

Effect of *Ar-Rahnu* Relationship Value on Long-Term Relationship between Customer and Institutions

(Kesan Nilai Hubungan di dalam *Ar-Rahnu* terhadap Hubungan Jangka Panjang di antara Pelanggan dan Institusi)

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ABSTRACT

Ar-Rahnu is a concept of Islamic debt with pledged item. In Malaysia, *Ar-Rahnu* concept is applied by Islamic pawn broking industry. Thus, the practitioners called Islamic Pawn broking product as “*Ar-Rahnu*.” There are no studies that conceptualize relationship value of *Ar-Rahnu* and its dimensions as the decisive factor in *Ar-Rahnu* development in Malaysia. Study of long-term relationship between customer and institutions can be an indicator of *Ar-Rahnu* development. The long-term relationship study proves and verifies the transparency of business. However, the study about the decisive factors of long-term relationship in *Ar-Rahnu* industry is lacked. The aim of this paper is to prove the effect of *Ar-Rahnu* relationship value and its dimensions towards the long-term relationship between customer and institutions. This research is conducted among *Ar-Rahnu* customers within seven *Ar-Rahnu* institutions which are situated in Central Zone of Malaysia. Two hundred and six respondents were selected to answer a set of adapted questionnaires. The conceptual model of this paper has been validated by the confirmatory factor analysis (CFA). The analysis of Structural Equation Modeling (SEM) shows that all the dimensions of *Ar-Rahnu* ‘benefits’ produce a significant effect on long-term relationship but the ‘sacrifices’ give insignificant effect. The finding can improve the shariah justification on Islamic pawn broking. The value of this study lies in its effort to propose to practitioners the enhancement of marketing system regarding the most preferences and matter of concern by customers about *Ar-Rahnu* product.

Keywords: *Ar-Rahnu*; relationship value; long-term relationship; structural equation modeling

ABSTRAK

Ar-Rahnu adalah satu konsep pinjaman yang berteraskan Islam berserta barang gadaian sebagai cagaran. Di Malaysia, Konsep *Ar-Rahnu* telah diaplikasikan di dalam industri Pajak Gadai Islam. Oleh yang demikian, para pengamal menamakan produk Pajak Gadai Islam sebagai *Ar-Rahnu*. Masih belum ada kajian yang berkonsepkan Nilai Hubungan *Ar-Rahnu* dan dimensi-dimensinya sebagai faktor penentu kepada pembangunannya di Malaysia. Kajian tentang hubungan jangka panjang di antara pelanggan dan institusi dapat menjadi salah satu indikator kepada pembangunan industri *Ar-Rahnu* di Malaysia. Kajian hubungan jangka panjang di antara kedua-dua belah pihak adalah sangat penting bagi mengesahkan ketelusan transaksi. Kajian tentang faktor penentu kepada hubungan jangka panjang di antara pelanggan dan *Ar-Rahnu* masih kurang. Tujuan penulisan kertas ini adalah untuk membuktikan bahawa Nilai hubungan *Ar-Rahnu* dan dimensi-dimensinya telah memberi kesan positif terhadap hubungan jangka panjang di antara pelanggan dan institusi. Kajian ini dijalankan terhadap pelanggan *Ar-Rahnu* kepada 7 buah institusi *Ar-Rahnu* di Zon Tengah Malaysia. Seramai 206 responden dipilih bagi menjawab satu set soalan kaji selidik yang telah diadaptasi. Model konsep yang dibina telah disahkan oleh Kaedah Analisis Faktor. Kaedah analisis SEM telah digunakan di dalam kajian ini bagi menunjukkan dimensi ‘manfaat’ telah memberi pengaruh yang signifikan terhadap hubungan jangka panjang di antara pelanggan dengan institusi *Ar-Rahnu*. Manakala dimensi ‘pengorbanan’ tidak memberi kesan yang signifikan. Hasil dapatan kajian ini dapat menambah baik justifikasi shariah terhadap pajak gadai Islam. Nilai kajian ini meliputi cadangan kepada pengamalnya tentang penambahbaikan dari sudut pemasaran. Ianya berkaitan dengan perkara yang paling diambil perhatian oleh pelanggan.

