Ijarah Financing and Customer Satisfaction: a Perspective from Pakistan

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Abstract

In recent decades, Islamic finance system is evolving as a worthwhile substitute to the conventional financing. The prime purpose of this paper was to examine and measure the customer satisfaction and sustainability in Ijarah financing in comparison with conventional leasing concept and process. As Ijarah financing, an alternative mode of finance in comparison with conventional leasing becoming wide in scope among customers in Pakistan. Therefore, research into satisfaction of customers’ perspective is an integral need to promote the financial instrument. Questionnaire, based on literature review was developed to obtain primary data from one hundred customers (sample size=100) conveniently accessed in KP Province Pakistan. The study found that customers were more inclined towards Ijarah financing on different grounds included economic and psychological (religious) factors as more important. Moreover, the results reflected a general perception of market situation having more customer satisfaction in Ijarah financing as compared to conventional lease financing system. Majority of the respondents were strongly agreed that Ijarah financing is better than conventional leasing, hence the alternative hypothesis of the study is accepted. The study strongly recommends smooth, clear and customer friendly standard procedures in order to appreciate the sustainability of the instrument. Also the awareness promotion to make community beneficiary from the Islamic finance system.

Key Worlds: customer satisfaction, Ijarah financing, and conventional leasing

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Introduction

Currently 275 institutions all over 53 countries worldwide are into Islamic finance system and have drawn the attention of western financial institutions to offer Islamic investment products to Muslim investors. Islamic banking emerged in the 1970s, has a range of financial instruments or products including mudarabah (trust financing), musharakah (equity financing), ijarah (lease financing), murabahah (trade financing), qard al-hassan (welfare loan), and istisna’ (progressive payments). Recent trends include coexistence of both the conventional and Islamic banking system in countries like (Indonesia, Malaysia, Pakistan, and the United Arab Emirates). In such scenario, a relative comparison of both the systems needs to be investigated for policymakers and contribution in the economy.

Ijarah financing has been one of the widely discussed financial topics and an alternative mode of finance in comparison with conventional leasing. The economies of the world are declining and some of them based on interest collapsed in the last decade. There is a need for adapting a better alternative of conventional banking and modes of financing, a substitute based on equity, equality and equal distribution of wealth. It must not advocate of capitalistic system like interest based conventional banking system but an opportunity provider to all those having ideas, motivation and courage to do business legally and ethically to provide ease to society. Ijarah financing, an Islamic mode of financing has all the qualities of proving same services as the best vision from all aspects i.e. economics, social, equity, equality and ethical banking. The purpose of the study is to check and measure the customer satisfaction and sustainability in Ijarah financing in comparison with conventional leasing concept and process. The study refers to adaptation of Islamic mode of finance i.e. Ijarah in comparison with conventional mode of financing. The customer satisfaction in Ijarah financing be sorted out as:

i. Is Ijarah a better mode of financing than leasing?
ii. Does it provide better opportunities/ possibilities or relaxations than leasing?
iii. Does it help to provide satisfaction to customers having specific mind sets?
iv. Does it has the power to retain the customers’ satisfaction and attract potential ones?

It may be concluded that after collapse of conventional banking and interest based modes of financing including lease finance, the customers are seeking better financing alternative that are easy to adopt. Further customer demands widely acceptable with convenient rules and regulations, easy mode of collaterals and pay back method financing in accordance with societal norms and religious aspects.

Literature Review
As described by Taqi Usmani, Ijarah (Lease financing) in his book as it comprises of attaining the funds needed to use a particular asset. Ijarah contract in the Islamic bank includes purchase of an asset for the customer and allows to use it against a fixed rental payment. The key feature of ijarah is that ownership of the entity remains with the Financing Institution till the lease payments are made. Samad, Gardner & Cook concluded that ijarah is appearing as the most popular and dominating all other modes of Islamic financing.

**Industrial Lease Marketing**

Paul F. Anderson and William Lazer at American Marketing Association studied the distinction between financial and operating leases. They concluded an inadequacy of existing research and potential economic benefits of leases by defining a product augmentation strategy, decision models, cash flow savings, sharing operational costs and tax credits and tax shields. Moreover, revealed a positive effect on pricing and promotional strategies to maintain product quality.

