

# FACTORS INFLUENCING CUSTOMERS' SATISFACTION OF BORROWING AR-RAHNU AT POST OFFICE

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In this day and age, the cost of living has gradually risen and the financial procedures in banking systems is stringent; Ar-Rahnu in financing field in Malaysia was implemented based on these two factors. This scheme is an alternative method for demographics of lower income to receive loans by reducing time and cost of profit rate. The establishment of this system is a provision of instant financing with less complications and eliminating riba to the public; individuals are able to pawn their jewelries at banks or pawnshops as a form of safekeeping. Low income employees can seek financial stability by utilizing this scheme as a micro-credit and financial equipment to encounter rapid building capital or personal requirements. The purpose of Ar-Rahnu's contact is to initiate the security of a debt and will not endorse any form of investment or profitable objectives. This study aims to examine the factors influencing customer satisfaction of borrowing Ar-Rahnu at Post Office since it is a new service provided by Malaysia Post Office. A survey was conducted with 200 respondents and additionally, tangibles, responsiveness, assurance and empathy as factors of service quality will assist scholars in discovering the significant factors affecting customer satisfaction towards the utility of Ar-Rahnu at Post Office. The data of distributed questionnaires was analyzed using t-test, ANOVA, correlation analysis and multiple regression analysis. Results presented that tangibles, responsiveness, assurance and empathy have significant association with customer satisfaction. Conclusively, the research was beneficial for Post Office personnel to improve their customer services to gain more customers in utilizing their system. In Malaysia, Ar-Rahnu institutions convey the capability of completing and dominating conventional pawnshops with perpetuating chronological history in its nation because the system of the scheme provides protection of welfares to assist low-income demographics in comparison to conventional pawnshops with operation that emphasizes on profitable interest.

**Keywords:** Ar- Rahnu, Customer Satisfaction, Tangibles, Responsiveness, Assurance, Empathy

## 1. INTRODUCTION

Islamic banking is established as an organization providing services and banks that cater specially to Muslims in accordance to a system that abides the Shariah Law. A loan system as one of the Islamic banking and finance products was introduced: Ar-Rahnu. Relatively, Ar-Rahnu is dated as a historic lending transaction system in the past but in Malaysia, pawn broking is a new conceptual system. The purpose of Ar-Rahnu's contract is to implement financial security upon a debt and it does not apply to investments or intentions of profit gain. The development of Ar-Rahnu in Malaysia provides an alternative service of pawn broking to clients based on principles of Syariah. Islamic pawn broking is recommended as a one stop center for clients that require instant financial support and convenient loan [1]

Pos Malaysia Berhad is one of the popular premier provision of postal services in Malaysia. The postal service has more than 1000 sanctions in Malaysia inclusive of Pos Malaysia

Outlets, Pos Minis, Self-Service Terminals, Mobile Outlets, postal agents and stamp agents. Pos Malaysia has rapidly risen as a mail service and postal provider to a dynamic communication, financial services and provision of chain solutions supplement since the first day of its operation. Pos Malaysia Berhad offers a new service known as Ar-Rahnu and the scheme provides instant financial support to the public with a pawning system that requires the trade of a client's jewelry or property to the bank as a security. The system is also one of the micro-credit and financial instruments catering to classes of low income that require financial support to meet the capitalistic system and their personal necessities.

A finding presents that Malaysian citizens fluctuate towards the utility of Ar-Rahnu financing personal use instead of productive purposes or capitalistic commercializing [2]. The system of Ar-Rahnu thrives in the system due to its convenience for wedding ceremony, huge assets, education and investment [3]. Acquisition of funds from the bank is difficult and thus, it encourages people to use pawn broking for household purchases. However, investment opportunities are also offered by Ar-Rahnu other than prevention of illegal or unlicensed financing activities [4]. Improvement of living standards in the long term requires investments [5]. The objective of Ar-Rahnu is to establish socio-economic security for the poor; thus, the system acts as a tool for encouragement of saving and investment. Therefore, the purpose of commencing this study is to ascertain the impact of service quality upon customers' satisfaction of loaning from Ar-Rahnu at Post Office.

