



RESEARCH PAPER

Determinants of Customer's Satisfaction in Islamic Micro-Finance Offered by Akhuwat Foundation of Pakistan. An Empirical Study

¹Dr. Faiz ur Rahim, ²Mohd Razwan Sheikh* and ³Muhammad Haseeb Khan

1. Associate. Professor, IIIIE International Islamic university Islamabad Pakistan
2. PhD scholar, IIIIE International Islamic university Islamabad Pakistan
3. MS scholar, IIIIE International Islamic university Islamabad Pakistan

***Corresponding Author:** mohd.phdibf26@iiu.edu.pk

ABSTRACT

The main purpose of this study is to determine the factors which have an impact on customer's satisfaction in Islamic micro-finance, provided by Akhuwat foundation of Pakistan. Customer satisfaction basically, describes overall evaluation based on the total purchase and consumption experience with the good or service over time. Explanatory research design is used in the study, to examine the impact of independent variables on dependent variable. Therefore, in this context, we employed quantitative method of data collection in the form of self-structured questionnaire by using convenience sampling technique, using a sample of 260 questionnaires from six major cities of Pakistan. And accordingly, OLS method of regression was employed to exhibit the impact of various factors on customer's satisfaction in Islamic micro-finance provided by Akhuwat foundation of Pakistan. The findings of this study explicitly reveal that customers have shown full faith in Islamic micro-financing facilities provided by Akhuwat. Therefore, it can be conceded from the results that customers were highly satisfied from the services of Akhuwat foundation. The study aims to identify the importance of Islamic micro financing scheme of Akhuwat with a wide perspective of assessing the main determinants of customer's satisfaction. Hence, this study may prove as vital tool for Akhuwat foundation/ NGOs to design their strategies in pursuance of customer's responsiveness. The exceptionality of this study is to point out the most appropriate factors to use, adopt and follow in this case.

KEYWORDS Islamic-Microfinance, Akhuwat Foundation, Customer's Satisfaction, Regression Analysis

Introduction

Microfinance basically means to provide financial services to underprivileged people. It is also referred as micro-loans or micro-credit, deemed as a vibrant tool for poverty alleviation. Therefore, this facility is mostly offered to the unemployed or low-income payees because most people in poverty or with limited financial resources do not have enough sources to do business with traditional financial institutions. Therefore, microfinance organizations upkeep a wide range of activities, from providing basic things such as bank checks and savings accounts to educational programs that teach start- capital and investment principles to small entrepreneurs. Unlike traditional financing situations, where the lender's primary concern is that the borrower has sufficient collateral to cover the loan, whereas, microfinance organizations support entrepreneurial success without such procedures (Mohammed & Waheed, 2018).

Basically, the history of microfinance can be traced back to the mid-18th century, while today's use of microfinance has its roots in organizations of the 1970s, like, Grameen Bank of Mohammad youns in Bangladesh. These institutions have developed rapidly over the last two decades, and this industry has established itself as an integral part of financial sector policy in developing and transitional countries (Ashraf & Ibrahim, 2013).

To battle poverty and improve the economic circumstances of underprivileged people in their society, numerous developing nations throughout the world that are plagued by poverty have implemented a number of poverty mitigation measures. Unfortunately, the initiatives did not succeed in raising the living standards of the underprivileged. While this tactic was introduced as a dynamic tool to combat poverty. Basically, the major goal of microfinance companies was to assist underserved, low-income communities that were unable to contact traditional banks because they lacked collateral. Additionally, the organisation was founded to assist the underprivileged in starting small businesses or production ventures to contribute to their income at affordable financing costs. While it is typically maintained that these organisations serve underprivileged populations on the one hand, on the other hand, do not better-off their living standards due to interest payments on providing credits (Mahmood, 2019).

Therefore, in this context Leikem(2012),claimed that while the poor could not gain from microfinance and their incomes remained static, traditional microfinance services primarily focused on enabling lower-income businesses.Hence, keeping in view all these inadequacies of conventional micro-finance, Islamic scholars realized the need for Shariah-compliant solutions to deal with poverty in Muslim countries.