**Tenant Satisfaction and Land Leases**

Ralph Bierlen and Lucas D. Parsch at Oxford University studied the level of tenant satisfaction and dissatisfaction for agricultural land lease in different states using linear equation method. They concluded that the tenants are more inclined to cost share and crop share leases and more judicious in obtaining favorable agreements than cash rent leases.

**Competition in Durable Goods Markets: The Strategic Consequences of Leasing and Selling**

Preyas S. Desai and Devavrat Purohit at Fuqua School of Business Duke University Durham North Carolina studied the differences of lease attitudes in durable goods. They studied lease extents for specific groups of products and lease dependence on cost by analyzing empirically consumer reports of automobile market of US. The study concluded that firms compete to sell their products only or using lease financing or combination of both. Also leasing directly depends upon competitiveness of market.

**Customer Satisfaction and Price Tolerance**

Eugene W. Anderson at University of Michigan studied the relationship between customer satisfaction and price tolerance (willingness to pay) by analyzing data of Swedish Customer Satisfaction Barometer empirically. The researcher revealed that a negative association between the level of customer satisfaction provided by the firm and
degree of price tolerance exhibited by customers. However a positive is found between year to year changes in levels of customer satisfaction and price tolerance.

**Customer Satisfaction, Productivity and Profitability for Goods and Services**

Eugene W. Anderson, Claes Fornell and Roland T. Rust at University of Michigan studied the relationship between customer satisfaction, productivity of firm and profitability in case of goods and services. The study used data of Swedish Customer Satisfaction Barometer (1989-1992) and concluded a positive relationship among productivity, customer satisfaction and profitability at a higher tendency in services and customized goods as compared to standardized goods and services.

**Customer Satisfaction in Virtual Environments**

BalaSubramanian et al. at University of North Carolina studied customer satisfaction for investing in virtual environments. The study used two samples; one of 225 online investors and other 203 members of American Association of Individual Investors. It is reflected from the analysis that trustworthiness of an online broker is significant antecedent to investors’ satisfaction. Further it is perceived that environmental security and operational competence impact the formation of required trust.

**Lease Capitalization and the Transaction Concept**

Alfred Rappaport at American Accounting Association argued for lease capitalization with references of accounting theory and concluded an insignificant error and oppose its abandonment.

**Research Methodology**

The purpose of the study is to sort out the cause and effect relationships between the two variables i.e. the customer satisfaction and the Ijarah financing. The study is descriptive in nature having a mix of qualitative and quantitative methods including cross sectional, by observing and interviewing customer's individuals and organizations using questionnaires. The research process is conducted through developing questionnaire based on literature review, relevant archives and customer statements for particular services. The questionnaire is floated among people of different streams based on gender, age and profession differentiation. A sample size of hundred people (n=100) was taken in order to get their views about conventional leasing, Ijarah financing, availability of services, satisfaction level, collateral, rules and regulations and pay back method of Ijarah financing. The data collection included both primary and secondary data i.e. first hand information by individuals and organizations availing Ijarah financing facilities, also
organizations providing Ijarah financing and conventional leasing. The secondary data is also used to some extent including organizational reports and archives. Extent of researcher’s interference in the study is minimal as it is more inclined to the descriptive, non contrived setting study i.e. done as field experiment without any interference and result are deduced without any manipulation.

**Hypothesis of the Study**

\( H_0 \): level of customer satisfaction is not different in Ijarah as compared to lease financing.

\( H_1 \): level of customer satisfaction is higher in Ijarah financing as compared to lease financing.

**Results and Analysis**

Table 1 presents the views of the respondents regarding comparison of Ijarah financing and conventional leasing. Majority of the respondents (90 percent on average) were strongly agreed that Ijarah financing is better than conventional leasing. Only 10 percent of the respondents in the study area disagreed or strongly disagreed. Further, the responses were obtained about the needs of promotional strategy for Ijarah financing in the perception of customers. Again 90 percent respondents thought that Ijarah financing needs effective promotional campaign to create awareness among the public. The results related to the satisfaction level of the customers regarding services provided by the Ijara financing institutions were also favorable. Seventy five customers out of hundred were agreed having satisfactory level services from the institutions.