### ***1.1 Problem Statement***

Customers raise concern and preference in choosing Islamic-based products due to the system with a possibility of having no riba, interest, gharar or elements of uncertainty. Most Muslim customers prefer the choice of Islamic bank according to perspectives of religion instead of bank's features such as location and profit. A loan shark is an illegal approach of lending funds that goes against the law for those who are in need of funding. Loan sharks do not involve tedious procedures and it provides a complete loan but it affects customers in terms of imposing higher rate interests upon the loan. Islamic pawn broking or Ar-Rahnu provides instant cash to those in dire need of funding. Ar-Rahnu is an alternative system that prevents fraudulent transaction based on conventional-oriented banking. In this age, various outlets offer Ar-Rahnu services such as Ar-Rahnu @ POS; the franchise has a rapid development that

proportionate to its demand increment. Therefore, it is essential for researchers to acknowledge the development of offer of services by Post Office in lower-income classes. The policy of Ar-Rahnu varies from institutions although many have promoted Ar-Rahnu on a large scale. Ar-Rahnu is a familiar system that provides simple financial support in haste to Malaysians especially to the Malay community and it is convenient for the low-income and middle classes. There is an increment of living cost that affects the middle and lower-income classes financially. Low-income group is one of the underlying factors to the preferred choice of utilizing Islamic pawn broking.

According to previous researches, the research on Ar-Rahnu emphasizes on the banks and non-banks such as Bank Kerjasama Rakyat, Agrobank, YaPEIM MGIT and PKB [6]. [7] conducted a research on Ar-Rahnu in MAIDAM Dungun; Ar-Rahnu product is fairly new in Malaysia and there is only an ample quantity of studies relating to Post Office. Ar-Rahnu @ POS holds the potential to expand today's market as most individuals acknowledge the offered various services by Post Office as a one stop center. Post Office requires to obtain the most effective method of promoting Ar-Rahnu services; this research can assist to determine the best solutions. Based on the survey, the total number of Ar-Rahnu @ POS has rapidly developed since its operation in the mid yea of 2013. Therefore, the improvement of limitations can be attained through the conduction of this research to determine customer satisfaction upon Ar-Rahnu @ POS in Selangor.

## **2. LITERATURE REVIEW**

### ***2.1 Customer Satisfaction***

Customer satisfaction is discovered to perpetuate positive aspects to company and thus, it has contribution to a successful business. Therefore, companies' main concern should be complying to customers' demands and needs to obtain customer satisfaction. Customer satisfaction is a prominent indicator for the service and Islamic banking; it is important for theoretical and practical modern marketing. Previous researches provided suggestions that service quality is a multidimensional construct. Five dimensions are defined as the followings: reliability; referring to the ability of performing promised service dependably and accurately; responsiveness is the obligation to help customers and providing prompt service; assurance; the knowledge and courtesy of employees and their ability to project trust and confidence.

Moreover, empathy is the ability to care, assorting attention to customers and tangibles; referring to the appearance of physical facilities, equipment, personnel and communication materials [8]. In this contextual research, tangibles, responsiveness, assurance and empathy as four dimensions of service quality are prominent in factoring customer satisfaction upon Islamic pawn broking. This method is very renowned among academics and researchers to evaluate the perception of customers on services quality for a variety of services industries.

## ***2.2 Service Quality***

The findings of the concept and theories of service quality perception are still debatable in several literatures [9]. The acknowledgement of important elements such as employees' performance and working facilities is prominent; however, the prominent factor still focuses on the service quality offered by the provider [10]. The importance of service factor is acknowledged [11]. The Islamic-based pawnshop requires to maintain the record of customers; preserving the records confidentially and treat the customers fairly despite of their demographics. Similarly to contextual development of organization, elements of requiring perceiving performance of employees and the nature of working environments are to be acknowledged by service providers [10]. Service quality is one of the prominent factors that influence customers' acceptance of Ar-Rahnu [12]. Quality of provided services contributes to success of the institution. Customers perceived that the quality of their services represents the superiority of the service providers [13].