Kata kunci: *Ar-Rahnu*; hubungan jangka panjang; manfaat; structural equation model

INTRODUCTION

Ar-Rahnu is a concept of Islamic Transaction which is based on debt and pledged item. In Malaysia, the concept of *Ar-Rahnu* is applied in Islamic pawn broking product as the underlying contract (Naim 2014). The practitioners named Islamic pawn broking product as *Ar-Rahnu*. There are two contracting parties involved in *Ar-Rahnu* transaction. The first contracting party is the Islamic financial institution and the second party is the *Ar-Rahnu* customer. The Islamic financial institution (IFI) will have the right to keep the pledged item after giving a loan to the customer (Cokro 2014). The pledged item must be a solid gold or jewelry. The storage fee will be charged monthly. The period of loan is due after 6 months and can be renewed until up to 5 years.

Ar-Rahnu product is known as one of the microfinance scheme that is designed to help the poor. In Malaysia, *Ar-Rahnu* is introduced to provide an alternative source of credit away from conventional pawn shops. There are many IFIs become the provider of *Ar-Rahnu* product. A stark example is Bank Rakyat, the biggest and the most flourishing banking institution in Malaysia that currently operates hundreds outlets – the highest number of *Ar-Rahnu* counters (Yaacob, Ahmad & Ibrahim 2012). In addition, there are several Islamic banks offering *Ar-Rahnu* services such as the Bank Islam Malaysia Berhad (BIMB), Bank Kerjasama Rakyat (Bank Rakyat), Agrobank, Bank Muamalat Malaysia Berhad (BMMB) and Affin Islamic. The example of non-banking institutions which produce *Ar-Rahnu* are Malaysian Islamic Economic Development Foundation (YAPIEM), Malaysian Post Office, *Ar-Rahnu* Express, and Felda Cooperative (Azli, Palil & Mohd Nor 2016).

Ar-Rahnu is moving towards growth and development. Total financing, income from storage fee and the number of *Ar-Rahnu* outlets has increased from year to year. For instance, the total financing of Bank Rakyat through *Ar-Rahnu* scheme has increased from RM687 million in 2006 to RM1.6 billion in 2014 (Rakyat, 2010). However, the application of *Ar-Rahnu* in Malaysia has embarked a debate among Muslim jurists and economists about the relationship value from the transaction. Naim (2004) opined that *Ar-Rahnu* scheme in Malaysia are still practicing the interest (*riba*) which is regarded as prohibited in Islam. The bank has made some profit and benefit from the storage fee. Then, the profit accumulation becomes the motivation for the bank to produce lots of outlets and financing services. While Hisham, Shukor, Salwa, and Jusoff (2013) opined that the *Ar-Rahnu* is an interest-free source of micro credit scheme and benefited the community from various aspect.

Hence, careful assessment and evaluation on real effects from *Ar-Rahnu* transaction are required to justify its legality. The lack of research about social values such as the benefits and sacrifices of *Ar-Rahnu* and its financing effects will contribute to the weakness of *Shariah* justification. Previously, the research about social

change among *Ar-Rahnu* customers is also neglected. Therefore, this paper attempts to study the effects of *Ar-Rahnu* transaction and its dimension as the decisive factor of its development. Understandings of the critical factors that lead to *Ar-Rahnu* development are fundamental for Muslim Jurists and economists to reap the values of *Ar-Rahnu* services to the customer. Finally, some *Shariah* justifications about *Ar-Rahnu* can be improved.

In order to study the effects of *Ar-Rahnu* transaction between IFIs and customers, the authors of this paper will examine the concept of Relationship Value which has been discussed by Ulaga and Eggert (2005). The concept of relationship value suggests that the value has always been fundamental basis for all marketing activity. From that basis, value has been investigated from two complementary perspectives. First, value-of-customer which is the net-value a customer receives in a market exchange. Second, value-of-customer which captures the seller's perspective (or in *Ar-Rahnu*'s context is IFIs as the funder) through market exchange (Ulaga & Eggert 2005).

