

AN AR-RAHNU SHOP ACCEPTANCE MODEL (ARSAM)

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ABSTRACT

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The objective of this study is to examine the factors affect the local people of Labuan to accept *ar-Rahnu* shop (Islamic-based pawnshop). Considering this objective, the current study tends to develop a model, a theoretical framework to explain the factors influencing consumers' acceptance of Islamic-based pawnshop. The model was tested with a survey sample ($N = 384$). The model labeled as an **ARSAM** (*ar-Rahnu* Shop Acceptance Model). Findings are useful for the local authorities or businesses to take initiative to develop an *ar-Rahnu* shop in order to promote Islamic-based economy among women as well as men minority. It is also treated as an eye-opener about the importance of having that system in Labuan. Totally, the study renders an overview of the *ar-Rahnu* shop acceptance among the Labuan local people, thus creating a chance to suggest a policy either to introduce an *ar-Rahnu* shop or to make the existing conventional pawnshops introduce window for *ar-Rahnu*.

Keywords: *Labuan, ar-Rahnu, ARSAM, MGIT, Kedai ar-Rahnu, policy suggestion*

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1. Introduction

It is an accepted fact to assume that pawnshop is the one-stop financial centre for women and men minority to obtain a quick and convenient way to borrow money. In Islamic-based pawnshop, price (i.e. cash) and good (i.e. gold) are the important two counter-values needed in order to operate the system. There is a need, therefore to study the pawnshop based on the Islamic point of view. Prior studies have shown the important of Islamic pawnshop to the *Muslim* societies (Sanusi and Johari, 2006; Mohammed et al., 2005; and Ismail and Sanusi, 2005). However, these studies have overlooked the empirical research, which is fundamental to understand the perception of individuals on Islamic-based pawnshop. Furthermore, there is no attention to draw to suggest a model of Islamic-based pawnshop acceptance. In response to these concerns, the current study is motivated to provide an overview on the empirical research relevant to Islamic-based pawnshop. Evidently, the model of Islamic-based pawnshop will be suggested, a theoretical framework that explains the factors influencing the Islamic-based pawnshop acceptance among individuals, mainly from women as the main users for Islamic-based pawnshop (i.e. Sanusi and Johari, 2006; Mohammed et al., 2005; and Ariffin, 2005).

Until 2007, there were 9 conventional pawnshops introduced in Labuan based on our observation. There was no a stand-alone Islamic-based pawnshop can be found until recently. Without a proper investigation, we afraid Islamic-based pawnshop is remained unnoticed or simply ignored, although it is existed in Malaysia. Preferably, Islamic banking institutions such as Bank Rakyat, Bank Pertanian, Bank Muamalat Malaysia Berhad (BMMB) and Bank Islam Malaysia Berhad (BIMB) are those institutions provide *ar-Rahnu* products. These products are not consumed at a good level of usage for two main reasons. First, banking institutions are claimed to be “banks” for those who have money, and not suitable for low-income group with only having a few gold, as a pledge for money. Second, there is a tendency that those individuals want quick funds will find they are not eligible to borrow from formal financial institutions since there are red taps in getting financing/loan from the institutions. Unlike banking institutions, Islamic-based pawnshop is where the borrowed money can be disbursed in a few minutes and with very few questions asked.

An Islamic-based pawnshop or called as “small bank” offers suitable way of injecting cash for Malaysians regardless either they are Bajau, Kadazan-Dusun, Murut, Malay, Chinese or India. One thing for sure, they share the similar motive, which is to transact their pawned items for quick cash in order to pay bills or for personal emergency. A survey by Rugayah (1986) shows the customers of pawnshop including housewives, private and public officers especially for low income group. They used pawnshop is based on their own satisfaction likes for household expenditure and emergency case (Rugayah, 1986). Similarly, Ismail and Ahmad (1994) argued that pawnshops are very important to thousands of Malaysians, especially the low-income group. Indeed, this small bank provides loan for individuals demand for it. As note earlier, there was no Islamic-based pawnshop such as Kedai *ar-Rahnu* (KAR) or Muasassah Gadaian Islam Terengganu (MGIT) alike can be found in Labuan. The suitability of these institutions to be introduced in Labuan is twofold. First, the system is only for *ar-Rahnu* transactions, there were other transactions than *ar-Rahnu*. Second, the system is better to reflect the status of the individuals involved in the *ar-Rahnu* transactions, their intention is one--which means their motive is similar to transact their gold for money---consequently their status is the same. It is needed for having one of the institutions in Labuan in order to

better reflect the demand from the Muslim society at large.