Overall, the result from the correlation analysis showed significant relationship between the variables being tested; management observation, safekeeping charge, service quality and locality. [14] claimed that Islamic pawnshop is easy to access compared to commercial bank. In addition, by practicing the convenient method and providing faster fund, quality services of Islamic pawnshops can be maintained. Rejected loan by the financial institution often occurs amongst the low-income group; with majority of the people switch their option to Islamic pawnshop. The Islamic pawnshop services shall achieve to be maximized to meet the high customers' expectation. Besides, friendly customer service by the front liner, professionalism of Ar-Rahnu workers, and integrity are also of concern which should be evaluated and categorized as service quality as well [3]. The success of the institution is also contributed by

the quality of the provided services. Customer believed that superiority of the service providers is reflected by the quality of their services [13].

Additionally, acceptance among customers depends on the performance of customer services; the time of approval process for customers should not be in a long period and it requires to be considered as a prominent element under the service quality provisioned by pawnbrokers [1]. This finding is relatable to the discovery of [16]; it was indicated that customer's selection of service quality is a strong factor in the adoption of Ar-Rahnu scheme offered by state and private Ar-Rahnu providers in Kelantan. A number of researchers discover that the service quality factor is moot and most approve the important of this element Ar-Rahnu and preserving the service quality inclusion of confidentiality of customers' data and treatment without any bias [12]. Service quality is defined as the result of the assessment between expectation and performance of reality [15]. Therefore, preservation of customers' expectations contributes to an effective ranking of service quality by the institution provider. A study was conducted [17] to evaluate the service quality upon Ar-Rahnu owned by state in Kelantan, Ar-Rahnu Permodalan Kelantan Berhad. Based on the regression analysis, the service quality shows 55% of variance in customer satisfaction. Thus, the perception of customers upon service quality is prominent in confirming effective relationship management that will flourish customer satisfaction [18]. According to meta-analysis of customer satisfaction [19] results of satisfaction have been analyzed and there is an inadequate study on the outcomes of customer satisfaction upon Ar-Rahnu at Post Office. . Figure 1 presents the conceptual model constructed for this research. The model posits that tangibles, responsiveness, assurance, and empathy influence customer satisfaction.

### 2.3 Conceptual Framework

The conceptual framework has been developed from the above theory:

#### Service Quality Dimensions

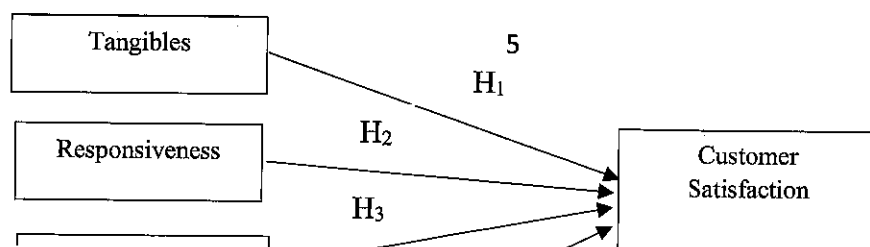


Figure 1: Conceptual framework

For that, hypotheses have been developed:

H<sub>1</sub>: Tangibles has an influence on Customer satisfaction of borrowing Ar-Rahnu

H<sub>2</sub>: Responsiveness has an influence on Customer satisfaction of borrowing Ar-Rahnu

H<sub>3</sub>: Empathy has an influence on Customer satisfaction of borrowing Ar-Rahnu

H<sub>4</sub>: Assurance has an influence on Customer satisfaction of borrowing Ar-Rahnu

### **3. RESEARCH METHODOLOGY**

#### ***3.1 Sample***

The sample of this study comprised of Ar Rahnu customers in Selangor area. In order to participate in this study, they must at least use Ar Rahnu once. Since Selangor state is a large area, researcher divided it based on eight (8) designated sub-districts. Non- probability sampling was employed in this study since the exact population of Ar Rahnu users is unidentified. Data collection is based on personally administered questionnaire.