Furthermore, in order to define the *Ar-Rahnu* development, the authors attempt to investigate the concept of long-term relationship between customer and IFIs. The concept of long-term relationship have been discussed by Ganesan (1994). Long-term relationship between two contracting parties in *Ar-Rahnu* can give an indicator to its development. The values that influence long-term relationship can support the decision in *Shariah* justification about *Ar-Rahnu*. Thus, in order to achieve the objective of this paper, the combination between the concept of relationship value and the concept of long-term relationship is needed to gain a better insight about its legality in Islamic Transaction Law. This paper is structured as follows; the literature review, methodology, results and findings, discussion and conclusion.

LITERATURE REVIEW

DETERMINANT FACTORS OF *AR-RAHNU* USAGE AMONG CUSTOMERS

Determinant factors of *Ar-Rahnu* usage among customers have been studied by past researchers. In order to achieve the objectives of this paper, the authors attempt to point out the determinant factors which have been tested and significant in previous research. As the second step, these success factors will be conceptualized with underpinning theory which is Relationship Value. Then, the new conceptualization thought will be tested with Long-term Relationship in Social Exchange Theory (Blau 1964) in order to enhance the justification of the *Ar-Rahnu* transaction.

THE STORAGE FEE

The storage fee is defined as an amount of money charged by the *Ar-Rahnu* institutions to customers. It is regarded

as a fee for the gold storage service provided by the bank. The bank will charge an amount of fee in every RM100 of gold price. Low storage fee is regarded as determinant factor for customers in *Ar-Rahnu* business. Ahmad, Mansor and Nurul Nadiah (2012) and Yaacob et al. (2012) discovered that the low storage fee of *Ar-Rahnu* is significantly reflected the customer acceptance. There is a quite big gap and difference between the conventional and Islamic storage fee of *Ar-Rahnu* product. According to some Muslim economists, the element of interest is totally eradicated from the transaction and the service charge (*ujrah*) is replaced not because of the reason of duplication of conventional product but it is rooted in the Islamic Law transaction. The concept *Ujrah* or service charge is permissible in Islam as long as the charge is regarded as actual and reflects the service provided by the Islamic institutions. However, the literature failed to justify the effect of the different rate of storage fee towards *Ar-Rahnu* customer usage. The rate is not standardized by IFIs. For instance, Bank Rakyat has imposed RM0.65 to RM0.70 for every RM100 of pledged item value, but in Agrobank, they imposed RM0.50 for the same amount. This situation will cause a burden to a customer to assess and evaluate his or her needs and ability of repayment. Thus, the effect of unstandardized storage fee rate among IFIs needs to be investigated.

PRODUCT FEATURE

Product feature is defined as the product attributes and requirements. Regarding the product feature, Muhamat, Rosly and Jaafar (2011) exposed that this factor gives the highly significant impact on customers' demand especially among non-Muslims. Anyway, the suitability of concept in *Ar-Rahnu* product scheme and the adaptation of its financial transaction with the regulation is still need to be explored (Sharif, Shaharuddin, Muhamed, Pauzi & Mohd Zin 2013). In microfinance research, Al Mamun (2012) in his research on Grameen Bank points out that the innovation, design and adaptation are become one of the success factor. In *Ar-Rahnu* the financing tenure is one of the product features. The financing tenure or period provided by the operators is different (Mohamed & Md. Tahir 2014). The effect of various schedule of financing tenure in *Ar-Rahnu* is needed to be tested. The adaptation of the loan period (e.g six months with extended three months for some or six month for institutions) can become either a benefit or a burden to customers.