In the following, we will present “research objective, hypotheses and the employed model”. Then, the discussion of the prior studies will be presented, in order to extend their generalizability to the current study. In the methodology section, subject, measures and analysis are described. Section 5 of the study will present the results to include results of the respondents’ profile, reliability and factor testing as well as relationship testing. Section 6 will render some discussion and implication of policy based on the study results. Finally, the conclusion will be presented to include overall views for the results, contributions made by the study, limitations and future research.

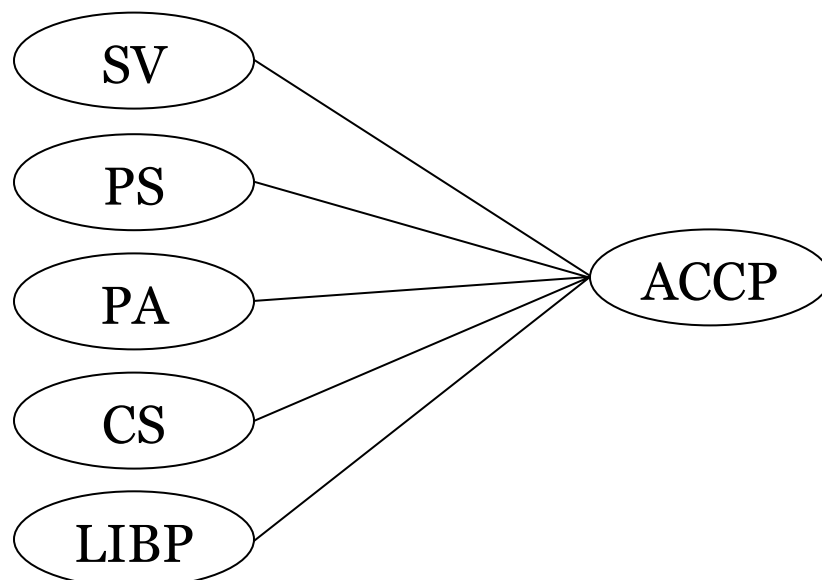
2. Research objective, hypotheses and the model

The primary objective of this study is to examine the factors influencing the Islamic-based pawnshop acceptance among individuals. In order to achieve this objective, a quantitative approach has been employed, considers as a preliminary way to satisfy the mentioned objective. In supporting the objective, the following proposed five (5) hypotheses are tested:

1. *Shariah* view will have a positive effect on Islamic-based pawnshop acceptance (i.e. Ismail and Sanusi, 2005; and Mohammed et al., 2005);
2. Pricing system will have a positive effect on Islamic-based pawnshop acceptance (i.e. Mohammed et al., 2005; and Ismail and Ahmad, 1997);
3. Pledge asset factor will have a positive effect on Islamic-based pawnshop acceptance (i.e. Sanusi and Johari, 2006; Mohammed et al., 2005; Lao, 2005; and Ismail and Ahmad, 1997);
4. Customer service will have a positive effect on Islamic-based pawnshop acceptance (i.e. Lao, 2005; and Mohammed et al., 2005); and
5. Locality of Islamic-based pawnshop will have a positive effect on Islamic-based pawnshop acceptance (i.e. Mohammed et al., 2005; and Ismail and Ahmad, 1997).

Based on the mentioned hypotheses, the following theoretical framework is constructed:

Figure I: The research model



Note: SV=Shariah view, PS=Pricing system, PA=Pledge asset, CS=Customer service, LIBP=Locality of Islamic-based pawnshop and ACCP=Acceptance of Islamic-based pawnshop.

