



**CUSTOMER SATISFACTION OF SERVICE QUALITY:
A COMPARISON BETWEEN AR-RAHNU AND
CONVENTIONAL PAWNBROKING**

BY

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ABSTRACT

Pawnbroking institution is a place where the public can get instant cash, particularly among low-income earners. Some people prefer to get cash facility from pawnbroking institutions rather than formal financial institutions due to various reasons such as less stringent loan requirements and shorter time of loan approval. Customers only need to have valuable items to be pawned as a guarantee of the loan provided. In Malaysia, there are two types of pawnbroking service namely Islamic (Ar-Rahnu) and conventional. Conventional pawnbroking has been introduced in the community since 19th century, while the first Ar-Rahnu in Malaysia was established in 1992. As the capital required to set up pawnbroking institution is not very large, and in addition to a growing demand towards this service, the number of institutions offering pawnbroking is increasing year by year. This creates a stiff competition among the pawnbroking institutions in attracting customers. Customer satisfaction is, therefore an important indicator to determine the ability of the Ar-Rahnu institutions to sustain their businesses especially in the long run. This study aims to assess the level of customer satisfaction with regards to the service quality offered by the Ar-Rahnu and conventional pawnbroking institutions. It aims to identify if there are differences in the level of consumer satisfaction between Ar-Rahnu and conventional pawnbroking institutions. This study also identifies the dimension of service quality that affects the level of customer satisfaction. Five factors are evaluated namely: (i) reliability, (ii) responsiveness, (iii) assurance, (iv) empathy, and (v) tangibles. In methodology, the study adopts the survey method by distributing questionnaire to customers of the Ar-Rahnu and conventional pawnbroking institutions. A total of 300 samples were used and analysed through descriptive analysis, reliability analysis, independent t-test and linear regression analysis. The findings demonstrate that the level of customer satisfaction was higher in Ar-Rahnu compared to the conventional pawnbroking. Besides that, all factors evaluated in this study were found to give positive impact on customer satisfaction, both for Ar-Rahnu and conventional pawnbroking. Several recommendations to improve the quality service of Ar-Rahnu were proposed including (i) to extend operating hours, (ii) to open during weekend and public holiday, (iii) to put up notice if the institution is not in operation during its normal operating hours, and (iv) to improve the image of Ar-Rahnu to be more attractive and approachable.