LOCALITY

Locality is defined as the position of *Ar-Rahnu* counters which are regarded as strategic provided by the *Ar-Rahnu* institutions. Strategic location is the significant factor for the Islamic pawn broking's demand from customers (Ahmad et al. 2012; Mat Nor, Abdullah, Ismail, Bakar & Mohd Yusni 2012; Yaacob et al. 2012). In addition, it has been reported that, bank counters are one of the major contributions of the *Ar-Rahnu* growth served by

Agrobank (2011). Individuals tend to choose pawnshops that near to their houses. A well-informed location must be met at least people know where is it (Appannan & Doris 2011). *Ar-Rahnu* outlet need to be carefully located by considering traffic flows, land costs, zoning regulations, parking availability, and also not quite far from customers' residential place, easy access, and presence of public transportation (Abdul-Razak 2011; Ahmad et al. 2012; Hasanah & Yusuf 2013). However, the effect of current distribution of *Ar-Rahnu* outlets in Central Zone of Malaysia is not updated since the previous research only focused on East and North Malaysia.

SERVICE QUALITY

Service quality is defined as the attributes and standard of services provided the *Ar-Rahnu* institutions. It is an assessment of how well a delivered service conforms to the client's expectations. It is reported that the offering excellent services to the customers has broadened its ability in outreaching customers in Agrobank (2011). From the previous empirical research, the service quality becomes one of the major success factors of *Ar-Rahnu*'s demand from customer (Ahmad et al. 2012; Nor et al. 2012; Othman, Hashim & Abdullah 2012). The service quality motivates the customer trust in *Ar-Rahnu* business. Shorter waiting period, fair rotation system and consistency of valuation of gold among the attributes to the customer trust. By the customer trust, the total collection of safekeeping charges, the main revenue of *Ar-Rahnu* will increase. The profit will increase if there is the growth of revenue. The trustworthiness of *Ar-Rahnu* organization will highly personal and according to the experience and perception of the respondent (Yaacob et al. 2012). The idea of customer trust via service quality by pawn brokers or informal lenders is supported by Bouman and Houtman (1988). However, there are some aspects are not become the survey item among the current customers which are the security systems and the knowledge shared by the *Ar-Rahnu* staff.

STAFF COMPETENCY

Competency means either the observable performance or standard of outcome of performance or attribute to the person (Hoffmann 1999). A well-designed human resource development structure is the best way to enhance the competency. In *Ar-Rahnu*, staff competency means the expertise of *Ar-Rahnu* staff in conducting the *Ar-Rahnu* transaction. Yaacob et al. (2012) found that staff competency becomes one the success factor in *Ar-Rahnu* cooperatives. The success of *Ar-Rahnu* depends on the integrity and professional of the staffs. Othman et al. (2012) stressed that obedience, responsive, significance, guarantee, belief and empathy from the staff attitude gave the motivation to the respondent to receive the *Ar-Rahnu* service in Kelantan. In microfinance research, the well-trained staff and leadership performance is very significant to the successful of the industry. Hartungi (2007) found

that well-trained staff is one the successful of Bank Rakyat Indonesia. In *Amanah Ikhtiar Malaysia*, it is found that, leadership with expertise performance will achieve positive impact to microfinance organization (Sow Hup 2010). Staff competency is important in term of purity of gold determination especially gold jewelry. In Singapore, the training of staff as the evaluator is organized by the organization (Chan & Owyong 2010). Staffs need to be sent for training and development program on a continuous basis in order to generate effective field workers and field level manager. The introduction of new tertiary educated professionals in Singaporean pawn broking institution be the determinant of its development (Lim & Lye 2001). This will avoid cheating cases involving fake gold are becoming more sophisticated and complex with the advent of technology (Al Mamun 2012; Yaacob et al. 2012). Anyway, the effect of staff's expertise in gold valuation is yet been tested in *Ar-Rahnu* research.