3. Literature review

There exists scarce information on Islamic-based pawnshop study in Malaysia. However, there are several studies have been selected to better reflect Islamic-based pawnshop. Prior studies have documented on the important of having pawnshops in our society (Sanusi and Johari, 2006; Mohammed et al., 2005; Lao, 2005; Ismail and Ahmad, 1997; and Ragayah, 1986). Based on the detail examination made by the authors, these studies have explored the issue of *Shariah* view, pricing system, pledge asset, customer service as well as locality of Islamic-based pawnshop. The following discussion highlights some of the key points of these studies:

3.1. Shariah view

Ismail and Sanusi (2005) examined on Islamic-based pawnshop and the important of *Shariah* rules in the implementation of Islamic-based pawnshop. In more details, they argued that the Islamic principles such as *wadiah*, *qardhul hassan* and *ujra* must be given a careful consideration in establishing Islamic-based pawnshop. Moreover, Bank Rakyat, KAR and MGIT must preserve the principles. Similarly, the published work by Mohammed et al. (2005) has the similar explanation as Ismail and Sanusi (2005). Mohammed et al. (2005) argued that *wadiah*, *qardhul hassan* and *ujra* make Islamic-based pawnshop clearly different from the conventional pawnshop. The element of *riba* and *gharar* are eliminated in the system. Indeed, the religion items have been incorporated in the operation of MGIT, KAR and Bank Rakyat either formal or informal.

3.2. Pricing system

Prior studies have examined the important of pricing associated with the pawnshop transactions (Mohammed et al., 2005; and Ismail and Ahmad, 1997). In more specific, Mohammed et al. (2005) argued that the service charge imposed by Islamic-based pawnshop relatively cheaper than the traditional pawnshop (imposed 2 percent). This means that the cost of getting quick cash in Islamic-based pawnshop is cheaper, thus, little burden is borne by the customers. This statement is consistent to what analyzed by Ismail and Ahmad (1997). They argued that the cost of getting quick cash from MGIT is cheaper than conventional-based pawnshop, which is 2 percent for pawned items. On the basis of these findings, it is important to have *ar-Rahnu* shop which is offered competitive rate, to reflect the average pricing system in the market

3.3. Pledge asset

Pawnshops routinely accept merchandise that valuable such as gold and jewelry. The previous studies have documented the study on the pawned items that must be valuable (Sanusi and Johari, 2006; Mohamemd et al., 2005 and Ismail and Ahmad, 1997). In more details, Sanusi and Johari (2006) claimed that MGIT accepts pawned items such as gold and jewelry. Comparatively, in conventional-based pawnshop---the items to be accepted are beyond the gold and jewelry---including Rolex watch and diamond. In Islamic banking institutions such as Bank Rakyat, bank customers can only use gold as the pawned item---other items were silent at the moment. Similarly, the statement expressed by Sanusi and Johari (2006) is also parallel to what analyzed and stated by Mohammed et al. (2005) and Ismail and Ahmad (1997). Mohammed et al. (2005) mentioned the pawned items including gold and platinum. Ismail and Ahmad (1997)

argued that the normal pawned items include jewelry and electronic assets. According Ismail and Ahmad, these items are maintain their value over a reasonable period of time and are easy to store, especially jewelry. However, in the Islamic-based pawnshop, gold is the permitted item (Ismail and Ahmad, 1997). In conclusion, the authors suggest the “pledge asset” factor into the study model.

3.4. Customer service

The important of service in the conventional-based pawnshop has been in details explained by Lao (2005). He suggested that pawnshops should offer a quick and convenient way to borrow money. Unlike banking institutions, pawnshops are more convenience for consumers. Most consumers use pawnshops primarily because they poor credit and would be denied loans from traditional institutions. The borrowed money is exchanged with pledged assets---to secure the loan itself. Mohammed et al. (2005) mentioned the important of service factor. The Islamic-based pawnshop must maintain the record of customers, keep the record confidentially and treat the customers fairly regardless of their race or religion. The Islamic-based pawnshop must stress the important of customer service in order to strengthen the customer base, in addition to *Shariah* view concern.

3.5. Locality of Islamic-based pawnshop

There exists scare information on the important of location factor for pawnshops. The two important studies have been employed to generalize the idea into the present study analysis. The first study is by Mohammed et al. (2005), argued that location is the significant factor for the pawnshops development. In more details, Mohammed et al. (2005) also argued that, individuals tend to choose pawnshops that near to their houses. Ismail and Ahmad (1997) also materialized the important of location for setting up pawnshops business. Ismail and Ahmad (1997) verified that pawnshops are highly unevenly distributed across the Malaysian states, with 40 pawnshops in Perak. Ismail and Ahmad (1997) also argued that the barriers to entry into pawn are small. Specifically, the most of the pawnshops are built in the town areas to facilitate the customer of doing transactions (Ismail and Ahmad, 1997). On the basis of these studies, the present study has proposed the “locality of Islamic-based pawnshop” and tests it in the study model.