However, Dhumale and Sapcanin (1998), provided the first in-depth discussion of the use of Islamic financing in microfinance within this framework. In fact, certain micro-entrepreneurs' needs are met by Islamic banks because of their emphasis on risk sharing, particular commodities, and loans. A viable project that a conventional lender turned down because the security was insufficient can wind up being approved on a profit-sharing basis by the Islamic bank. Due to this, IbnKhalidun's concept of abasiyyah—a communal solidarity that prioritises teamwork over individual selfishness—and Dusuki (2006) presentation of an Islamic microfinance venture were linked. He contends that group financing to the poor, who are typically denied access to traditional banking services, might assist Islamic microfinance. As a result, in order to understand Islamic finance, we must at least have a basic grasp of its guiding principles. The four Shariah-derived concepts that form the basis of contemporary Islamic finance are also seen as crucial for Islamic microfinance. Riba is prohibited, as are risk sharing, explaining the logic behind calculating the temporal value of money, prohibiting Maysir, prohibiting Gharar, etc.

Therefore, in this context according to the principles of equality, justice, and transparency, Islamic Microfinance (IMF) is a system that aids in the eradication of poverty by giving impoverished people access to financing for an increase in their living standards. It ensures financial discipline and increases the breadth of financial services while funding the real, concrete economic activity of low-income parts of society on the basis of profit and loss sharing. Additionally, it takes the role of expensive informal financing and offers chances for self-employment that uphold human dignity and respect.

However, according, to the latest report of IMF and world economic outlook in 2022, on the list of the top 100 countries impacted by poverty, Pakistan is rated 55th (Ventura, 2022). By taking the PPP of 192 nations, this ranking is calculated. In contrast, the reduction of poverty in Pakistan is greatly aided by the microfinance sector in general and Islamic microfinance institutions in particular. Although, there are various micro-financing institutions working in Pakistan to combat with poverty. But Akhuwat foundation is deemed as mainstayand leading Islamic micro-financing provider among the all. It was established in 2001 with a view to provide interest free loans to the unprivileged and downtrodden sections of the society. So as to raise their standard of living and make it possible for them to better their means of subsistence. Akhuwat Islamic micro-finance works to reduce poverty by establishing a system of interdependent assistance in society, drawing on the values of social justice and brotherhood. With loans supplied in accordance with the Islamic financial concept of Qarz-e-Hasan (interest-free loans), Akhuwat Islamic micro-finance has chosen microfinance as its operational strategy. The group works with religious institutions and aspires to ignite and cultivate society's spirit of voluntarism. Even though it is still the

foundation of Akhuwat Islamic micro-finance, interest-free micro-lending is now seen as a tool rather than a goal in and of itself. As a result, Akhuwat Islamic micro-finance has created numerous support systems over the years to meet the various needs of the poor and has put in place a more all-encompassing strategy for fighting poverty. Akhuwat Islamic micro-finance believes that access to high-quality education is essential for advancing welfare and establishing the framework for a society free from poverty, hence educational services have received special attention (Iqbal & Shafiq, 2015). Therefore, in this context the present study will make an effort to explore the determinants of customer's satisfaction in Islamic micro-finance facility provided by Akhuwat foundation of Pakistan.

Literature Review

Islamic microfinance is deemed as a viable alternative for conventional microfinance. (Karim et al. 2008), states that Muslims normally try to avoid formal financial services due to its inconsistency with the doctrine of Islam. Whereas, Chakrabarty (2015) expresses his viewpoint on the Islamic microfinance by highlighting it as comprehensive and systematic mechanism to eradicate poverty by providing access to finance to the unprivileged sections and thereby improving their standard of living on the basis of equity, justice and transparency. Islamic microfinance, in fact, finances the actual concrete economic activities of the low-income group of society on the basis of shared profits and losses, ensures financial discipline and enhances the depth of financial services. In addition, it replaces expensive informal finances and provides an opportunity for independence to promote human dignity and respect. This is basically an interesting concept, growing in different models of the country and becoming an influential organization in some parts of the country. This funding system is based solely on "faith," not "interest." It is very popular among the poor as an alternative to traditional microfinance systems and existing interest rate based banking systems. Interest-free microfinance helps to mitigate the vulnerability of the poor. It benefits the poor by creating new employment opportunities to reduce poverty. Therefore, provides financial services to the poorest by integrating charity and zakat into microfinance.

