



## Knowledge as Determinant of Customer Satisfaction: A Case of Islamic Financing

Anita Md. Shariff, Zainuddin Zakaria, Norazidah Shamsudin

Faculty of Business Management  
Universiti Teknologi MARA (UiTM) Terengganu, 23000 Dungun, Terengganu, Malaysia

*Received: July 10 2014*

*Accepted: September 9 2014*

---

### ABSTRACT

This study was carried out to determine factors that influence the level of customer satisfaction towards Islamic financing. Four aspects i.e. alternative choice to borrow, religious belief, knowledge of pricing and transparency of financial institutions were chosen as independent variables. A self-developed 7 point Likert Scale questionnaire was used for data collection. Correlation coefficient and multiple regression analysis were conducted on 76 samples from the Islamic financing customers. The Pearson Correlation test revealed that knowledge of pricing was found to have significant negative relationship with customer satisfaction while religious belief and alternative choice to borrow were found to have positive and low association with customer satisfaction. The multiple regression analysis indicated that only knowledge of the customers has a negative but significant relationship with their satisfaction.

**KEYWORDS:** Islamic Financing, Customer Satisfaction, Religious Belief, Financing, Debts, Loans, Borrowing, Knowledge.

---

### INTRODUCTION

Customer satisfaction is described as the inner feeling resulted from continuous evaluations of experience about a certain product performance against expectation [1]. This paper focuses on satisfaction in the context of the inner feelings that the customers of Islamic financing experience as they engage with the financing facility. The satisfaction levels were gauged from certain aspects which include level of happiness, feeling of contented as well as stress and worries.

Various studies have identified factors such as service quality, expectations, performance and price as important determinants of customer satisfaction. According to [2], total customer satisfaction can be accomplished when banks are able to identify and meet the requirement of their customers. A study on banking customer satisfaction by [3] revealed that satisfaction with borrowing itself outweighed the satisfaction resulted from interactions with the relationship manager, day-to-day service and value for money. In [3] argued that very satisfied customers are one-third more likely than satisfied customers to recommend the bank to others.

In the case of Islamic banking, a study found that customers in Pakistan were satisfied with the services provided and the efficiency of the bank in handling banking transactions [4]. In a study on customers' satisfaction of Kuwait Finance House services, in [5] pointed out that satisfactions varies differently from one another and therefore. Financial institutions need to improve all aspect of its services including some basic ones. In [6] found that five criteria i.e. shariah principle, efficient services, price, bank reputation and product flexibility to be the most important determinants of customers selection of Islamic banking. In [7] highlighted that high percentage of Islamic banking customers in Jordan, despite being aware with certain specific Arabic terms in the banking products, chose not to use the products. This is also consistent with claim by [8] that Jordan Muslims were not concerned with the products that carry Arabic names.

In [9] pointed out that social factor especially family and friends' influences play quite significant role in banking selection criteria of Asian customers. In [10] also found that choice of banks depends on the match between bank image and customer interest. Previous studies have also revealed that religious belief is the dominant factors for Muslims in choosing Islamic Financial Institution over conventional institutions. In [11] found that Malaysian Muslims choose Islamic financing as it suits their religious values and principles and not due to the products offered. This is consistent with finding in [12] that Malaysians chose Islamic banks due to religious motivation rather than other factors. In [13] highlighted that religious belief influence the differences in features and selections of Islamic and conventional finance products and services. A study in Pakistan, on the other hand, found that customers put less importance to religious belief in choosing Islamic bank [14].

In [15] pointed out that pricing is one of the most important criteria that impact retail banks' customer satisfaction and the bank's profitability. In finance, the price of financing facility is indicated by the interest