In addition to the above studies, the present study will be able to add into the limited knowledge available in Malaysia for Islamic-based pawnshop acceptance.

4. Methodology

4.1. Subjects

A convenience sampling was employed in this study. The data collection was based on personally administered questionnaire to the Labuan local people. In order for individuals to participate in the survey, they must be ever consumed a conventional pawnshop and have intention to consume Islamic-based pawnshop once its introduced in Labuan. The data was collected from several locations, at the bus stations, at the wet market as well as the conventional pawnshops in order to generalize the findings. The survey ran for one month of 6-working days during February 2007. Every respondent was asked either they willing to participate in the survey, only volunteers were effectively administered to ensure non-mandatory participation. A total of 400 respondents accepted the survey form, out of which, only 384 usable responses were usable.

4.2. Measures

Questionnaire items were grouped into *demographic elements, independent variables* and *dependent variable*. The independent variables were grouped into five constructs. The ideas to propose five constructs are based on the discussion made by the previous studies. The dependent variable consists of one construct namely “Acceptance of Islamic-based pawnshop”, which is a dependent variable. Prior to the actual survey, a pilot study was conducted to test the appropriateness of items. Lecturers mastering in research were invited to comment the employed items. Consequently, the items were modified and improved based on the comments received in the pilot study. The final tested variables (i.e. *independent variables* and *dependent variable*) employed in this study were listed below:

Shariah view: (i.e. Ismail and Sanusi, 2005; and Mohammed et al., 2005)

1. *Islamic-based pawnshop must be introduced in Labuan with Shariah principles as its root;*
2. *Islamic-based pawnshop must be based on the Quran and Sunnah as the sources of its business; and*
3. *Islamic-based pawnshop must be interest-free.*

Pricing system: (i.e. Mohammed et al., 2005; and Ismail and Ahmad, 1997)

1. *Islamic-based pawnshop must set a competitive service charge;*
2. *Islamic-based pawnshop sets the fair price for the low income earners; and*
3. *Islamic-based pawnshop must practice *ibra* or discount for earlier redemption.*

Pledge asset: (i.e. Sanusi and Johari, 2006; Mohammed et al., 2005; Lao, 2005; and Ismail and Ahmad, 1997)

1. *Islamic-based pawnshop must accept all type of gold;*
2. *Islamic-based pawnshop should accept the assets beyond gold; and*
3. *The pledge asset must be belonged the individuals.*

Customer service: (i.e. Lao, 2005; and Mohammed et al., 2005)

1. *The approval process should be better and efficient compared to conventional pawnshop;*
2. *Islamic-based pawnshop must offer advices about Islamic pawn system to its customers;*
3. *Islamic-based pawnshop must treat fairly both Muslim and non-Muslim customers;*
4. *Islamic-based pawnshop must issue a receipt for any made transactions; and*
5. *Islamic-based pawnshop must keep the record of the customers confidentially.*

Locality of Islamic-based pawnshop: (i.e. Mohammed et al., 2005; and Ismail and Ahmad, 1997)

1. *If Islamic-based pawnshop builds, it must be near to bus stations;*
2. *If Islamic-based pawnshop builds, it must be in the Ujana Kewangan; and*
3. *If Islamic-based pawnshop builds, it must be near to Labuan Supermarket, Utama Jaya and MiliMewah.*

Acceptance of Islamic-based pawnshop: (self-created)

1. *I intend to use Islamic-based pawnshop once its introduced in Labuan; and*

2. *I recommend others to use Islamic-based pawnshop.*

All of the above items were measured using 5 likert scale; ranging 5 strongly agree; to 1 strongly disagree.

