

THE AWARENESS AND THE ACCEPTANCE OF ISLAMIC PAWNHOPS

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ABSTRACT

AgroBank Malaysia formerly known as Bank Pertanian Malaysia has a product the Islamic pawnshop called Ar-Rahnu. Basically AgroBank Malaysia aims to provide a comprehensive range of competitive banking and financial services to meet the total needs of customers in line with national aspiration and development. To accomplish this, AgroBank Malaysia had set its strategy to be innovative and forward looking, sensitive and adaptable to changing customer's needs and market environment, committed to efficiency, cost effectiveness, profitability and social responsibilities and capable of capitalizing on new opportunities and challenges.

This research is designed because we believed the product called Ar-Rahnu able to be marketed in every country if certain actions can be taken especially in implementing new tools of marketing. The demand of the product that highly demanded in certain areas especially in Kelantan, Terengganu, Selangor and Kedah shows that they believed on the service and know the advantage of the product.

The significant of the research is to expose readers and the future researchers that pawnshop is not second class business. It is allowed in Islam and e-commerce can be implemented. Those who know the advantage of Islamic pawnshop will appreciate the system and grab the opportunities that exist in the system. Although pawnshop is a traditional business, new approach can be implemented. With the right marketing approach we believed that Islamic pawnshop can be one the best fund providers. Not only gold some other valued materials can be used as collateral.

Keywords: *AgroBank, Islamic pawnshop; Ar-Rahnu .*

1. INTRODUCTION

Ar Rahnu scheme fund is a short term fund that never involved usury element and it is allowed unless if there are illegal activities such as usury fraud and it is prohibited. Although Islam encourages businessmen to augment their capital through trade, it explicitly prohibits them from capital expansion through lending on interest. The size of rate of interest charged is inconsequential. There is no opportunity cost of lending money in Islam. The lender is likely to be wealthy and the borrower poor, usury simply increases the gap between the have and the have-nots. Islam encourages the circulation of wealth. Allah states in the Quran:

You are the best of peoples, evolved for mankind, enjoining what is right, forbidding what is wrong, and believing in Allah. (Qur'an 3:110)

Those who devour usury will not stand as stands one whom the Evil by his touch driven to madness. That is because they say: " Trade is like usury," but Allah has permitted trade and forbidden usury." (Qur'an 2:275)

Islam through the example of the Prophet (saw) and the rightly guided Caliphs, demonstrate the importance of trade in business. Abu Bakr (raa) ran a cloth business; Umar (raa) had a corn trading business and Uthman (raa) a cloth business. The Ansar among Companions of the Prophets (may Allah be pleased with them) engaged in farming. In fact, except for the trades that have been prohibited, Islam actively encourages Muslim to get involved in business and commerce.

1.1 Islamic Pawnshop Implementation.

In developing any product, competition is normal in any market. Health competition helps customers to choose the best goods or services providers. In pawnshop activities there are several kinds of small loan providers who basically provide same services. Basically there are six different types of organization that provide same services such as:

- Bank Rakyat - Ar-Rahnu Scheme
- Bank Islam Malaysia Berhad – Ar-Rahnu Scheme
- Terengganu – Scheme Muassasah
- Kelantan – Ar-Rahnu Scheme
- Pawn shop – Conventional pawnshop
- Middleman - Simple Loan.
- AgroBank Malalaysia – Ar-Rahnu scheme

Most of the above bodies provide retail loan by taking gold as collateral accept activities played by middleman. Islamic pawnshop is not new in the market. AgroBank Malalaysia took nearly two years to do a feasibility study before it can be implemented. Those are the histories and some other information of the Ar-Rahnu scheme collected by Bank Pertanian:

Islamic pawnshop had been introduced by Terengganu State Government, known as Muassasah scheme in 1994 and its objective was to help poor people to get short term fund by pawning gold as collateral. Then it followed by Kelantan. Only one Muassasah scheme is practiced in Terengganu and its disbursement in year 2000 was RM28 million.