---

**Corresponding Author:** Anita Md. Shariff, Faculty of Business Management, Universiti Teknologi MARA (Terengganu), 23000 Dungun, Terengganu, Malaysia. Email: [anita723@tganu.uitm.edu.my](mailto:anita723@tganu.uitm.edu.my)

charged for using the money. There is clear similarity in pricing by conventional financing and Islamic financing [16]. While the conventional financing uses the term “interest rate”, Islamic financing uses the term “profit rate” to determine price. The calculations of both Islamic profit and conventional interest are based on compounding interest. In calculating rebates for prepayment, Rule 78 is the most common method used in most countries [17]. In Malaysia, both Islamic and conventional financing apply Rule 78 as stipulated under the Malaysia Hire Purchase Act 1967. Despite the similarities in pricing between Islamic finance and conventional finance, most consumers were found to have little knowledge about Islamic finance [13]. Some Islamic scholars even argue that Islamic financing such as mortgage financing is a form of *riba* similar to the one offered by conventional [16]. A study on the determinant of Islamic and conventional deposits in Malaysia found that customers were more concern over the return on their deposits than any other factors when choosing the banks [18].

In [19], it discussed the role of trust, ethics, and knowledge as being important aspect in developing customer satisfaction in the area of financial services. In [20] found that educated students are more conversant in differentiating between conventional and Islamic financial concepts. He also argued that the level of awareness, understanding and acceptance of Islamic finance among non-Muslims could be increased by translating the Arabic terms used in Islamic financing into conventional terms used in conventional financing. This is consistent with the study in [14] that customers are lacking awareness about the basic rules in Islamic finance.

With regards to transparency of financial institution, in [21] stressed that an elaborate but simplified disclosure law should be in place so that all available credit cost is made comprehensible and accessible to consumers. A study also showed that banks were not keen in providing finance charge information to the consumer [22]. Besides, in [14] stressed that customers in Pakistan hold the views that banking staffs in general are not equipped to provide reliable information or capable in explaining religious compliance of Islamic banking product.

**PROBLEM STATEMENT**

Based on the literatures, there are various factors that influence customer satisfactions of the banking and financing services. While most studies emphasized largely on the service quality of the banks or creditors as the domineering factor, this paper argues that product contents must also be considered in assessing customer satisfaction.

Since studies show most of customers were found to lack understanding about the pricing of the financing facility and were mostly unaware of the pricing similarity between the Islamic and conventional finance, this paper seeks to understand if their knowledge of pricing could influence their satisfaction level. The paper also tries to see if the creditors are transparent in revealing the finance charges, the calculations of interest or profit and rebate for early settlement, and whether this significantly correlate with customer satisfaction.

Despite the arguments made in [3] that satisfied customers are more likely to recommend the bank to others and to continue using the banking services, the authors of this paper argues that increase borrowing does not necessarily reflect increase satisfaction. This paper tries to find out the reason that motivate or cause customers to borrow whether borrowing is regarded as necessary or choice. It further seeks to clarify whether any correlation exist between the choices of borrowing with satisfaction.

Since religious factor is cited as one of the main reasons customers choose Islamic over conventional financing, this paper attempts to see if religious belief of the Islamic financing customers relates with their satisfaction level. Hence, four variables i.e. choice of borrowing, religious belief, knowledge of pricing and transparency of financial institutions were chosen as factors determining customer satisfaction of Islamic financing. Figure 1 describes the theoretical framework for the study.

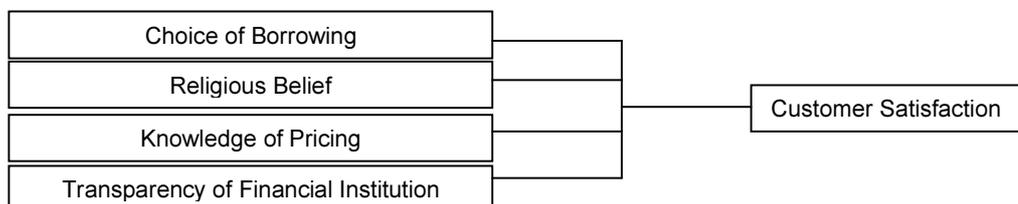


Figure 1: Theoretical framework of Islamic financing

**METHODOLOGY**

This study is conducted through several phases which include establishing and distributing questionnaire, collecting data, and analyzing data using descriptive analysis, Pearson chi-square test, correlation coefficient and multiple linear regression of SPSS. A self-developed Likert Scale questionnaire was used for data collection. The questionnaire was divided into six (6) parts, namely part A, B, C, D, E and F. Part A obtains demographic

information of the respondents that are gender, age, race, marital status, religion, education, working sector, occupation, level of income. This part is measured using nominal and ordinal scale.