4.3. Analysis

The Multiple Regression Model (MRM) was employed to predict the relationships in the constructs. There are four assumptions were met. First assumption is related to the linearity of the phenomenon measured. Second assumption is related to the constant variance of the error terms. The third assumption is related to the independence of the error terms. The fourth assumption is about the normality of the error term distribution. In this study, the following regression formula was applied:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Where Y is the dependent variable of the respondents' acceptance; X_1, X_2, X_3, X_4 and X_5 represent the independent variables (X_1 =Shariah view, X_2 =Pricing system, X_3 =Pledge asset, X_4 =Customer service and X_5 =Locality of Islamic-based pawnshop), and e denotes the error terms.

5. Results

5.1. Demographics results

The demographic results of the respondents are summarized in Table 1. Among 384 respondents, about 20.57 percent of respondents were male and 79.43 percent of respondents were female. With respect to age, 2.86 percent were younger than 20 years, about 8.33 percent of respondents were aged between 21-25 years. About 11.72 percent of respondents were between 26-30 years old. About 26.30 percent of respondents were aged between 31-35 years, 28.39 percent of respondents were between 36-40 years old whereas 22.40 percent of respondents were aged 41 and above. In other words, approximately 77.09 percent of respondents fell into the 31-40+ years age band.

In terms of religion, 90.36 percent of respondents were Islam, followed by Christian respondents with 7.03 percent. About 1.04 percent of respondents were Buddha and the remaining 1.56 percent of the respondents were Hindhu. The results show a good prospect for Islamic-based pawnshop in Labuan since Islam respondents contributed to a large portion of sample with 90.36 percent.

With respect to income, about 10.68 percent of respondents were argued had no income, 29.17 percent of respondents were argued had income below RM500 and 36.20 percent of the respondents were argued had income between RM501-RM1,000. Moreover, about 17.71 percent of respondents were argued had income between RM1,001- RM1,500, 4.69 percent of respondents were argued had income between RM1,501-RM2,000 and 1.56 percent of respondents were argued had income more than RM2,000. In other words, the results show that most of respondents had RM501-RM1,000 as their monthly income---potentially claimed to be the users for traditional-based pawnshop. The results are inconsistent to what studied by Ismail and Ahmad (1997) who claimed those (<RM500) considers the users for the system. The gap is because the cost of living is now increased, where goods are become less with a RM1.00 due to price pressure. It is also worth noting that Malay respondents were contributed to a large share of sample with

74.48 percent. In contrast, about 1.04 percent of respondents were Indian. The results suggest that, there is a prospect for Islamic-based pawnshop by taking into account Malay respondents as the potential users for the system.

Table 1: Profile of the respondents

| <i>No.</i> | <i>Profile</i> | <i>Description</i> | <i>No. of respondents</i> | <i>Percentile</i> |
|------------|---------------------|--------------------|---------------------------|-------------------|
| 1. | <i>Gender</i> | Male | 79 | 20.57 |
| | | Female | 305 | 79.43 |
| 2. | <i>Age</i> | Below 20 | 11 | 02.86 |
| | | 21-25 | 32 | 08.33 |
| | | 26-30 | 45 | 11.72 |
| | | 31-35 | 101 | 26.30 |
| | | 36-40 | 109 | 28.39 |
| | | 41 and above | 86 | 22.40 |
| 3. | <i>Religion</i> | Islam | 347 | 90.36 |
| | | Christian | 27 | 07.03 |
| | | Buddha | 4 | 01.04 |
| | | Hindhu | 6 | 01.56 |
| 4. | <i>Income level</i> | No income | 41 | 10.68 |
| | | Below 500 | 112 | 29.17 |
| | | 501-1000 | 139 | 36.20 |
| | | 1001-1500 | 68 | 17.71 |
| | | 1501-2000 | 18 | 04.69 |
| | | 2001 and above | 6 | 01.56 |
| 5. | <i>Ethnics</i> | Kadazan- | 29 | 07.55 |
| | | Dusun | | |
| | | Bajau | 22 | 05.73 |
| | | Murut | 9 | 02.34 |
| | | Malay | 286 | 74.48 |
| | | Chinse | 8 | 02.08 |
| | | Indian | 4 | 01.04 |
| | | Others | 26 | 06.77 |

5.2. Reliability testing and validity of the measurement model

In this study, reliability test was conducted to evaluate Cronbach's Alpha values for all dimensions. The values are as follows: *Shariah* view (0.8349), pricing system (0.8513), pledge asset (0.6760), customer service (0.8677), locality of Islamic-based pawnshop (0.6833) and acceptance of Islamic-based pawnshop (0.8096). All reliabilities were above the 0.6 level, generally considered acceptable (Guriting and Ndubisi, 2006; Ndubisi and Sinti, 2006; and Hair et al., 1998).