Bank Rakyat with the cooperation of YPIEM than introduced the scheme in 1995 and followed by Bank Islam also with the cooperation with YPIEM in 1999. The recent news by Bernama November 14, bank Rakyat will open another two or three Ar-Rahnu outlets next year. Its chairman Tan Sri Syed Jalaludin Syed Salim, said that Bank Rakyat would enhance its effort to promote its service in rural areas. In implementing e-commerce Bank Rakyat has its own web for the product but it is not interactive Until April 2001, the accumulated disbursements in Bank Rakyat were RM577 million and the NPL rate for the scheme is very low. Basically the profit margin of the scheme is as shown as below:

Gross profit Ar-Rahnu	10.5	15	43%
Cost Operation	2.5	3.5	40%
Net Profit	8.0	11.5	43%

The size of market in year 2000 including conventional was approximately RM2.1 billion. Nearly 90% of the customers were Malays. Kedah, Kelantan ,Perak and Selangor were popular states with the scheme. Total disbursement and number of clients in the Islamic pawnshop were as shown in Table 1.1 below:

Table 1.1 : Pawnshop Achievement 1999- 2001

Year	Disbursement (RM million)	Loan Balance (RM million)	Number of Account
1993	1.0	.36	990
1994	36.0	19.0	44000
1995	42.0	20.0	52,000
1996	48.0	26.0	54,000
1997	61.0	34.0	66,000
1998	85.0	48.0	93,000
1999	106.0	55.0	117,000
2000	142.0	64.0	136,000
2001	200.0	90.0	150,000

The accumulated total disbursement were RM577 million whereas the budgeted disbursement for the year 2001 supposed to be RM 200 million. The rate of collection in arrears and non performing loan for the scheme was very small. The profit and loss on the scheme are as indicated in Table 1.2 below:

Table 1.2 : Profit and Loss Achievement 1999-2000

Item	1999	2000	%
Gross Profit(RM Million)	10.5	15.01	43%
Operation Costs (RM Million)	2.5	3.5	40%
Net Profit RM (Million)	8.0	11.5	43%

Ar-Rahnu scheme in BIMB has started in 1997 with 52 branches. Its policy is different compared to Bank Rakyat. In BIMB, to apply loan by pawnshop service, original receipt of gold purchased or declaration letter from the gold shop to qualify the gold must be attached. Loan balance as year 2000 was RM6.0million. Its low achievement was because its current policy was more focus on bigger corporate fund.

Based on the achievement of those organizations, AgroBank Malaysia had implemented the scheme in year 2002. Now AgroBank Malaysia has 22 outlets. AgroBank Malaysia system is similar with Bank Rakyat. Memorandum of Understanding had been made between Bank Rakyat and AgroBank Malaysia as an agreement that Bank Rakyat agreed to be its consultant. In promoting the product, AgroBank Malaysia had also provided web page for the product and similar with other bank the web is not able to interact with customers.

2.0 Methodology

Peter Drucker reiterated - *“Strategic management is not a box of tricks or a bundle of techniques. It is analytical thinking and commitment of resources to action. But quantification alone is not planning. Some of the most important issues in strategic management cannot be quantified at all.”*

The purpose of any research design is to specify the details of the procedures necessary in creating a good strategy to be implemented. Basically there are two types of research design available that is exploratory and conclusive research. Exploratory research is to provide insight and understanding confronting the researcher. For conclusive research, the research designed to assist the decision maker in determining, evaluating and selecting the best course of action to take in a given situation.

The purpose of this study is to determine factors that influence customer's acceptance of the services by looking at the education background careers, income, and knowledge on the service and so on. In addition, we are also interested to know respondents perception on the service and try to analyze respondents view in implementing new approach in marketing the product. Thus, 4 hypotheses are introduced so that AgroBank Malaysia is able to measure its product in the existing market.

Capabilities develop over time as a result of complex interactions that take advantage of the interrelationships between a firm's tangible and intangible resources that are based on the development, transmission and exchange or sharing of information and knowledge as carried out by its employees. Capabilities become important when they are combined in unique combinations which create core competencies, which have strategic value and can lead to competitive advantage.

Survey is being used as the method to get the perceptions, awareness and acceptance of the customers towards the product.

2.1 Method of survey

In order to get the information on the study, we used several methods such as follow:

- i. *Questionnaires*
The group has delivered about 150 questionnaires to the group of people in three states Johor, Melaka and Negeri Sembilan as explained above. Part of the content in the questionnaire asked about respondent demographic, service acceptance and awareness. The questionnaire

also provides list of reasoning on why the pawnshop services are not popular and less preferred compared to the conventional pawnshop in the focus area.

ii. *Interview*

The interview is done to the staff of the company of AgroBank Malaysia works in several branches in Melaka, Batu Pahat, Port Dickson, Kepala Batas and Pasir Mas. This is to find information on their operational procedures and systems. Information is useful to find answers why the performance in certain branches like Kepala Batas and Pasir Mas is better than the others.

iii. *Company's Annual Report.*

Company's annual report becomes part of information resources. Authors have referred to the company's annual report to know their operational, system and application of the service product from both the subject company and also in the other company. With that we can compare the strategy used by the company. We also learned about the problem faced by the company in promoting the product and delivering the product service.