Part B examines the alternative choices to borrow. Respondents were asked the reasons and motivating factors for borrowing. Part C assesses the influence of religious belief on decision making process. Part D enquires about the customers' awareness and knowledge of pricing (profit calculation) as well as the existence of Rule 78 in the calculation of rebate in Islamic finance. Part E collects information on the respondents experience with the financier in delivering detailed information. Part F gauges the respondents' satisfaction level. The questions in Part F include the positive and negative feelings such as happiness, contented, being burdened and depressed by the financing facility as well as the tendency to borrow in future. All questions in Part B till F are measured using Likert Scale with 5 measurements from Strongly Disagree, Disagree, Neutral, Agree and Strongly Agree. Only selected results from each part will be reported in this paper.

The population of this study are customers of Islamic financing. Using Roscoe's [23] rule of thumb of sample size between 30 and 500, the researchers decide to use simple random sampling from 74 samples distributed among customers of Islamic financing. The respondents mainly reside in the east coast of peninsular Malaysia. Since the questionnaire is self-developed, a pilot study of 20 samples was conducted in order to test its reliability. The respondents of the pilot study are also part of the main study.

All data obtained from the questionnaire were processed using SPSS. Descriptive data was used in examining the respondent's profile. Two types of analyses were conducted to determine the relationship between the independent variables; Choice of Borrowing, Religious Belief, Transparency of the Financial Institutional and Knowledge of pricing and the predictor variable; Customer Satisfaction. The first analysis conducted was the Pearson Correlation in order to determine the strength and the existence of significant relationship between the independent variables and the dependent variable. The second analysis adopted was the multiple regression analysis. The researchers hope to determine the combined effect of all three predictor (independent) variable on the dependent variable. Regression analysis was used to analyze associative relationship between metric dependent variable and one or more independent variables. The rules of thumb as suggested by [24] have been used to characterize the strength of the association between variables, based on the absolute size of the correlation coefficient size. The relationship between the dependent variable (customer satisfaction) with the independent variables (choice to borrow, religious belief, knowledge of pricing and transparency of financier) is expected to generate two outcomes. The first is to investigate to what extent the model of the study is able to explain or predict the factors that influence customer satisfaction. The second exploration is to describe which of the predictors is found to establish stronger relationship compared to the others. Since regression analysis is concerned with the nature and degree of association between variables, no causality relationship would be implied or assumed.

## RESULTS AND DISCUSSION

The result of the Pearson Correlation analysis (Table 1) revealed a mixed result. Only three out of four independent variables; "Religious Belief", "Choice of Borrowing" and "Knowledge of Pricing" showed significant association with the dependent variable; customer satisfaction. Only one variable i.e. "Transparency of financial institutions" was not significantly related with the dependent variable. Out of the three independent variables, "Religious Belief" and "Choice of Borrowing" showed positive relationship with customer satisfaction. "Knowledge of Pricing" showed a negative association with customer satisfaction. In terms of the strength of association, we discovered that the relationship between "Knowledge of Pricing" and customer satisfaction was the strongest as indicated by the correlation score of 0.675. There were however low association between the other two variables; "Religious Belief" and "Choice of Borrowing" with customer satisfaction as shown by the Pearson Correlation of 0.245 and 0.311 respectively.

Table 1: Correlation analysis between the independent variables and customer satisfaction

		Customer Satisfaction	1	2	3
<b>Religious Belief (1)</b>	Pearson Correlation	.245*			
	Sig. (2-tailed)	.033			
	N	76	76		
<b>Transparency of Financial Institution (2)</b>	Pearson Correlation	.195	-.092		
	Sig. (2-tailed)	.091	.431		
	N	76	76	76	
<b>Choice of Borrowing (3)</b>	Pearson Correlation	.311**	.122	.112	
	Sig. (2-tailed)	.006	.295	.335	
	N	76	76	76	76
<b>Knowledge</b>	Pearson Correlation	-.675**	-.302**	-.174	-.400**
	Sig. (2-tailed)	.000	.008	.133	.000
	N	76	76	76	76

The second analysis adopted in this paper was multiple regression analysis. The researchers hope to determine the combined effect of all four predictor (independent) variables on the dependent variable. Table 2 highlights the model summary regression analysis between the independent variables and customer satisfaction towards Islamic Financing. The R Square value for the best model is equal to 0.467.