While Durrani et al. (2011) contend that microfinance is crucial to the fight against poverty. It is obvious that microfinance is crucial to reducing poverty in light of the Chib (2016) report. It aids individuals in raising their standards of living and way of life. The key issue here is locating pertinent information. It is incredibly challenging to locate and assist disadvantaged people who lack access to resources. A thorough analysis is necessary to determine the advantages of microfinance for those who are less fortunate. Microfinance plays a detrimental role in addition to its beneficial one. Microfinance simply exhibits symptoms; it conceals the true problem or rationale. However, within the area of Islamic microfinance, Range (2004), emphasizes that the ban on Riba in Islamic finance isn't an impediment to the improvement of sound microfinance products. On the contrary, the aspect outcomes of Islamic donations should in all likelihood growth them.

However, keeping in view all these relevant studies in both the fields of microfinance, Akhuwat Islamic Microfinance is highly rated as a foundation in Pakistan, which provides micro financing facilities to all irrespective of caste and creed especially, to poor and underprivileged sections of the societies. It is basically, a form of a foundation which is founded under the 1984 Corporate Regulations and Article 42, whose main purpose is to provide interest-free microfinance to the underprivileged, deprived and poor of society. The purpose of interest-free microfinance is to improve the standard of living of the poor and allow them to open up opportunities. Akhuwat Islamic Microfinance is fighting for poverty alleviation by building a system focused on mutual support in society, based on the ideals of brotherhood and social justice. According to a study by Iqbal & Shafiq (2015), the central principles of Islam are defined as a great emphasis on social justice, resource sharing, and inclusion between owners. Similarly, this foundation also works for women's empowerment through diverse programs. Women working in Pakistan are constantly striving to improve the financial stability of their households, but unfortunately their work

is always underestimated. Legal, political, economic, educational and social empowerment has always been a daunting task in small, developing countries. All women have the right to exercise their generative rights and must be protected from harmful and violent practices in both humanitarian and developmental contexts. The 2025 vision of Pakistan has entrenched five components related to the women's empowerment into its objectives, comprising activities that endorse self-respect of women, access to resources and opportunities, right to define their selections and choices, power and right to regulate their lives. The control of lives associated with both inside the home and outside the home and the capability to impact social change (Shafique & Siddique, 2020).

Customer satisfaction is the heart of any business, and in offerings area like banking, it's far something very hard to measure. Microfinance banking area has visible a great increase within side them. In this study, we've got made a try to discover the determinants of the consumer delight in microfinance banking in Pakistan. We have concluded that consumer delight with microfinance banks includes 4 main elements or areas; 1) Microfinance Banks guidelines and tactics which encompass product pricing, turnaround time, files requirement and pre-disbursement formalities, 2) Empathy stage of the group of workers with clients that encompass the volume to which the financial institution group of workers is helpful, friendly, well-mannered and courteous to its clients, 3) Physical look and surroundings of the department of the financial institution additionally subjects and in the end 4) Level of group of workers dedication to the clients, which includes group of workers know-how approximately the banks merchandise and verbal exchange to clients approximately blessings and capabilities of those merchandise. It is witnessed that on every occasion consumer procedures a microfinance financial institution and buy any product, those 4 elements are maximum in all likelihood for you to decide the extent of consumer delight with the financial institution (Ali et al, 2015). Customer satisfaction can be defined as a general or overall assessment made by a customer after using a good or service. "Psychological condition (feeling) experienced after consuming a good or service," according to the definition of customer satisfaction.

Material and Methods

Research Design

Research design is basically a framework of research methods and techniques employed by the researcher to accomplish any research. Therefore, in this context we have used explanatory research design to examine the effect of independent variables on dependent variable. Whereas, based on previous studies, quantitative methodology is seen to be more appropriate for the current study.

Research Approach

In order to achieve the objectives of the study, as stated in the preceding section. We have employed quantitative methodology to accomplish this research.

Data and Sources

The study is actually based on quantitative method of data collection, which has been collected in the form of self-structured questionnaire. The data of our study was cross-sectional and the questionnaire was composed on five point likert scale (5 strongly agree to 1 strongly disagree), as supported by various studies (Rokhman & Rivai, 2014), Encompassing two distinct segments i.e. personal information division and the other section containing 4 indicators. Whereas, the survey for data collection was started in first week of November 2023 and was completed in April 2024, covering six major cities of Pakistan.

Sample and Sampling Technique

We used convenience sampling technique (Rokhman&Rivai, 2014) for data collection, whereas the sample size was of 300 respondents from six major cities of Pakistan (Islamabad, Rawalpindi, Sargodha, Lahore, Karachi and Peshawar). And only 261 questionnaires was collected back out of 300.