خلاصة البحث

مؤسسات الرهن عبارة عن أماكن تؤول إليها العامة للحصول على التمويل الفوري – وتحديدًا بين ذوي الدخل المحدود. من ضمن الأسباب الرئيسية لذلك هي: متطلبات القرض أقل صرامة؛ والوقت المطلوب للموافقة على القرض أقل. لا يحتاج العميل إلى شيء سوى ممتلكات ثمينة ليقوم برهنها كضمان للقرض المقدم. يوجد في ماليزيا نوعان من خدمات الرهن وهي الإسلامية والتقليدية. تم طرح الرهن التقليدي بالمجتمع منذ القرن التاسع عشر، بينما تم تأسيس أول محل رهن في ماليزيا في العام 1992. بما أن رأس المال المطلوب لإقامة مؤسسة رهن ليس بالكبير، بالإضافة إلى الطلب المتزايد على هذه الخدمة فإن عدد المؤسسات التي تقدم خدمات الرهن يزداد كل سنة، مما يُوجد منافسة بين مؤسسات الرهن. وبما أن العميل مساهم مهم في هذا فإن ضمان رضا العميل عامل مهم لتحديد قدرة مؤسسات الرهن الإسلامية على المحافظة على أعمالهم تحديدًا على المدى البعيد. يهدف هذا البحث إلى تقييم مستوى رضا العملاء تجاه جودة الخدمة التي تقدمها مؤسسات الرهن الإسلامية والتقليدية. يسعى إلى تحديد إن كان هناك فروق في مستوى رضا العملاء بين مؤسسات الرهن الإسلامية ومؤسسات الرهن التقليدية. بالإضافة إلى ذلك يقوم هذا البحث بتحديد بُعد جودة الخدمة التي تؤثر على مستوى رضا العملاء. تم اعتبار خمس متغيرات كالآتي: (أ) الاعتمادية، (ب) الاستجابية، (ج) الطمأنة، (د) التقمص العاطفي، و (هـ) الماديات. وتبعًا لذلك تم طرح العديد من الأساليب المناسبة لتحسين جودة الخدمة. وبعد ذلك تم تحقيق أهداف هذا البحث من خلال استبانة تم توزيعها على عملاء مؤسسات الرهن الإسلامية والتقليدية. تم تحليل 300 استبيان بواسطة التحليل الوصفي، تحليل الموثوقية، اختبار "ت" المستقل و تحليل الانحدار. توضح النتائج أن نسبة رضا العملاء أعلى في مؤسسات الرهن الإسلامية مقارنة بمؤسسات الرهن التقليدية. كما أن كل المتغيرات التي تم تقييمها في هذه الدراسة أثبتت أن تعطي أثرا إيجابيا لرضا العملاء، سواء في مؤسسات الرهن الإسلامية أو مؤسسات الرهن التقليدية. وتبين الدراسة أهمية متغيرات النوعية الخمسة في تحديد رضا العملاء، والتي، للضرورة، يجب أن تحدد من قبل المرتهن. ولتحسين جودة الخدمة في مؤسسات الرهن الإسلامية، خلصت الدراسة لجملة من التوصيات من بينها: (أ) تمديد ساعات العمل، (ب) العمل خلال عطلة نهاية الأسبوع والعطل الرسمية، (ج) الإشعار المسبق في حال كانت المؤسسة خارج الخدمة في ساعات العمل العادية، و (د) تحسين صورة مؤسسات الرهن الإسلامية لجعلها أكثر جاذبية.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a research paper for the degree of Master of Science (Islamic Banking and Finance).

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DECLARATION

I hereby declare that this research paper is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Not everyone is qualified to obtain loan from formal financial institutions such as commercial banks. As formal financial institutions mainly focus on medium- and high-income groups (Schrader, 1996), the low-income group often has to obtain financing facilities from informal financial institutions. When a borrower engages an informal lender, the transaction would involve undemanding collateral, less stringent application procedures, and only minor personal details are required (Degryse et al., 2013). These institutions also provide a shorter loan disbursement period (Wiyani and Prihantono, 2016). More importantly, no stable source of income is required. Indeed, for the low-income people, the informal financial institution is their best hope to get their financial needs fulfilled.

One of the informal financial institutions that are gaining popularity among the low-income people to secure credit facilities is the pawnbroking institutions. In Malaysia, pawnbroking institutions have played important role in the money lending activity since the 19th century particularly during the influx of Chinese immigrants who came to work to the Malay Peninsula (Abdul Razak, 2011). Previous studies highlighted that pawnbroking industry plays an important role in the Malaysian financial market where it is known as a small bank that provides fast micro-credits facility to the needy (Ismail and Ahmad, 1997; Ismail and Sanusi, 2005).

The services offered by the pawnbroking institutions are very much convenient for the low-income group. They do not require customers to have a proper bank account in order to get credit facility from them. This is however, is a must the other

major financial institutions, particularly the banks (Sanusi and Johari, 2007). Simple application procedure is another factors that attracts people to obtain cash facility from the pawnbroking institutions (Hj Sulaiman et al., 2014). Individuals who have valuable items that can be pawned can go to a pawnbroking institution to get instant cash. After evaluating the item, a sum of money will be lent to the customer based on the margin set by the pawnbroking institution as different institutions set different loan limits and margins. A pawn tenure will be determined at the beginning of the contract in which the customer is required to pay back the loan with interest rates charged. Otherwise, according to the Pawnbrokers Act 1972 (Act 81), the pawned item will be auctioned to the public to get back the money that has been lent to the customer, if the loan amount exceeds RM 200. However, in real practice, seldom that this rule is being practised.