Furthermore, the study is also performed factor analysis in order to confirm the construct validity of the scales. The factor analysis was conducting using principal component with varimax rotation as an extraction method. The five independent variables were chosen in terms of eigenvalue larger than 1.0. The Barlett's test of sphericity confirmed that the variables within factors are correlated. The Kaiser-Meyer-Olkin measure of sampling adequacy (MSA) indicated a practical level of common variance (MSA=0.726 or 73 percent). Thereby, the factor analysis was appropriate.

According to Hair et al. (1992), the factor loadings must be greater than 0.50 or 50 percent in order to be considered significant. The results show that all of the factors loadings of the items in the model were greater than 0.50 ranging from 0.637-0.943. Consequently, all factors in the measurement model had sufficient convergent validity.

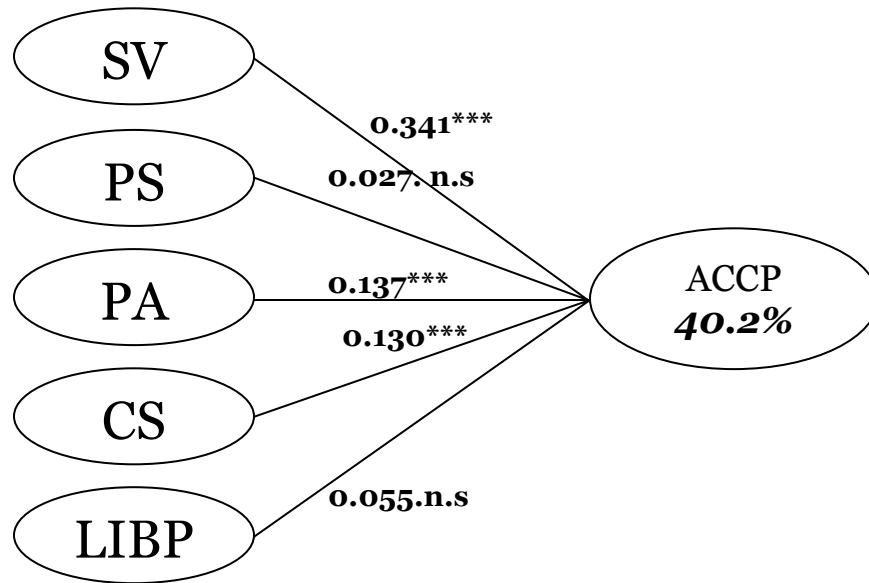
Table 2: Reliability, means, SD and factor analysis

| <i>Items</i> | <i>No. of items</i> | <i>Items</i> | <i>Mean</i> | <i>Standard deviation</i> | <i>Factor loadings</i> | <i>Reliability</i> |
|--------------|---------------------|--------------|-------------|---------------------------|------------------------|--------------------|
| SV | 3 | SV1 | 4.552 | 0.816 | 0.774 | 0.8349 |
| | | SV 2 | 4.747 | 0.727 | 0.943 | |
| | | SV 3 | 4.805 | 0.612 | 0.908 | |
| PS | 3 | PS1 | 4.086 | 1.488 | 0.912 | 0.8513 |
| | | PS2 | 3.836 | 1.621 | 0.830 | |
| | | PS3 | 3.919 | 1.488 | 0.896 | |
| PA | 3 | PA1 | 3.794 | 1.422 | 0.654 | 0.6760 |
| | | PA2 | 4.096 | 1.284 | 0.838 | |
| | | PA3 | 4.309 | 1.147 | 0.858 | |
| CS | 5 | CS1 | 4.651 | 0.743 | 0.788 | 0.8677 |
| | | CS2 | 4.573 | 0.792 | 0.831 | |
| | | CS3 | 4.693 | 0.714 | 0.886 | |
| | | CS4 | 4.698 | 0.668 | 0.859 | |
| | | CS5 | 4.672 | 0.766 | 0.693 | |
| LIBP | 3 | LIBP1 | 2.438 | 1.382 | 0.637 | 0.6833 |
| | | LIBP 2 | 4.284 | 1.268 | 0.708 | |
| | | LIBP 3 | 3.456 | 1.428 | 0.863 | |
| ACCP | 2 | ACCP1 | 3.909 | 1.256 | 0.917 | 0.8096 |
| | | ACCP2 | 4.370 | 1.165 | 0.917 | |