#### ***3.2 Research Instruments***

Questionnaires were grouped into demographic, dependent variable, independent variable. The questionnaire was adapted from past research [21]. A total of 238 questionnaires were distributed; however, only 200 questionnaires were returned and deemed usable. Thus, the

response rate was about 84 %. The first section gathered the general questions. The second section gathered the information on factors influencing customers' satisfaction of borrowing Ar-Rahnu. Meanwhile, the third section gathered the demographic information. The above variables were used to determine the customer satisfaction of borrowing Ar Rahnu. All of the questions were measured using 5 Likert scales ranging from 1- strongly agree to 5 - strongly disagree. A pilot study was conducted to determine the reliability of the items used in the questionnaires and the validity of measuring instruments to ensure the accurate parameters. The pilot study was conducted on 30 Ar-Rahnu's customers in Selangor. The feedbacks obtained from the questionnaires were analysed using SPSS and the reliability coefficient alpha scores for each dimension were presented in Table 1.

**Table 1: Reliability Analysis for Each Construct**

Constructs	Cronbach's Alpha (N= 30)
Tangible	0.718
Responsiveness	0.778
Assurance	0.729
Empathy	0.772
Customer Satisfaction	0.801

According to Nunnally [23], the reliability coefficient of not less than 0.5 is usually acceptable, thus the questionnaires used are considered acceptable in terms of reliability coefficient. It can be seen that all the variables used in the questionnaire recorded an  $\alpha$  value greater than 0.7, indicating that the questionnaire had internal consistency. As such, the reliability test supported the appropriateness of the instrument used in the study.

## 4. RESULTS AND DISCUSSION

### 4.1 Descriptive Analysis

Table 2 depicts that 97 of the respondents were male (48.5 %), while 103 of the respondents were female (51.5). Furthermore, majority of the respondents were between the age of 23 years

old to 27 years old (89 %). With regards to educational background, 48.5% respondents obtained undergraduate degree. Other respondents obtained qualifications of professional / diploma (9.5%), SPM/STPM (19%), and postgraduate degree (6.5%). In terms of the respondents income, more than half of the respondents were considered as low- to middle-level income earners who draw a monthly salary of less than RM3, 000.

**Table 2: Demographic Profiles of the Respondents**

Demographic Profiles	Frequency	Percentage (%)
<b>Gender</b>		
Male	97	48.5
Female	103	51.5
<b>Age</b>		
18 - 22	33	16.5
23 - 27	89	44.5
28 - 32	32	16
33 - 38	16	8
39 - 43	19	9.5
44 above	11	5.5
<b>Education Level</b>		
SPM	19	9.5
Diploma/STPM	71	35.5
Degree	97	48.5
Master/ PhD	13	6.5
<b>Monthly Salary</b>		
Below RM3000	132	66
RM3001 – RM5000	41	20.5
RM5001 – RM7000	20	10
More than RM7000	7	3.5
<b>Reason for borrowing Ar-Rahnu</b>		
Cash	134	67
Business	27	13.5
Investment	17	8.5
Others	17	8.5

#### **4.2 Correlation Analysis**

Correlation analysis use to examine the nature of relationship that exists between independent variables which are tangible, responsiveness, assurance, empathy and customer satisfaction. Pearson correlation was used to analyze the data collected in this study. Based on Table 3, the



result shows that all independent variables are significant and positively correlated with the customer satisfaction of borrowing Ar-Rahnu at post office, at the confidence level of 95% ( $p < 0.05$ ).