Islamic pawnbroking (Ar-Rahnu) has come into existence to offer a Shariah-compliant pawnbroking alternative which is based on Shariah principles. It refers to an institution that offers micro financing facility in the short term period; provided that the borrower has a collateral. Ar-Rahnu first began operating in Malaysia in 1992 with the establishment of the Muassasah Gadaian Islam Terengganu (MGIT) by the Terengganu State Government (Abd. Hamid and Abdul Aziz, 2003; Amin and Chong, 2011; Bahari et al., 2015).

As for now, the most accepted collateral items in Malaysia are gold and gold jewelleryes (Mokhtar et al., 2012). Their entire operations must be in accordance with the Shariah principles. In addition to being a Shariah compliant pawnbroking alternative to the interest-based conventional pawnbroking, the ultimate goal of Ar-Rahnu is to fulfil a social responsibility role (Ismail and Ahmad, 1997; Mokhtar and Zambahari, 2013) that is to assist the society, poor people and small entrepreneurs that

are desperately in need of cash (Rasmin and Markom, 2014). In this regard, poverty-related issues that haunt many people can also be reduced on a large scale basis (Maamor and Ismail, 2010) with the availability of a Shariah compliant products catering specifically for the financial needs of this group of people who were earlier considered as “unbankable” (Mansor et al., 2014).

A number of institutions currently offer the Ar-Rahnu facilities in Malaysia. According to Maamor and Ismail (2010), these institutions can be divided into three categories, which are state-linked companies, cooperatives, and bank subsidiaries. Examples of the first category include the MGIT and Permodalan Kelantan Berhad (PKB). Meanwhile, several cooperatives are also offering Ar-Rahnu including the Islamic Economic Development Foundation Malaysia (YaPEIM), Ar-Rahnu Koperasi Permodalan Melayu Negeri Johor (KPMNJ), and Malaysian Armed Forces Co-operative Limited (Koperasi Tentera). For the category of bank subsidiaries, an increasing number of Islamic commercial banks are offering the Ar-Rahnu services including Bank Rakyat, Bank Muamalat Malaysia Berhad, RHB Islamic Bank, Agro Bank, and Bank Islam Malaysia Berhad.

Similar to other businesses and organisations, Ar-Rahnu institutions also deal with a large number of customers every day. Thus, it is crucial for the staff to acquire competent skills in providing quality services to the customers. Additionally, the art of customer service is required as their customers come from different backgrounds. The majority of them, however, come from the low-income group, who may not have formal educations (Abdul Razak, 2011). They would require more attention from the staff; to guide them throughout the application process. Proper explanation and briefing, along with good communication are key factors for every business nowadays. Customer can evaluate whether or not he or she has received high service

quality throughout the transaction. Customer satisfaction is very important to a business as it will positively affect the business. According to Kotler (2000), the pleasure of a customer is the effect or reflection of a satisfied customer. Customer loyalty will increase parallel to the satisfactory level of the quality of services offered by an organisation (Wick and Roethlein, 2009). Consequently, customer retention to the organisation will remain at a high level, and so will the profitability.

This study aims to evaluate the level of customer satisfaction of the Ar-Rahnu institutions in comparison to the conventional pawnbroking institutions. The comparison in the customer satisfaction between these two institutions would enable the Ar-Rahnu institutions to counter the services provided by conventional pawnbroking institutions, even though their presence is still new in the market. To the best of the researcher's knowledge, this comparative study of customer satisfaction between the Ar-Rahnu and conventional pawnbroking is currently lacking. Lastly, this study offers several suggestions for the improvement of the quality of services provided by Ar-Rahnu institutions.

1.2 PROBLEM STATEMENT

One of the characteristics of the conventional pawnbroking which is unlawful from the perspective of the *Shariah* is the interest charges on the loan (Hisham et al., 2013; Ismail and Ahmad 1997; Bhatt and Sinnakkanmu, 2008; Abdul Khir et al., 2013). Conventional pawnbrokers normally charge interest rate on monthly basis and this is regarded as *riba*, which is prohibited by the *Shariah* law. The predetermined interest rate charges on the loan will not lift the burden of the customers but will add to their burdens. This situation will increase the probability of them losing their pawned items if they are unable to pay the loan and interest charges (Bahari et al., 2015). Therefore,

Ar-Rahnu has emerged as an alternative, particularly for Muslims, to obtain microfinancing facilities which are compliant to the *Shariah* principles. Ar-Rahnu is based on valid contracts in Islamic finance, namely *Qardhul Hassan* (benevolent loan), *Wadiah Yad Amanah* (trustworthiness), *Al-ujrah* (safekeeping), and *Wadiah Yad Dhomanah* (safekeeping with guarantee) (Bhatt and Sinnakkannu, 2008; Mokhtar and Zambahari, 2013; Othman et al., 2012).

