--|-------|--|---------|------|
| | | | | 1 | 2 |
| Income/ Investment Planning | Shariah Investment planning | IIP 1 | Is your spouse working? | 0.96 | |
| | | IIP 2 | Do you have sufficient income for investment? | 0.81 | |
| | | IIP 6 | Are you aware whether your investments are Shariah compliant or not? | 0.66 | |
| | Risk planning | IIP 3 | Do you prefer moderate return with moderate risk? | | 0.78 |
| | | IIP 4 | Are you a risk taker? | | 0.74 |
| | | IIP 5 | Do you self-manage your investment? | | 0.69 |
| Retirement Planning | | RP 1 | Are you retired or planning on retiring soon? | 0.93 | |
| | | RP 2 | Are you aware of the age you will retire? | 0.87 | |
| | | RP 3 | Do you know at what age you can afford to retire? | 0.95 | |
| | | RP 4 | Do you want to have the same life style when you retire as you are having now? | 0.91 | |
| | | RP 5 | Do you have EPF coverage or any saving for your retirement soon? | 0.79 | |
| | | RP 6 | Do you have any fund / resources which can support you during retirement? | 0.69 | |
| | | RP 7 | Are you alert with Shariah compliance of your retirement plan? | 0.61 | |
| Education Planning (Individual) | | EPI 1 | Do you have plan for your further studies (i.e. Master or PhD) in the future? | 0.96 | |
| | | EPI 2 | Are you saving sufficient money for your own education? | 0.96 | |
| | | EPI 3 | Do you have any investment that meant for saving money for your own education? | 0.98 | |
| | | EPI 4 | Are you willing to delay retirement to fund your own education? | 0.96 | |
| Takaful / Insurance Planning | Confident level of using Takaful | TIP 2 | Are you adequately insured against becoming disabled? | 0.84 | |
| | | TIP 7 | Are you aware of the benefits of Takaful coverage? | 0.87 | |
| | Influencing factors in choosing Takaful | TIP 1 | Do you think you are paying too much for Takaful / Insurance? | | 0.99 |
| | | TIP 3 | Is your family protected in the event of your premature death? | | 0.83 |
| | | TIP 4 | Are you aware of any Takaful investment scheme? | | 0.88 |
| | | TIP 5 | Are you interested to have Takaful investment? | | 0.88 |
| | | TIP 6 | Are you aware whether your insurance company is Shariah compliance or not? | | 0.84 |
| | | TIP 8 | Is your property protected by Takaful? | | 0.83 |

As illustrated in Table 8, the EFA results for hereafter financial planning show that all constructs have one component respectively with one exception where the “Hajj planning” construct has two components; (1) “Hajj Obligation” which consists of one item and (2) “future planning for Hajj” which consist of three items.

Table 8:

Exploratory factor analysis for hereafter financial planning

| Type of Planning | New components | Item no | Item | Factor Leading | |
|------------------------------------|--------------------------|---------|--|----------------|------|
| | | | | 1 | 2 |
| Education Planning (Family) | | EPF1 | Do you have children requiring college funding? | 0.94 | |
| | | EPF2 | Are you saving sufficient money for your children's education? | 0.94 | |
| | | EPF3 | Are there grandchildren or others you want to help educate? | 0.89 | |
| | | EPF4 | Are you willing to delay retirement to fund your children education? | 0.96 | |
| | | EPF5 | Do you have any investment that meant for saving money for your children education? | 0.96 | |
| Faraid Planning | | FP1 | Do you have state document for your wealth? | 0.81 | |
| | | FP2 | Have your estate documents been reviewed within the past 3 years? | 0.61 | |
| | | FP3 | Have you decided on the mechanism in distributing your wealth to your heirs? (Leave it to the court, assign a lawyer....) | 0.83 | |
| | | FP4 | Do you have any debt? | 0.82 | |
| Wasiyyah Planning | | WP1 | Are you aware of Wasiyyah? | 0.91 | |
| | | WP2 | Do you have Wasiyyah, power of attorneys, or trusts? | 0.91 | |
| | | WP3 | Are you aware that Wasiyyah cannot be executed for more than 1/3 of your wealth? | 0.87 | |
| Zakat / Taxes Planning | | ZTP3 | Do you know how to calculate and pay your own Zakat? | 0.66 | |
| | | ZTP4 | Are you aware that paying Zakat may deduct from your taxes? | 0.80 | |
| | | ZTP5 | Do you have a preference of paying Zakat (i.e. Faqir or orphan)? | 0.75 | |
| Hajj Planning | Hajj Obligation | HJP1 | Have you performed Hajj? | 0.72 | |
| | Future planning for Hajj | HJP2 | Are you registered with Tabung Haji or any other travelling agencies for the purpose of Hajj? | | 0.77 |
| | | HJP3 | Do you want your spouse or children to perform Hajj within the next 10 years? | | 0.84 |
| | | HJP4 | Do you have any saving for Hajj? | | 0.83 |
| Hibah Planning | | HP1 | Do you want to give any of your wealth in form of Hibah? | 0.82 | |
| | | HP2 | Do you have any preference in giving Hibah? | 0.93 | |
| | | HP3 | Do you have any allocation for Hibah? | 0.93 | |
| | | HP4 | Do you have other family members who are not eligible to receive Faraid? (Example: adopted child, stepchild and foster mother) | 0.73 | |
| Waqf Planning | | WP1 | Do you want to give any of your wealth in form of Waqf? | 0.83 | |
| | | WP2 | Do you have any preference in giving Waqf? | 0.97 | |