2.2 Hypothesizes

In our research purchasing power is one of the important elements to be known. The purchasing power in any economy depends on current income, prices, savings, debts and credit availability. In our research we are very concern on respondents' income because we believed it has a relationship toward customer's attitude on pawnshop services. We believed that the incomes, cost of living, interest rates, savings and borrowing pattern have a high impact in pawnshop business market. For example if credit can be easily implemented in any business it will encourage consumers, businesses and individual to borrow freely. That is why in our research we are concern on income, number of dependent and which sectors the respondents is attached.

One of the most dramatic forces shaping people lives is technology. Technology has released many cases in the world. The rapid changes in technology force many industrials to explore unpredictable way to capture the market. For example facsimiles hurt the courier industry, autos hurt the railroads and televisions hurt the newspapers, as well as computers capacity with the sophisticated new systems.

In our research we are trying to relate with the computers capacity in marketing the pawnshop services. We hope the research able to explore what customer's perception in implementing the computer system that managed by them selves. Since nowadays people become the heavy SMS and web pages users, we had made a hypothesis that customer will be more interested with the Ar-Rahnu system if they are informed by those facilities. By looking at those elements we hope after getting the feedback from our respondents, we are able to produce the best strategy to be implemented.

Four hypothesizes had been identified and it is more concern on the customer's perception on the services and we also assumed that modern customers are more concern on the new technology in the pawn shop system.

Four hypotheses had been identified in our research are:

H1 – Customers egoism make pawnshop service difficult to be accepted.

H2 – Loss is the main points why people reject pawnshop.

H3 –Are customers aware of Islamic Pawnshop provide by AgroBank Malaysia.

H4 – E-commerce will increase more customers in the market of the Ar-Rahnu scheme.

3.0 Result And Data Interpretation

3.1 Respondent Perception On Pawnshop Services.

Perception is the process by which individual select, organizes and interprets information input information inputs to create a meaningful picture of the world. Perception depends not only on the physical stimuli but also the stimuli's relation to the surrounding field and on conditions within individuals.

To get their perception on pawnshop we had come out with five questions and these are the findings had been collected.

Table 3.1 : Regression perception on pawnshop service

Model Summary ^b										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df 1	df 2	Sig. F Change	
1	.364 ^a	.132	.100	1.01482	.132	4.111	4	108	.004	1.939

a. Predictors: (Constant), You prefer illegal borrower as the last alternative rather than pawning your or, Pawnshop is the last choice if you are very desperate., You feel very humble if you pawn your or your misses jewelry., You scared people talk about you at the back if you pawn your or your

b. Dependent Variable: You prefer borrow from your friend or you're relative if you are desperate

This table above summarizes the results of an analysis of variance. The sum of squares, degrees of freedom, and mean square are displayed for two sources of variation, regression and residual. The output for Regression displays information about the variation accounted for the model. The output for Residual displays information about the variation that is not accounted for the model. And the output for Total is the sum of the information for Regression and Residual. A model with a large regression sum of squares in comparison to the residual sum of squares indicates that the model accounts for most of variation in the dependent variable. So based on the above R^2 is 0.132 with F-test 4.111 and is significant at 0.004 level of confidence. Thus it can be concluded, the predictor variables explain about 13.2% of the variability of criterion variable.

Table 3.2 : Coefficient perception on pawnshop service.

Coefficients ^a									
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations		
		B	Std. Error	Beta			Zero-order	Partial	Part
1	(Constant)	1.410	.334		4.227	.000			
	You scared people talk about you at the back if you pawn your or your	5.209E-02	.113	.055	.463	.645	.267	.044	.041
	You feel very humble if you pawn your or your misses jewelry.	.217	.106	.229	2.043	.043	.289	.193	.183
	Pawnshop is the last choice if you are very desperate.	.188	.092	.200	2.052	.043	.252	.194	.184
	You prefer illegal borrower as the last alternative rather than pawning your or	1.333E-02	.088	.014	.151	.880	.061	.015	.014

a. Dependent Variable: You prefer borrow from your friend or you're relative if you are desperate

Out of four variables included, it is found that variable of feeling humble and pawnshop as the last choice are significant at $t=2.043$, $P<0.043$. Thus it is concluded that customers prefer borrow from friends or relative because they feel very humble using pawnshop services if they need cash urgently. Pawnshop as the last resource is yet another factor found to be significantly correlated with the action of respondents by borrowing or relative when they are desperate.