It is clear that Muslims nowadays have an alternative to the conventional pawnbroking for the purpose of obtaining loans. It has been shown that Ar-Rahnu benefits the customers by offering several benefits, including lower borrowing costs compared to that charged by the conventional pawnbroking. More importantly, the entire operations of Ar-Rahnu are free from the elements that are forbidden by Islam, such as *riba* and *gharar*. Thus, Muslims with clear understandings of Islam will definitely choose Ar-Rahnu. Mokhtar and Zambahari (2013) emphasised the wisdom behind choosing *Shariah* compliant products in our daily lives where its ultimate objective is to achieve *Maqasid Al-Shariah*. Ultimately, the benefits and interests of the society as a whole can be protected and preserved, and harm can also be prevented.

In order to attract more people to choose Ar-Rahnu over the conventional pawnbroking service, the service quality of Ar-Rahnu should be comparable, if not better than that of the conventional pawnbroking. This is crucial to ensure that the main objective of Ar-Rahnu's in providing *Shariah*-compliant alternatives to the Muslims can be achieved. This study aims to investigate any significant differences between customer satisfaction level with the service quality of the Ar-Rahnu and conventional pawnbroking institutions. Previous studies that have focused on customer satisfactions towards Ar-Rahnu are Othman et al. (2012), Abdul Shukor and

Sabri (2013), and Wulandari and Kassim (2015). However, no study has compared customer satisfactions between Ar-Rahnu and conventional pawnbroking.

Ar-Rahnu is relatively new in the market compared to the conventional pawnbroking institutions, which has long been in existence in Malaysia. In view of this, it is assumed that they have more experience in dealing with the customers. Operating side by side with the more established conventional pawnbroking institutions, it can be implied that the Ar-Rahnu institutions are facing stiff competitions in getting customers. Becoming the choice of the customers, especially for Muslim customers is important, so that the main purpose of becoming an alternative to the conventional pawnbroking institutions can be achieved.

Despite the increasing demand for Ar-Rahnu, some still prefer to go for the conventional pawnbroking or obtain financing from illegal sources for quick and small loans (Bhatt and Sinnakkanmu, 2008). Hj Sulaiman et al. (2014) found that a majority of the customers of conventional pawnbroking in Malaysia consist of Muslims with low income. They choose to the conventional pawnbroking institutions because their main priority is to get instant cash facility, regardless of what Islam commands and prohibits (Mohamad Taher et al., 2011). This phenomenon is truly disappointing as they now have a better option that obeys the Shariah. Therefore, Ar-Rahnu should be able to offer better products, particularly with respect to their service quality. This study was conducted to evaluate the level of customer satisfaction on Ar-Rahnu in comparison with conventional institutions. It intends to provide recommendations on measures that could be taken by the Ar-Rahnu for the purpose of improving the quality of their services.

1.3 RESEARCH OBJECTIVES

Based on the issues highlighted above, the general objective of this study is to compare the customer satisfaction level for the service quality offered by Ar-Rahnu and conventional pawnbroking. The specific objectives of this research are as follows:

1. To determine if there are differences in customer satisfaction levels of the service quality provided by Ar-Rahnu and conventional pawnbroking;
2. To investigate the factors of service quality that influence customer satisfaction of Ar-Rahnu and conventional pawnbroking; and
3. To propose to the Ar-Rahnu providers on measures to be taken to further improve their service quality.