| | | | | | |
|--------------------------------------|--|------|---|------|--|
| | | WP3 | Do you have any allocation for Waqf? | 0.97 | |
| Charitable Financial Planning | | CFP1 | Do you want to give any of your wealth in form of Sadaqah Jariah? | 0.81 | |
| | | CFP2 | Do you have any preference in giving Sadaqah Jariah? | 0.90 | |
| | | CFP3 | Do you have any allocation for Sadaqah Jariah? | 0.91 | |
| | | CFP4 | Do you want to give any of your wealth in form of free-interest loan (such as lending your friends or family members without interest)? | 0.90 | |
| | | CFP5 | Do you have any allocation for free-interest loan? | 0.90 | |

The final structure of the instrument and its implications

The instrument's final version (as shown in Figure I) shows that the Islamic wealth planning concept can be measured through two types of planning: worldly financial planning (WFP) and hereafter financial planning (HFP). WFP has four main types of planning as follows:

- (1) Income/investment planning (consisting of two components with three items for each),
- (2) Retirement planning (consisting of one component with seven items),
- (3) Education (for the individual) planning (consisting of one component with four items), and
- (4) Takaful/insurance planning (consisting of two components with eight items for both o).

As for HFP, it has two categories as follows:

- (1) Compulsory (*Wajib*) financial planning
 - a. Education (for his/her family) planning (consisting of five items),
 - b. *Faraid* planning (consisting of four items),
 - c. *Wasiyyah* planning (consisting of three items),
 - d. Zakat/taxes planning (consisting of three items), and
 - e. Hajj planning (consisting of four items),
- (2) Recommended (*Mustahab*) financial planning
 - a. *Hibah* planning (consisting of four items),
 - b. *Waqf* planning (consisting of three items), and
 - c. Charitable financial planning (consisting of five items).

The instrument is meant to help in achieving *Al-Falah* (success) for this life and *Akhirat* (hereafter) through meaningful and measurable mechanism in planning and managing wealth. This is important especially for Muslims (regardless of their wealth status, be it rich, middle class, or poor) where good Islamic wealth planning can be one of the ways in achieving worldly financial goals that are permissible in Islam and simultaneously gain blessings from Allah (S.W.T) which will secure *Al-Jannah* (paradise) in the hereafter. More importantly, determining the financial goals can help Muslims to prioritize and balance their spending by focusing on the *Wajib* (compulsory) part first as well as planning for the next life too. As for working and middle class individuals, it is very crucial to have such planning as statistics and figures show that Malaysians are not well educated and are not prepared for future financial difficulties. For HNWI, the instrument can be used as a tool in helping others as well as to continuously increase their wealth.

Islamic wealth planners can use the developed instrument as a guidance to have a sound Islamic version instead of the existing samples of wealth planning which are driven and developed by conventional financial planners. It will show a uniqueness of their job as they will help Muslims to achieve financial goals that are permissible in Islam and its rewards will be accounted in the hereafter. The instrument will help Islamic wealth planners to come out with a plan that strike a balance between the material and spiritual aspects of their customers.

Various types of organizations in Malaysia including Islamic Banking and Finance Institute Malaysia [IBFIM], other Islamic financial institutions, and universities that offer Islamic business studies may utilize the developed instrument. As the main issuer of Islamic financial planning program in Malaysia, IBFIM could include the developed instrument as part of their modules to show a measurable example of the Islamic perspective of the Islamic wealth planning concept. Islamic financial institutions (such as Islamic banks) may include the instrument as part of its tools to help their customers to achieve their worldly and hereafter goals. Moreover, Islamic wealth planning researchers can further enhance and improve the instrument as this is the first attempt to develop such measurement.