**Table 3: Correlation between Customer Satisfaction of Borrowing Ar-Rahnu @ POS and independent variables**

Variables	Correlation	Significant level
Tangible	0.401	.000
Responsiveness	0.169	.000
Assurance	0.537	.000
Empathy	0.559	.000

It can be briefly explained as the stronger the independent variable are, the greater customer's satisfaction to borrow Ar-Rahnu at post Office. Empathy has high strength of association with the customer satisfaction to borrow Ar-Rahnu at post office (55.9%) followed by assurance (53.7%), tangibles (40.1%) and responsiveness (16.9%). These results explained that empathy and assurance has a strong relationship with the customer's satisfaction to borrow Ar-Rahnu at post office while for tangibles and responsiveness, the results show moderately correlates with the customer's satisfaction to borrow Ar-Rahnu at post office.

#### 4.3 Regression Analysis

Table 4 has shown that R Square is 0.718 for regression of customer satisfaction of 0.651. Meanwhile, 71.8% of variation in the customer satisfaction was influenced by independent variables (tangibles, responsiveness, assurance and empathy). The remain 28.2% remain uninfluenced. Table 4 summarised the results of multiple regression with customer satisfaction as a dependent variable for tangible, responsiveness, assurance and empathy.

**Table 4: Regression Analysis**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std Error	Beta		
1 (Constant)	.603	.291		2.073	.039
Tangible	.055	.084	.018	-1.743	.086
Responsiveness	.001	.029	.453	4.319	.017
Assurance	.382	.067	.468	4.222	.000
Empathy	.425	.073	.154	-1.439	.168
$R^2 = 0.715$	<i>Adjusted R<sup>2</sup> = 0.701</i>		<i>F value = 41.886</i>	<i>Sig F = 0.000</i>	

a. Dependent Variable: Customer Satisfaction

The results show that responsiveness displayed a strong significant Beta=0.453 t-value of 4.222, and p=0.000. Moreover, the standardised regression coefficient revealed that assurance (Beta=0.468, t=4.222, p=0.000) makes the strongest contribution in explaining customer satisfaction followed by responsiveness (Beta=0.453, t=4.319, p=0.017). Hence H2 and H3 are accepted. This result was same as founded [18][19][21]. Whereas, tangible and empathy have less influence on customer satisfaction of borrowing Ar-Rahnu with beta value of -1.743 with sig .086 and beta value is -.154 with sig .168 respectively.

**Table 5 Overall Results of Hypotheses**

Hypotheses	
H <sub>1</sub> : Tangibles has an influence on Customer satisfaction of borrowing Ar-Rahnu	Rejected
H <sub>2</sub> : Responsiveness has an influence on Customer satisfaction of borrowing Ar-Rahnu	Accepted
H <sub>3</sub> : Assurance has an influence on Customer satisfaction of borrowing Ar-Rahnu	Accepted
H <sub>4</sub> : Empathy has an influence on Customer satisfaction of borrowing Ar-Rahnu	Rejected

## 5.0 CONCLUSIONS

This study investigates the antecedents and consequences of customer satisfaction towards Ar-Rahnu. Survey questionnaires were distributed to respondents. The key contribution of this study is that it provides a more comprehensive model of the antecedents and consequences of customer satisfaction towards Ar-Rahnu service. The study findings indicate that responsiveness and assurance are antecedents of customer. Recognition of the importance of the antecedents of customer satisfaction has several practical implications. Institution that offers Islamic pawn broking service needs to take into account the importance of responsiveness and assurance in their service in order to influence customer satisfaction. Islamic pawn broking institutions should provide service as promised, ready to respond to customers' requests and equipped their staff with knowledge to answer customer questions. The results obtained from this empirical work must be interpreted in the light of the study's limitation. This research is restricted to the institutions that provide Ar-Rahnu service and so future researchers need to extend the current research to other service sectors. Future studies involving a representative sample from different states and would improve the validity of results. In addition, future research may identify new dimensions of service quality which are

specific to other service sectors and investigate their impact on satisfaction and the customers' overall attitude to institutions that provide Islamic pawnbroking.

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