1.4 RESEARCH QUESTIONS

The following research questions are designed to help answer this study's research objectives:

1. Does service quality provided by Ar-Rahnu differ from that offered by the conventional pawnbroking?
2. What are the factors in the quality of service that influence customer satisfaction of Ar-Rahnu and conventional pawnbroking?
3. How can the service quality of the Ar-Rahnu providers be improved?

1.5 SIGNIFICANCE OF THE STUDY

This study sought to contribute mainly to the improvement and further development of the Ar-Rahnu providers in Malaysia. It is hoped that the results of this study can become a platform to help these institutions improve their service quality, which are very crucial for the sustainability and growth of the institutions in the future. This

study intends to reveal the strengths and weaknesses of the Ar-Rahnu institutions compared to the conventional pawnbroking institutions in terms of their quality of services. Such knowledge can help the Ar-Rahnu institutions to enhance their strengths, and at the same time, improve their weaknesses. This is very important in retaining the existing customers, and at the same time, attracting others to seek Ar-Rahnu institutions, including the non-Muslim community. This study is regarded as substantial in paving ways for Ar-Rahnu institutions to make improvement especially with regard to their service quality.

In addition, it is hope that this study would bring awareness to the public regarding the existence of the Ar-Rahnu institutions. Some people may not be aware of the existence of these two types of pawnbroking industry in Malaysia, including the differences between the two. Thus, this was the best opportunity for the researcher to spread the message of Allah by inviting others to approach the Ar-Rahnu institutions because their entire business is Shariah compliant. The researcher now has the chance to explain to the participants the differences between these two institutions, and explain the reasons why Ar-Rahnu is better and more favourable. This is in line with the recommendations by Mokhtar and Zambahari (2013), and Bahar et al. (2015), where they found that the level of public knowledge and awareness of Ar-Rahnu was still low.

Studies that explore the level of customer satisfaction with the service quality of Ar-Rahnu are very limited. Thus, this study investigates the level of customer satisfaction with the service quality of pawnbroking institutions. In order to illustrate the uniqueness of this study compared to the previous studies on the same topic, this study investigates the level of customer satisfaction upon the service quality of Ar-Rahnu institutions, and to see if it is different with conventional pawnbroking

institutions. It is hoped that this study can contribute to the body of knowledge, particularly in the field of pawnbroking.

1.6 SCOPE OF THE STUDY

This study has adopted a quantitative survey for the process of data collection. The questionnaire was designed to examine the level of customer satisfaction towards the quality of service offered by the institutions of Ar-Rahnu and conventional pawnbroking in Malaysia. Hence, the respondents of this study were restricted to include only individuals that had the experience in conducting transactions with a pawnbroking institution. In Section One of the questionnaire, the respondents were briefly asked about the backgrounds of their transactions with the institutions, such as the purpose of pawning their collateral, and the pawned item that was used in their transaction. The main purpose was to make sure that they were eligible to be included in this study.

Additionally, the experiences possessed by these respondents were acquired only through their transactions with the pawnbroking institutions in Malaysia. The researcher also did not limit to any specific Malaysian pawnbroking institutions to be studied in this study. The respondents could have had experiences with any other Ar-Rahnu or conventional pawnbroking institutions.

Moreover, it is important for researcher to highlight that this study has examined customer satisfaction level towards the service quality provided by Ar-Rahnu and conventional pawnbroking institutions. In other words, this study has determined the degree of customer satisfaction with the quality of service of these institutions. Other parameters, such as acceptance factors of the product, were not

included in this study as the main focus here involved service quality and customer satisfaction level.

1.7 ORGANISATION OF THE STUDY

This research paper is organised into five chapters. Chapter One introduces the background of the study, problem statements, research objectives and questions, significance, scope and limitations, and the organisation of the study. Chapter Two reviews the previous literatures that are related to this study, which consists of four main parts. The first and second part is a discussion on customer satisfaction and service quality respectively. The third part is intended to elaborate the relationship between customer satisfaction and service quality while the last part presents a conceptual framework of this study.