Note: SV=*Shariah* view, PS=*Pricing system*, PA=*Pledge asset*, CS=*Customer service*, LIBP=*Locality of Islamic-based pawnshop* and ACCP=*Acceptance of Islamic-based pawnshop*.

5.3. Relationship testing

Figure 2: The research model with results



Note: ***Significant at 1 percent level, SV=Shariah view, PS=Pricing system, PA=Pledge asset, CS=Customer service, LIBP=Locality of Islamic-based pawnshop and ACCP=Acceptance of Islamic-based pawnshop.

The regression analysis was conducted to reveal how different factors affect the acceptance of Islamic-based pawnshop. In this study, *Shariah* view, pledge asset and customer service were found to affect Islamic-based pawnshop acceptance among the respondents. *Shariah* view is significantly associated with acceptance ($t=4.991$, $p\text{-value}=0.000$). Pledge asset is significantly associated with acceptance ($t=3.748$, $p\text{-value}=0.000$). Customer service is significantly associated with acceptance ($t=3.009$, $p\text{-value}=0.003$).

The result also suggests insignificant relationship between pricing factors and locations factors with acceptance. In more details, pricing system is not significantly related with acceptance ($t=1.032$, $p\text{-value}=0.303$). Similarly, locality of Islamic-based pawnshop is also not significantly related with acceptance ($t=1.518$, $p\text{-value}=0.130$).

6. Discussion and implication of policy

This study develops the theoretical framework or the model, which explains the factors influencing the acceptance of Islamic-based pawnshop. In order to introduce Islamic-based pawnshop, there are three important factors affecting the acceptance. First is the *Shariah* view concern, based on the study *Shariah* view has a very strong relationship with acceptance. This indicates that Islamic pawnshops must genuinely based on *Shariah Islamiyyah* as to distinguish them from the traditional pawnshops. Again, the local authority must not ignore the important of primary sources. Any raising issues could overcome by referring back to the basic/primary sources before we can develop

proper Islamic pawnshops. Additionally the issue of *riba* must also be given right attention, although people knew it, but the customers about an Islamic-based pawnshop must examine a reasonable fees or charges prior to actual implementation in order to avoid misperception.

Pledge asset is also important factor affecting acceptance. The innovative Islamic pawnshops should be able to diversify the pledge asset for business, which is not just limited to gold but can be other valuable assets such as silver and Rolex watch, which are expensive in the contemporary business. At the same time the businesses must be looked at the concern of the asset ownership---it is necessary to ask people with a question “Is this gold is yours?” to eliminate a doubt.

In order to become a successful Islamic pawnshop, there is a need, therefore to strengthen the customer service. The present study revealed that customer service is significantly associated with acceptance. Indeed, this result offers points for local authority and businesses to consider. First, the approval for the transaction must be efficient and fast. Second, the pawnshop must offer advice service or merely consultation to facilitate the customers’ transaction. Third, the pawnshop must free from the issue of discrimination. To be a successful system, Islamic-based pawnshop needs to treat individuals fairly regardless of their races. One thing for sure, the customers’ record must be kept confidential. The record of the customers must be kept properly---only the customers and the business know the record.

This study also introduced “pricing system” and “locality of Islamic-based pawnshop” for the suggested model. The result shows an insignificant relationship between pricing system and acceptance of Islamic-based pawnshop. This measure relatively has a weak influence on acceptance. It is argued that pricing system is main problem in introducing Islamic-based pawnshop. However, the authors still believe this factor still play a role in attracting customers use Islamic pawnshops. In terms of locality of Islamic-based pawnshop, the result suggests that this factor is less important in introducing/establishing the system. However, the authors also still believe that if the local authority wishes to establish such business, a well-informed location must be met at least where people know where is it. In addition, if individuals want to open an Islamic-based pawnshop, they should open it in the place where it is easy to access by the users.