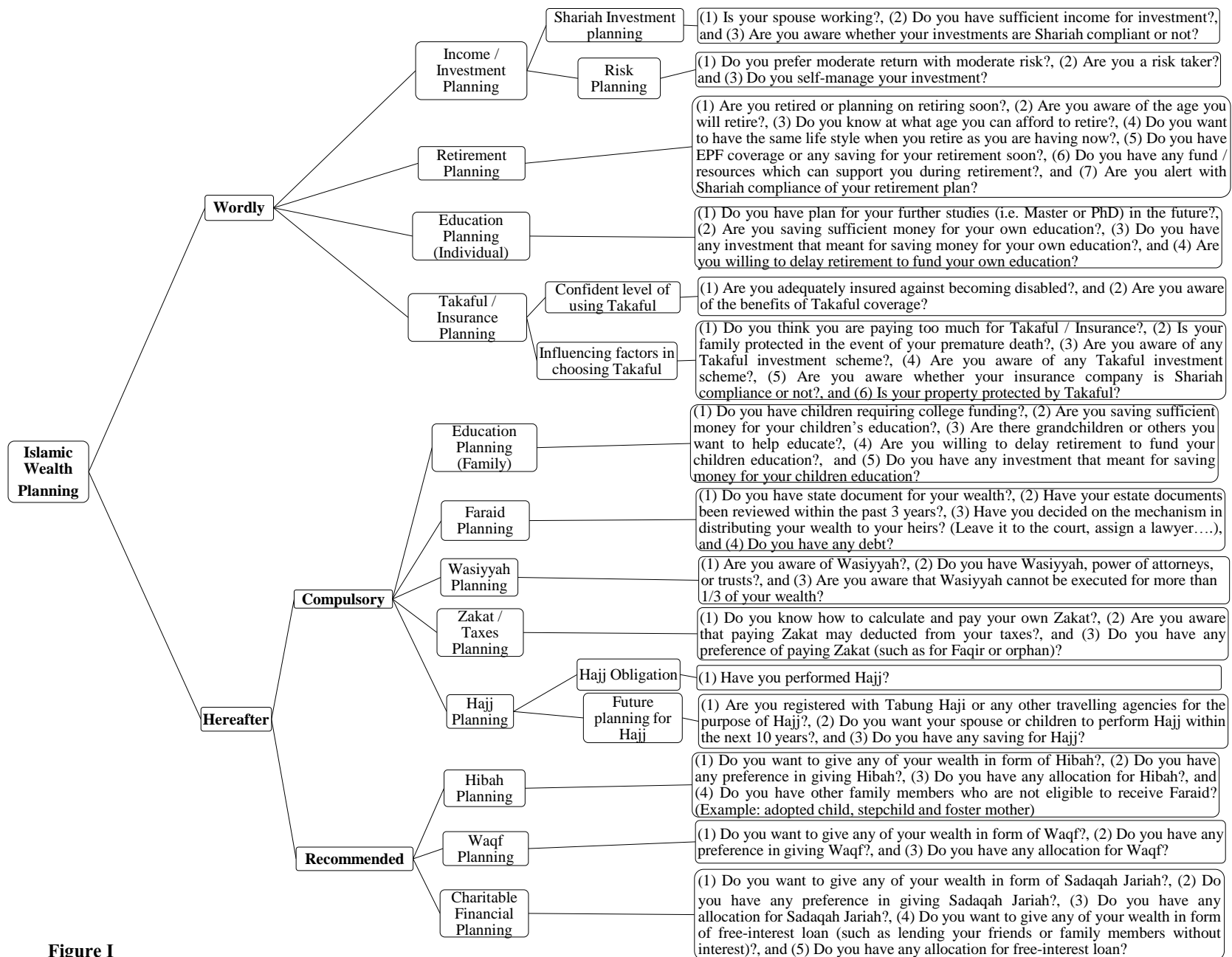


Figure I

The instrument Structure

CONCLUSION

Islam is a comprehensive religion that encourages its followers to care about worldly life as well as the hereafter, with the latter being more important than the former. There is a need for a balance between the fulfilment of both spiritual and worldly obligations. Such understanding should apply in every aspect of Muslims' life including wealth planning. Muslims should plan to achieve their worldly and hereafter goals with absolute trust and reliance in Allah (S.W.T) as He is the one who can make things happen. The Islamic wealth planning should focus on ways to secure a better/comfortable worldly life in addition to entering the paradise in the hereafter. The planning should look into decreasing spending (especially the unnecessary one which leads sometimes to waste), less borrowing, more savings that will allow for more investments, and more importantly, ensuring that all activities observe and comply with the Islamic boundaries (i.e. avoiding usury, gambling, harmful activities like dealing with drugs, cheating others, involving in corruption such as taking bribes). The planning must be guided by the priorities established by the *Maqasid Al-Shariah* where Muslims have to focus first on *Daruriyyat* (essentials), then *Hayiyyat* (needs), and finally *Tahsiniyyat* (embellishment). Finally, such planning needs efforts and action in order to achieve the targeted goals. By making proper Islamic wealth planning accompanied by actions, Muslims will be able to achieve *Al-Falah* (success in this life and hereafter).

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