Chapter Three discusses the research methodology, which includes the research design, population and sample, instrumentation, data collection procedures, and data analysis procedures. Chapter Four explains the research findings and the analysis from the questionnaire. Finally, Chapter Five concludes the study by highlighting major findings of the study, the implications and contributions of the findings, and suggesting the extension for future research.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter provides a review of the current literature on customer satisfaction and service quality. Prior to evaluating the relationship between customer satisfaction and service quality, it is important to understand each element clearly so as important and relevant issues can be highlighted. This literature review is important to better understand the topic that is currently being studied, particularly with regard to the measurements of customer satisfaction and service quality, as well as its concept and structure. It also helps the researcher to identify the model that is widely used by past researchers in assessing the level of customer satisfaction. Based on the review of the literature, a conceptual framework has been developed and is presented at the end of the chapter.

2.2 CUSTOMER SATISFACTION: DEFINITION AND CONCEPT

Meeting customer satisfaction is the main agenda of businesses today as a result of the ever increasing competitive business environment. Decisions made by marketing managers in particular are highly influenced by the motivation to serve customers well. Every organisation must be able to define customer satisfaction with regards to certain standard set by the market and this standard is typically assessed through the quality of products offered. In fact, according to Cengiz (2010), customer satisfaction is about the relationship between customers and product or service providers. Giese and Cote (2000) stated that customer satisfaction refers to the affective response of various intensities within a designated timeframe, point of determination, and limited

duration. It is directed towards the focal aspect of product acquisition and consumption. Oh (1999) described the formation of customer satisfaction as the consequence of subjective comparison between human perception and expectation which is in line with the expectancy-disconfirmation model by Oliver (1981). Spreng et al. (1996) added that such comparison is to indicate the satisfaction of consuming goods or services and upon acquiring the information of the goods or services through marketers in the form of advertisements, salesperson communications, or package information.

Since customer is the ultimate user of a particular good or service, it is crucial for businesses to evaluate customer satisfaction. Cengiz (2010) highlighted that the level of customer satisfaction determines company's profit in future. Szymanski and Henard (2001) found that there is a positive relationship between customer satisfaction and repeat purchasing. Unhappy customers tend not to repeat their purchases and lodge complaints, resulting in waste of companies resources to handle the customers' grievances, and would likely to damage the companies' reputation in the long run. On the other hand, Anderson and Sullivan (1993) and Sureshchandar et al. (2002) argued that firms with strong customer satisfaction often enjoy bigger returns.

Giese and Cote (2000) identified three important components of customer satisfaction: first, customer satisfaction refers to a summary of affective responses, which varies in intensity. Second, it refers to the response pertaining to a particular focus of either at a product of choice, a purchase, or consumption. Third, the response would occur at a particular time, which differs by situation but is generally limited in duration. The findings of their study indicated that there is a need to set a paradigm for researchers when studying customer satisfaction.

In term of structure, Matzler and Sauerwein (2002) found three important factors that the structure of customer satisfaction is based on (Table 2.1). In their study, a basic requirement was established for businesses to identify and fulfil in order to stay competitive. A market entry level called “threshold” was established, aimed at maintaining the service quality delivered by businesses. If products or services are delivered at satisfactory level, increased quality does not necessarily increase customer satisfaction. Subsequently, business performances are highly driven by customers’ articulated needs and desires. In this case, product or service providers need to constantly stay competitive against their competitors. In sustaining their businesses, it is important to highlight that customers get excited with unexpected surprises. They are delighted to observe competition between businesses in the market as wider choices are now available for them.

Table 2.1 Structure of Customer Satisfaction

No	Factors	Summary
1.	Basic	Minimum requirements that cause dissatisfaction if not fulfilled but do not lead to customer satisfaction if fulfilled or exceeded. The fulfilment of basic requirements is a necessity, but not a sufficient condition for satisfaction. Basic factors are totally expected. The customer regards the basic factors as prerequisites where he takes them for granted and therefore, does not explicitly demand them.
2.	Performance	Factors that lead to satisfaction if fulfilled or exceeded and lead to dissatisfaction if not fulfilled. Hence, they can cause both satisfaction and dissatisfaction.
3.	Excitement	Factors that increase customer satisfaction if delivered but do not cause dissatisfaction if they are not delivered.

Source: Matzler and Sauerwein (2002)