The implications of this study to local authorities or businessmen/women are two fold. First, attention must be given to observe the *Shariah* view, pledge asset and customer service before introducing Islamic-based pawnshop. This could be done by learning the other systems such as from MGIT or Kedai *ar-Rahnu* (KAR). In order to achieve this, it is possible to develop a franchise system in order to extend MGIT or KAR to Labuan. Alternatively, it is also possible to set up a new business since pawnshop start-up costs are within reach of most middle-income entrepreneurs (Ismail and Ahmad, 1997). Second, the study revealed pricing system and locality of the Islamic-based pawnshop are less important factors affecting acceptance. However, it is necessary for the local authority or businessmen/women to observe the current scenario---because perhaps pricing system and locality of Islamic-based pawnshop could create a great impact once there are several Islamic pawnshops and conventional pawnshops operate. Therefore, opening branches will take “pricing system” and “locality of Islamic-based pawnshop” into the list for the consideration of future operation.

7. Concluding remarks

The study aims at developing the model of Islamic-based pawnshop, a theoretical framework to explain the factors influence respondents acceptance of Islamic-based pawnshop in Labuan. For the purpose, the authors proposed six constructs namely religion, pricing, pledged asset, service, location and acceptance. The model called as an *Ar-Rahnu* Shop Acceptance Model (ARSAM). The unique of this model is because it investigates consumer acceptance for Islamic-based pawnshop and draws useful inferences for Islamic-based pawnshop in Malaysia.

The contributions of this study are two fold. First, it successfully developed ARSAM which is absent in the prior studies. Second, the study result suggests that *Shariah* view is a stronger factor influences the acceptance of Islamic pawnshops, followed by pledge asset and customer service. The results are consistent with the *Shariah Islamiyyah*, which stressed the important of religion elements (i.e. the prohibition of *riba*) in conducting businesses, which is parallel to the study result. The prior studies have documented the important of religion in *ar-Rahnu* (i.e. Mohammed et al., 2005). There is a common agreement between them on the important of *Shariah* view in conducting *ar-Rahnu* businesses (i.e. Ismail and Sanusi, 2005; and Ismail, 2004). Relatively, the present study revealed the important of *Shariah* view in developing an Islamic-based pawnshop business, parallel to what analyzed by Ismail and Sanusi (2005) and Ismail (2004), to list a few.

The study suffers from three limitations. The first limitation is related to the location of the study. The study is only conducted in the small Island of Labuan somewhat limits the generalization of the study results. However, since the study is exploratory, this limitation creates an opportunity for future study. The future study must include the respondents from the other cities in Malaysia in order to ensure the future study would be more generalizable. Second limitation is because other possible factors influencing the acceptance of Islamic pawnshops are not included in the model. Consequently, there is a need to search for additional variables that feasible to predict acceptance of Islamic pawnshops more accurately. It would be reasonable to add social factors and the advertisement factors to the model, further expanding the results of the study. The third limitation is based on the fact that exists scarce prior studies available on Islamic-based pawnshop. The present study is at least able to contribute to increase the knowledge base available for Islamic-based pawnshop in Malaysia context. Despite these limitations, the study serves as a pilot study to explore the factors influence Islamic-based pawnshop acceptance, and then creates a model.

Finally, the interested parties could use the results as their guide in developing an Islamic-based pawnshop business. It is found that the initial costs for running the business is relatively cheaper, therefore the parties can plan to open an Islamic based-pawnshop with low-cost of operation. Alternatively, the local authority could create a policy to encourage the existing traditional-based pawnshops---to introduce window for *ar-Rahnu* transactions. By introducing an Islamic-based pawnshop, we can contribute to *halalnize* people activity in pawn transactions. Indeed, it also provides an alternative for Muslim or non-Muslim to obtain a *halal* source of fund gradually migrates the existing customers of conventional-based pawnshop to use Islamic-based pawnshop. It is hoped that, an Islamic-based pawnshop introduction able to eliminate “loan shark” or “*along*”, and able to reduce people tendency to conventional-based pawnshop in Labuan specifically. The paper will become as a useful guideline and output for both researchers

and practitioners.

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