Construction of Variables

The dependent variable of this study is customer’s satisfaction in Islamic microfinance offered by Akhuwat. Whereas, the independent variables are i.e. perception, reliability, compliance, and responsiveness. These independent variables are actually the determinants of customer’s satisfaction, on the basis of which we will find out the impact of these determinants on customers satisfaction towards the micro financing facility of Akhuwat. Therefore, to look into the reasons for customer satisfaction in Islamic microfinance facility offered by Akhuwat, these selected variables have been used (fig.1).

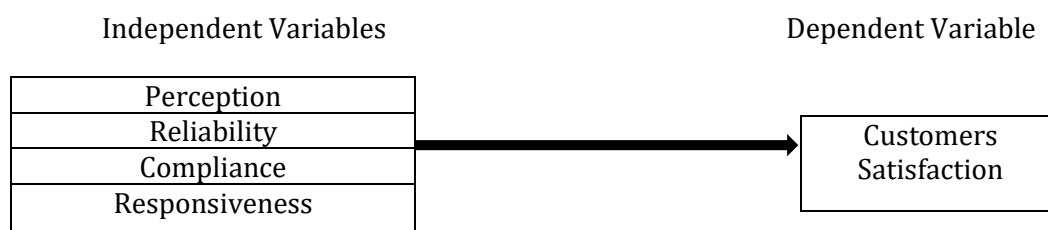


Fig.1

Model

OLS regression model basically, portrays the determinants which have an impact on customer’s satisfaction. Hence, for this purpose we have used OLS model of the following form:

$$CS_{imf} = \beta_1 + \beta_2 Pc + \beta_3 Rl + \beta_4 Cm + \beta_5 Rp + \mu$$

Where, (CS_{imf}) is customer satisfaction in Islamic microfinance offered by Akhuwat foundation of Pakistan and on the right hand side of the model are independent variables (perception, reliability, compliance and responsiveness) which have an impact on the dependent variable.

Data Analysis and Interpretation

After data collection, reliability tests, descriptive analyses, Pearson correlations, and multiple regressions were used to examine the data. Then, to analyse the data, we used SPSS version 20 software (Statistical Package for Social Sciences).

Results and Discussion

Internal Reliability Assessment

Before conducting regression analysis, we have thoroughly tested the reliability of the collected data. Therefore, in this context, we tested the internal consistency of the data collected using Cronbach’s alpha, which is considered the most popular measure for assessing scale reliability (Harun at el, 2015).

Table 1
Reliability Statistics

Cronbach’s Alpha	N of Items
.941	32

Consequently, the results of this particular test provide us a score of .941, which is deemed as highly dependable and also the results above .9 are maintained by various empirical studies as extremely adequate (Polat et al, 2014 and Abdullah et al, 2012).

Descriptive Statistics

Table 1 shows the results of all the variables used in the study i.e. customers satisfaction, perception, reliability, compliance, and responsiveness. Moreover, the result reveal that customers are moderately satisfied with a mean value of 1.58. However, it is also observed that all the explanatory variables have positive mean values. And the findings from the table also reveal that more emphasis is being placed on reliability i.e. 1.57 while the least is placed on responsiveness i.e. 1.42.

**Table 2
Descriptive Statistics, Using the Observations (N = 260)**

Variable	Mean	Std. Dev.	Min	Max
Customers Satisfaction	1.58	.532	1	3.3
Perception	1.52	.617	1	3.67
Reliability	1.57	.617	1	3.67
Compliance	1.46	.593	1	3.6
Responsiveness	1.42	.581	1	4.4

**Table 3
Correlation Coefficients, Using the Observations (N = 260)**

Components	Customers satisfaction	Perception	Reliability	Compliance	Responsiveness
Customers satisfaction	1.0000				
Perception	0.6941	1.0000			
Reliability	0.5715	0.7344	1.0000		
Compliance	0.7300	0.7658	0.6583	1.0000	
Responsiveness	0.6122	0.7110	0.5838	0.6771	1.0000

The results of Pearson's correlation coefficients, which are used to show the degree of association among the variables used to examine customer satisfaction, are shown in Table 4.3. There is no polytheism issue among the explanatory factors, and the correlation coefficient across variables does not surpass 0.80. As a result, the matrix demonstrates that customer satisfaction is positively correlated with perception, reliability, compliance, and responsiveness.