By using this method we can derive equation for the regression that is;

$$Y = 1.41 - 0.052X_1 + 0.217X_2 + 0.188X_3 - 0.013X_4$$

The equations indicates that the feeling of humble and attitude of customers that set pawnshop as the last choice make customers are more choosing friends or relative as funds resources as to solve urgent cash needs. Pride and egoism might be the reason why customers had a negative perception on the pawnshop service.

Instead of pride and the egoistic among customers, we are also concern on the perception of customers on costs might be incurred in the pawnshop service. Before we created the questions, we had come with a hypothesis that customers dislike pawnshop service due to the costs may incur.

3.2 Awareness of BPM Islamic Pawnshop

Islamic pawnshop had been existed in AgroBank Malaysia since year 2002 in certain branches in every region. In our hypothesis we believed that the pawnshop launched by AgroBank Malaysia cannot be accepted by customers due to the lack of awareness among them. Due to that we had come out with 4 questions on this matters. Customer's awareness gives a big impact in developing a good advertising. From the survey those questions had been asked to respondents.

- *I know that AgroBank Malaysia has such service but you are not interested on it.*
- *I not even know that AgroBank Malaysia has such service*
- *I never heard AgroBank Malaysia promotion on Ar-Rahnu system.*
- *I believe that the Pawnshop service is for farmer in AgroBank Malaysia.*

The purposes of those questions are to get their awareness of the service. From 113 respondents the results are as below:

Table 3.3 : Chi Square awareness of AgroBank Malaysia pawnshop service

Test Statistics				
	You know that Bank Pertanian has such service but you are interested on it.	You not even know that Bank Pertanian has such service	You never heard Bank Pertanian promotion on Ar-Rahnu system.	You believe that the Pawnshop service is for farmer in Bank Pertanian Malaysia.
Chi-Square ^{a,b}	36.513	67.133	60.761	16.661
df	4	4	4	4
Asymp. Sig.	.000	.000	.000	.002

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 22.6.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 22.4.

Again for the purposes of awareness we used the table above which contains the output of the Chi-Square test. Df equals the number of categories minus one. In this example, their awareness was tested through the question with 4 indicators as before. Small significance values (<.05) indicate that the observed distribution does not conform to the hypothesized distribution. In this example, the significance level is less than .05. The table is another evidence answering our hypothesis that most customers not aware of the existing pawnshop in AgroBank Malaysia. Furthermore we tested the respondents based on their education background on the awareness of the existing pawnshop in AgroBank Malaysia, the result also had the same result as below.

Table 3.4 : Cross tabulation education and awareness of AgroBank Malaysia pawnshop**Education background * You not even know that Bank Pertanian has such service Crosstabulation**

Count		You not even know that Bank Pertanian has such service					Total
		.00	1.00	2.00	3.00	4.00	
Education background	School (Diploma) /	1	4	7	19	7	38
	Univ ersity/College	2	2	2	14	11	31
	Univ ersity/College (Degree)	2	3	7	19	11	42
	Others				1	1	2
Total		5	9	16	53	30	113

The table above proved that most of the respondents either they well educated or not well educated agree and totally agree that they were not notice AgroBank Malaysia had such services. By looking at the result steps must be taken to ensure that the information of the Islamic pawnshop run by AgroBank Malaysia should be reached.

3.3 Opinion on implementing E-Íslamic pawnshop

The extraordinary growth of direct marketing in consumer market is a response to market changes. Market “demissification” has resulted in an ever-increasing number of market niches with distinct preferences. In pawnshop service the egoism, pride, facing human at the counter encourages customers to deal virtually. Due to those facts, we believed that pawnshop should also go further utilizing new technology so that it can be well accepted such as through SMS or online as customers become smarter. Thus we came out with five questions on it such as:

- *You interested on the service if information can easily download from internet or SMS.*
- *SMS will be more effective technique.*
- *Notice of maturity date more effectively through SMS.*
- *The system will be more effective if customer can do transaction on line through internet or SMS.*

First before we go deeply on their opinion on those questions, we used cross tabulation as to determine the correlation between education background and the idea of implementing e-commerce. The result showed that most of the respondents very agree and agree that the service implement SMS technique. When we run the data by chi square method the results shown as below. Respondents seemed very familiar with SMS and may be that is why most of them agree on the usage SMS as communication tools in getting information of pawnshop service.