Table 2: Model summary of the regression analysis

R	R Square	Adjusted R Square	Std. Error of the Estimate
.683 <sup>a</sup>	.467	.437	.431

a. Predictors: (constant), mean knowledge, mean transparency, mean religious belief, mean reason

Table 3 shows the analysis of variance of the regression analysis where the F value is recorded at 15.534. The sum of squares for regression value is 11.554, lower compared to residual value of 13.202. Table 4 revealed the result of the coefficients analysis of the predictors. In terms of the association between the independent variables and the dependent variable, only knowledge of pricing is found to show significant relationship with customer satisfaction. The relationship however is negative. This is shown by the negative beta value of -0.90 for the standardized coefficients in Table 4. For each percentage increase in knowledge of the calculation of profit and pricing leads to 90% decrease in the satisfaction level.

Table 3: ANOVA of the regression analysis

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	11.554	4	2.888	15.534	.000 <sup>b</sup>
Residual	13.202	71	.186		
Total	24.755	75			

a. Dependent variable: mean satisfaction

b. Predictors: (constant), mean knowledge, mean transparency, mean religious belief, mean reason

Table 4: Coefficients analysis of the predictors (independent variables)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	5.397	1.136		4.750	.000
Mean choice	.057	.120	.045	.471	.639
Mean transparency	.132	.135	.087	.978	.331
Mean religious belief	.100	.156	.059	.642	.523
Mean knowledge	-.900	.144	-.624	-6.237	.000

The initial findings of the correlation suggested that two of the predictor variables have a positive and significant but low association with dependent variable. Religious belief and choice of borrowing were found to have positive influence on the satisfaction level of Islamic financing customers. The more customers choose Islamic financing due to religious belief, the more satisfied will they be. Similarly, the more customers are given the choices to borrow or not to borrow, the more satisfied will they be. Although significant, these predictors, however, are not as strong as another predictor variable. From the regression analysis, it was found that knowledge of pricing or profit calculation of the Islamic financing showed a strong but negative association with customer satisfaction. The result supports the findings in [25, 26]. An increase in knowledge will lead to a decrease in satisfaction among Islamic financing customers. In other words, the more the Islamic financing customers know about the pricing calculation, the less satisfied will they be.

### CONCLUSION AND RECOMMENDATIONS

This study has revealed some important findings. By focusing on solely financing facility and by establishing linkages between various factors, this study is able to determine the factors that influence satisfaction level among the customers of Islamic financing. We suggest that borrowers of the Islamic financing must first equip themselves with sufficient knowledge before they ever decide to engage in a financing contract. An informed decision making is vital since borrowing should be regarded as a long term commitment or almost a point of no return. The author would like to also suggest a more thorough study conducted to assess the financing facility from various angles which shall shed some lights to other important issues relating to household debt and bankruptcy that are now moving into worrying level.

#### Acknowledgement

The authors would like to thank Mr Zairi Ismael Rizman for his guidance and assistance in getting this paper published.