Regression Analysis

**Table 4
Regression Analysis**

Linear regression		Number of obs = 260			
		F (4, 255) = 89.11			
		Prob > F = 0.0000			
		R-squared = 0.5830			
		Adj R-squared = 0.5764			
		Root MSE = .34649			
CS	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
Pc	.2138694	.0635928	3.36	0.001	.0886356 .3391033
Rl	.023651	.0526512	0.45	0.654	-.0800356 .1273376
Cm	.3899636	.0600149	6.50	0.000	.2717756 .5081517
Rp	.1095477	.0551222	1.99	0.048	.0009951 .2181004
Cons	.4945492	.0654596	7.56	0.000	.3656389 .6234594

The results from the regression table reveal that all the independent variables have a positive impact on customer's satisfaction (CS), which indicates that the respondents are fully satisfied with the services of Akhuwat foundation of Pakistan. As the independent variables have all such elements inherited in, which fully represents the customers satisfaction from the services provided by Akhuwat foundation. Moreover, all the determinants have also shown statistically significant relationship with customer's satisfaction. Statistically, it means that with a percentage increase in perception (PC) of customers regarding the services offered by Akhuwat foundation, will show an increase of 21% in customer's satisfaction. Therefore, this positive and significant relationship between customer's perception (Islamic microfinance facility provided by Akhuwat is satisfying the customers) and satisfaction regarding the services of Akhuwat foundation is optimistic.

Similarly, the table portray that compliance (Islamic microfinance services provided by Akhuwat are free from any kind of un-Islamic things, like, Riba, Mysin, and Gharah.) also show positive and significant relation with customers satisfaction. It indicates the services of Akhuwat foundation are full-filling the requirements of Shariah compliance (CM). Statistically, it shows 38% surge in customer's satisfaction, if there is percentage increase in compliance of services offered by Akhuwat foundation of Pakistan. And lastly, a coefficient of (RP) 0.109547 shows a moderate positive relationship between Responsiveness (employees of Akhuwat gives regard to their customers and have good behavior) and customer's satisfaction. Moreover, p-value (0.048) suggests that this effect is statistically significant at the 5% level.

Whereas, R square, is the extent to which the independent variables included in the model can account for the variation in the dependent variable (customer customers). While the R square value is 0.58, which indicates that the model adequately explained 58% of the total variance, it shows that the model and data fit very well. However, the value of probability F-statics is significant which indicates the fitness of the model. Hence, the results reveal that all the predictors have shown significant impact on customer's level of satisfaction in Islamic microfinance facility provided by Akhuwat foundation of Pakistan.

Conclusion

The aim of this study was to assess the determinants of customer's satisfactions in Islamic micro-finance offered by Akhuwat foundations of Pakistan. And according, trace out the impact of those determinants on customers satisfaction in Islamic micro-finance, mainly to comprehend the level of customers satisfaction while availing the services of Akhuwat foundation of Pakistan. Whereas, the study was survey based and the data was collected from six major cities of Pakistan and for that purpose we opted explanatory research design to examine the impact of independent variables on customer's satisfaction. Consequently, the findings reveal that an overwhelming majority of respondents were satisfied from the services of Akhuwat foundation. Although, this alternative facility is not serving the customers in bulk (like conventional micro-finance), but the respondents were optimistic about this facility and has shown their trust on the shariah compliance and reliability of Akhuwat foundation. Hence, we conclude this endeavour with a hope that this study may prove as viable yardstick for organisation/ NGOs and in particular for Akhuwat foundation to target their customers as per their satisfactory levels. As, this study explicitly uncovered the determinants which satisfies the customers at large, while availing the micro-financing facilities.

Recommendations

Based on the findings of this study, several recommendations are underlined to enhance customer satisfaction in Islamic micro-finance services offered by the Akhuwat Foundation and similar organizations:

Enhance Service Accessibility:

- Expand outreach to more regions and underserved communities to make Islamic micro-finance more accessible. Implement mobile banking and online platforms to facilitate easier access to services.

Maintain Shariah Compliance:

- Continue to prioritize and ensure strict adherence to Shariah principles. This builds trust and confidence among customers who rely on the ethical and religious compliance of the services.

Strengthen Customer Relationships:

- Foster strong, personal relationships with customers by providing excellent customer service and support. Regularly gather customer feedback to address concerns and improve service quality.