Table 1 also shows the dissatisfaction level of the customers from conventional leasing. Sixty nine participations were agreed with the statement while thirty one on average respondents disagreed with the displeasing feature of conventional leasing. The respondents were also asked to compare Ijarah financing and conventional leasing in term of pay back procedure. Eighty three percent respondents on average were in favor that Ijarah financing is a convenient pay back method than conventional leasing.
Table 1

Responses in favour of Comparison between Ijarah and Lease Financing (in Percentage)

<table>
<thead>
<tr>
<th>Customers’ Perceptions in comparing Ijarah with conventional leasing</th>
<th>S.A</th>
<th>A</th>
<th>D</th>
<th>S.D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer perception about Ijarah Financing as better than Conventional lease</td>
<td>65</td>
<td>25</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>Ijarah Financing requires effective promotion and awareness</td>
<td>15</td>
<td>75</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>about Customer perception services provided by Ijara Financing Institutions as more satisfactory</td>
<td>45</td>
<td>25</td>
<td>25</td>
<td>5</td>
</tr>
<tr>
<td>Conventional leasing is dissatisfying in customer's perception</td>
<td>31</td>
<td>38</td>
<td>27</td>
<td>4</td>
</tr>
<tr>
<td>Ijarah Financing has comparatively convinient pay back procedure</td>
<td>39</td>
<td>44</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>Ijarah financing still need to flourish as better financing mode</td>
<td>36</td>
<td>22</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>conventional banks should offer Ijarah financing</td>
<td>47</td>
<td>45</td>
<td>8</td>
<td>-</td>
</tr>
<tr>
<td>Customers like Ijarah financing due to Islamic perspective</td>
<td>17</td>
<td>38</td>
<td>36</td>
<td>9</td>
</tr>
<tr>
<td>Ijarah Financing satisfies the need of industrial customers too</td>
<td>58</td>
<td>27</td>
<td>12</td>
<td>3</td>
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<tr>
<td></td>
<td>20</td>
<td>55</td>
<td>10</td>
<td>15</td>
</tr>
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* SA=Strongly Agree, A= Agree, U=Undecided, D=disagree, SD= Strongly Disagree

Source: Field Study 2015

Moreover fifty eight percent respondents Ijarah financing as an easy collateral mode than conventional leasing. The results in the Table 1 further reveals that ninety two percent respondents felt that Ijarah facility still need to flourish to create awareness about better financing modes. Whereas fifty five responses were in favour of the statement that Ijarah financing facility should be offered through conventional banking as well. A very much expected finding of the study indicates that majority of the respondents (85 percent
on average) liked Ijarah financing due to religion point of views. Likewise the results illustrates the responses against the question regarding Ijarah financing fulfilling the needs of the industrial customers in the current scenario. Seventy five on average responses were agreeing and viewed that Ijarah financing was able to fulfill the needs of the industrial customers.

Conclusions

The study concludes that Ijarah financing possess a higher level of customer satisfaction than conventional leasing. Customers were more eager and willing to know and avail Ijarah financing as compared to conventional lease financing, a positive sign to prove the validity of the research work. The study presents the views of the respondents regarding comparison of Ijarah financing and conventional leasing. Majority of the respondents were strongly agreed that Ijarah financing is better than conventional leasing. Thus, the null hypothesis is rejected against alternative hypothesis providing the expected results of the research work. The customers were more inclined towards Ijarah financing on basis of different grounds in which economic and psychological (religious) factors were more important. Thus a general perception of market situation can be generated on such grounds that there was more customer satisfaction in Ijarah financing as compared to conventional lease financing system. Numerous empirical studies support the results of this study including Akkas in Bangladesh, Kazarian in Egypt, Samad, Samad and Hassan in Malaysia , De-Belder and Hassan Samad as well as Hamwai and Aylward. the researchers reported various dimensions of Islamic financing including importance of Ijarah Financing and its relative success with respect to profitability, liquidity risk, and credit risk. The study strongly recommends smooth, clear and customer friendly standard procedures in order to appreciate the sustainability of the instrument. Also the awareness promotion to make community beneficiary from the Islamic finance system.

References


Kazarian, Islamic Versus Traditional Banking.