Table 3.5 : Cross tabulation : education and e-commerce**Education background * SMS will be more effective technique. Crosstabulation**

Count		SMS will be more effective technique.					Total
		.00	1.00	2.00	3.00	4.00	
Education background	School (Diploma) /	3	3	7	18	7	38
	Univ ersity/College	1	2	2	12	14	31
	Univ ersity/College (Degree)	3	3	8	20	8	42
	Others				2		2
Total		7	8	17	52	29	113

Test Statistics

	You are interested on the service if information can easily download	SMS will be more effective technique.	The system will be more effective if special gadget like gold scanner is	Notice of maturity date more effectively through SMS.	The system will be more effective if customer can do transaction on line
Chi-Square	69.788	61.646	51.027	65.540	72.464
df	4	4	4	4	4
Asymp. Sig.	.000	.000	.000	.000	.000

a 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 22.6.

b 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 22.4.

Table above proved that majority of respondents agree that pawnshop can be done virtually. SMS as information communicators seemed can be accepted by most of respondents. By this feedback it can be concluded that customers nowadays are exposed to the usage of cellular telephone and web users.

4.1 Conclusion

Through this research we had identified the target market and its characteristics, AgroBank Malaysia must be ready to create good communicators to desire audience response. The desired ultimate responses are purchase the service, high satisfaction and favorable word-of-mouth. Therefore the persons who are going to be the communicators of AgroBank Malaysia should know how to move the target customers to higher states of readiness to buy the service.

Thus officers that are given responsibilities to promote the product can implement the hierarchy-of effect model (learn, feel, do) that seeks cognitive, affective or behavioral response from the market target as listed below:

- Awareness – Since most of customers are unaware of the object (Islamic pawnshop service) the communicator's task is to build awareness, perhaps just name recognition. This can be accomplished with simple message repeating the name. Even then, building awareness takes time.
- Knowledge – Through our survey we had identified that the target customers are aware of certain product in AgroBank Malaysia such as deposit or loan but have no idea about the pawnshop service. Then AgroBank Malaysia must manipulate the environment to wide spread the service to existing and other customers.
- Linking – Most of the respondents know the Islamic Pawnshop organize by other organization; we had recognized their feel about it whereby most of them are very shy to deal with service. Most of the respondents looked unfavorable of pawnshop service whereby it is much better for short term loan. Therefore, we have to find out the reason why and then develop a communication campaign to shore up favorable feelings.
- Preference – The target market might like the service but has not preferred it to others. In this case, AgroBank Malaysia must try to build customer preference. He/she must be able to promote the service quality, value, performance and other features. Furthermore, he/she can check on the campaign's success by measuring customer's preference again after the campaign.
- Conviction – The target market might prefer a particular service in AgroBank Malaysia but has not develop to conviction about buying it. Therefore, the person in charge in certain branches must build conviction that right for AgroBank Malaysia to do.

Purchase – Finally, we noticed of some target market that might have conviction but not quite get around to making the purchase. They may wait for more information or plan to act later. Then AgroBank Malaysia's employees must lead customers to take the final step. Actions might include offering service at low cost of deposit fees, guarantee or high proportion allowable compared to market value of gold.

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BIOGRAPHY:

Mohd Fazli Mohd Sam was born in a city call Malacca, Malaysia on the July 26, 1975. First degree is in Electrical Engineering major in Power System from University of Technology Malaysia (UTM), Skudai, Johor, Malaysia in the year 2000. Masters degree is in Business Administration from University Technology MARA, Malacca, Malaysia in the year 2006. Currently, major field of study is in IT facility management.

He had been a lecturer for eight years and most of the previous job was on the technical site (electrical-industrial and domestic). Before being a lecturer, he had gain knowledge and skill from the industries. Currently, he is been attach with University of Technical Malaysia Melaka under the Faculty of Technology Management and Technopreneurship. He is being assigned as the Head of Department Technology Management. He is one of the main co-coordinators for the University/MDeC Business Plan /Business Idea Competition and made the university proud by achieving First Prize winner in the competition for the year 2009/2010.

His research interests are on IT Facility Management and Technology Management and currently he is doing research in IT Facility realating towrads Technology Adoption in SME.