Collaborate with Other Organizations:

- Partner with other NGOs, government bodies, and financial institutions to leverage resources and expertise. Collaboration can help in scaling up operations and reaching a larger customer base.

Improve Customer Education:

- Offer training programs and workshops to educate customers about the benefits and proper utilization of Islamic micro-finance products. Knowledgeable customers are likely to be more satisfied and make better financial decisions.

References

- Ali, F., Dey, B. L., & Filieri, R. (2015). An assessment of service quality and resulting customer satisfaction in Pakistan International Airlines: Findings from foreigners and overseas Pakistani customers. *International Journal of Quality & Reliability Management*, 32(5), 486-502.
- Ashraf, M.A. and Ibrahim, Y.B. (2013), "An investigation into the barrier to the rural poor Participation in MFIs: the case of Bangladesh", *International Journal of Research in Social Sciences*, 1 (2), 1-17.
- Abdullah, A. A., Sidek, R., & Adnan, A. A. (2012). Perception of non-Muslims customers towards Islamic banks in Malaysia. *International Journal of Business and Social Science*, 3(11).
- Chakrabarty, A. K. (2015). Islamic Micro Finance: Theoretical Aspects and Indian Status. *Journal of Commerce*(22206043), 7(4)
- Chib, S. S. (2016). Role of microfinance in elevating the living standard of people. *Splint International Journal of Professionals*, 3(4), 46.
- Dhumale, R., & Sapcanin, A. (1998). *An application of Islamic banking principles to Microfinance*. New York, NY: World Bank.
- Dusuki, W. A., (2006). "Empowering Islamic Microfinance: Lesson from Group-Based Lending Scheme and Ibn Khaldun's Concept of 'Asabiyah", *Paper presented at onash University 4th International Islamic Banking and Finance Conference*. Kuala Lumpur, 13-14 November.
- Durrani, M. K. K., Usman, A., Malik, M. I., & Ahmad, S. (2011). Role of Micro Finance in Reducing Poverty: A Look at Social and Economic Factors. *International Journal of Business and Social Science*, 2(21), 138-144.
- Harun, T. W. R., Rashid, R. A., & Hamed, A. B. (2015). Factors influencing products' knowledge of Islamic banking employees. *Journal of Islamic Studies and Culture*, 3(1), 23-33.
- Iqbal, Z., & Shafiq, B. (2015). Islamic finance and the role of Qarad-al-Hassan (Benevolent Loans) in enhancing inclusion: a case study of AKHUWAT. *ACRN Oxford Journal of Finance and Risk Perspectives*, 4(4), 23-40.
- Karim, Nimrah, Tarazi, Michael, & Reille, Xavier. (2008). *Islamic Microfinance: An Emerging Market Niche*(Vol. Focus Note 49). Washington, D.C.: CGAP.
- Leikem, K. (2012). Microfinance: a tool for Poverty Reduction. *Senior honors projects. Paper*, 300.
- Mahmood, H. T. (2019). Impact of Islamic Microfinance on Borrower's Income in Pakistan: A Case Study of Akhuwat (Doctoral dissertation, Hamad Bin Khalifa University).
- Mohammed, W. S., & Waheed, K. (2018). Interest-free microfinance in India: A case study of the Al-Khair cooperative credit society. *Journal of King Abdul-Aziz University: Islamic Economics*, 31(1), pp: 47-66
- Polat, A., Yesilyaprak, M., & Kaya, R. (2014). Understanding Islamic bank selection of customers: a field research from Turkish participation banks. *International Journal of Financial Research*, 5(4), 22.

- Range, M. (2004). Islamic microfinance. *RWTH Aachen University, Research Center of "International technical and economical Cooperation" Faculty of Business administration, a thesis under directions of Prof. Dr. W. Gocht.*
- Rokhman, W., & Rivai, H. A. (2014). Evaluation of Customer Satisfaction on Islamic Microfinance: Empirical Evidence from Central Java, Indonesia. *South Asian Journal of Management Sciences, 8*(2), 60-69.
- Shafique, O., & Siddique, N. (2020). The impact of microcredit financing on poverty alleviation and women empowerment: an empirical study on Akhuwat Islamic microfinance. *PalArch's Journal of Archaeology of Egypt/Egyptology, 17*(8), 548-562.