## REFERENCES

1. Tse, D.K. and P.C. Wilton, 1988. Models of Consumer Satisfaction Formation: An Extension. *Journal of Marketing Research*, 25 (2): 204-212.
2. Karatepea, O.M, U. Yavas and E. Babakus, 2005. Measuring Service Quality of Banks: Scale Development and Validation. *Journal of Retailing and Consumer Services*, 12 (1): 373-383.
3. Winstanley, M., 1996. What Drives Customer Satisfaction in Commercial Banking. *Commercial Lending Review*, 12 (3): 36-42.
4. Khattak, N.A. and K.U. Rehman, 2010. Customer Satisfaction and Awareness of Islamic Banking System in Pakistan. *African Journal of Business Management*, 4 (5): 662-671.
5. Kamal N., N. Rana and A.S. Athmar, 2013. Customers Awareness and Satisfaction of Islamic Banking Products and Services: Evidence from the Kuwait Finance House. *International Journal of Marketing Studies*, 5 (6): 185-199.
6. Ayesha, H. and M. Omar, 2011. Selection Criteria for Islamic Home Financing: A Case Study of Pakistan. *Qualitative Research in Financial Markets*, 3 (2): 117-130.
7. Kamal, N., J. Ahmad and A. Khalid, 1999. Islamic Banking: A Study of Customer Satisfaction and Preferences in Jordan. *International Journal of Bank Marketing*, 17 (3): 135-151.
8. Ahmad, J. and N. Kamal, 2002. Customer Satisfaction and Retail Banking: An Assessment of Some of the Key Antecedents of Customer Satisfaction in Retail Banking. *International Journal of Bank Marketing*, 20 (4): 146-160.
9. Chua, E.K., 1981. Customer intention to deposits at banks: An empirical investigation of its relationship with attitude, normative belief and confidence, thesis collection, National University of Singapore.
10. Martenson, R., 1985. Consumer Choice Criteria in Retail Bank Selection. *International Journal of Bank Marketing*, 3 (2): 64-74.
11. Osman, I., H. Ali, A. Zainuddin, W.E.W. Rashid and K. Jusoff, 2009. Customers Satisfaction in Malaysian Islamic Banking. *International Journal of Economics and Finance*, 1 (1): 197-202.
12. Abdelghani, E. and N.O. Oladokun, 2012. Malaysian Consumers' Preferences for Islamic Banking Attributes. *International Journal of Social Economics*, 39 (11): 859-874.
13. Gait, A. and A. Worthington, 2008. An Empirical Survey of Individual Consumer, Business Firm and Financial Institution Attitudes Towards Islamic Methods of Finance. *International Journal of Social Economics*, 35 (11): 783-808.
14. Hayat M.A. and S.B. Khuram, 2011. Customer's Criteria for Selecting an Islamic Bank: Evidence from Pakistan. *Journal of Islamic Marketing*, 2 (1): 14-27.
15. Wruuck, P., B. Speyer, Deutsche Bank AG and R. Hoffmann, 2013. Pricing in Retail Banking. Retrieved from <http://b3b.info/wp-content/uploads/pricing-in-retail-Banking-Deutsche-Bank.pdf>.
16. Mahmoud A.E.-Gamal, 2006. *Islamic finance: law, economics, and practice*. Cambridge University Press.
17. Perna, M.R., 1978. Computing Interest Rebates under the Rule of 78ths: A Formula for Usury upon Default in Maximum-Interest Precomputed Credit Transactions. *St. Mary's Law Journal*, 10 (1): 94-120.
18. Sudin, H. and N.W.A. Wan, 2008. Determinants of Islamic and Conventional Deposits in the Malaysian Banking System. *Managerial Finance*, 34 (9): 618-643.
19. Bejou, D., C.T. Ennew and A. Palmer, 1998. Trust, Ethics and Relationship Satisfaction. *International Journal of Bank Marketing*, 16 (4): 170-175.
20. Bley, J. and K. Kuehn, 2004. Conventional Versus Islamic Finance: Student Knowledge and Perception in the United Arab Emirates. *International Journal of Islamic Financial Services*, 5 (4): 17-30.
21. K.-Kale, N., 1984. Impact of Truth-in-Lending Disclosures on Consumer Market Behaviour: A Critique of the Critics of Truth-in-Lending Law. *The Oklahoma City University Law Review*, 9 (1): 117-148.
22. Wallace P. Mors, 1965. Consumer credit finance charges: rate information and quotation. NBER Books.
23. John T. Roscoe, 1975. *Fundamental research statistics for the behavioural sciences*. Holt, Rinehart and Winston.
24. David A.D. Vaus, 2002. *Surveys in social research*. Psychology Press.
25. Saad, N.M., 2012. Comparative Analysis of Customer Satisfaction on Islamic and Conventional Banks in Malaysia. *Asian Social Science*, 8 (1): 73-80.
26. Chen, H.G., J.Y.C. Liu, T.S. Sheu and M.H. Yang, 2012. The Impact of Financial Services Quality and Fairness on Customer Satisfaction. *Managing Service Quality*, 22 (4): 399-421.