TRANSACTION COST

Transaction cost is characteristically defined as the time and money used up in carrying out *Ar-Rahnu* transaction. Normally, every financial institution is differentiated by the transaction cost. It is paid by both consumers as buyers and financial service providers as sellers (Rubach, Bradley & Brown 2010). In China, the transaction cost is significant and negative effect to the formal lending institution (Tang, Guan & Jin 2010). These leads the Chinese rural household prefer the informal credit sector. In Kenya, transaction cost is a factor of microfinance profitability (Kamau 2008). The transaction cost in pawn broking can be described as the time and money used to carrying up to pawn and to redeem the jewelry. In Sri Lanka and Malaysia, the customers choose to obtain a loan from pawnshop because the transaction cost is low (Bouman & Houtman 1988; Ismail & Ahmad 1997). Furthermore, most of the customers faced with reasonable time to pledge their jewelry. In addition, the duration of time in order to obtain the cash money is short (Ismail & Ahmad 1997; Skully 1994). For pawn broker, the transaction cost would be the cost of selling the unredeemed pledged item. The transportation cost to reach the pawn shop and waiting cost regarded as low as compared to formal banking system in order to get a loan. Chua and Llanto (1996) pointed out in his research that one of the keys to success in micro-lending is to keep overheads very low. By the survey research imposed on Muslim women in Eastern Malaysia, Amin (2011) has proofs that the transaction cost has negative relationship with the customers' demand towards *Ar-Rahnu* services. It means the lower transaction cost, the greater demand from the customer. The updated effect of transaction cost is needed to be tested among customers in Central Zone of Malaysia since this variable is tested in Eastern and other countries.

TRANSPARENCY

Transparency in *Ar-Rahnu* is recognized as the procedures to determine the accuracy and valuing the collateral, the

usage of computers for keeping the customers profile and details of the loan, together with the production of a very detailed receipt after the loan is approved. Abdul-Razak (2011) has shows in her survey research that the transparency is one of the significant factor of customers' selection of *Ar-Rahnu* services. The construct is imperative to be investigated whether it is determinant of *Ar-Rahnu* development in Islamic banking sector or otherwise. The effect of gold valuation process needs to be tested among customers. This is because the use of different advanced technology equipments in gold valuation among IFIs nowadays.

The difference between *Ar-Rahnu* and conventional pawn broking is the pledged item received by the institution. *Ar-Rahnu* only received the gold whereas conventional received any valuable item. From the qualitative study of Ibrahim, Yaacob and Ahmad (2012), gold's type and value become the factor that influence the intention of *Ar-Rahnu* usage. In Mexican pawn broking market, the constant increase in gold value become one of the success factor (Mortera 2012). The sentimental value of pledged item such as marriage jewelry become the factor that the customer will return to the pawn broker to redeemed the item (Carter & Skiba 2012). In Malaysia, the process of gold's valuation is quite different among IFIs. The type of gold that accepted by IFIs also may vary. Majority of Islamic banks did not accept gold bar, but for non-banking institutions, two of them will accept gold bar such as Malaysian Post Office and *Ar-Rahnu* Express, a franchise company of Habib Jewel. The effect of unstandardized gold valuation and acceptance also need to be tested.

CONVENIENCE IN GOLD INVESTMENT

Beside of cash loan provided to the middle and lower class of customers, the *Ar-Rahnu* scheme also has been utilized by the gold investor in order to achieve convenience in their investment. Hisham et al. (2013) pointed out that activities of buying and selling gold is a form of investment, which double the profit out of gold price differences and proceeds from business using the *Ar-Rahnu*.

From the environment observation and interviews with some *Ar-Rahnu* bank executives and gold dealers, there are social changes in *Ar-Rahnu* business transaction. They opined that the *Ar-Rahnu* demand is not only driven by low and middle-class customer. It began to serve the high class customer who is more educated and wealthy especially the gold buyers. There is a trend of buying and selling gold among Malaysian people. By the way, the research about their contribution towards *Ar-Rahnu* development is scarce and still lacked in information and data. So, the effect of "convenience in gold investment" or gold manipulation is imperative to be tested among customers.

BUSINESS CAPITAL

Ar-Rahnu is one of the reliable loans to a customer in order to support his or her small and medium enterprises (Mohd Noar & Ahmad 2015). IFIs can change a set of gold into fast cash so that the customer can proceed to buy the business good. The storage fee is considered low whereby the IFIs will charge only 1% to 0.5% in every RM100 of the financing amount. In order to illustrate an *Ar-Rahnu* transaction as a business capital for a customer, Table 1 shows the example of calculation offered by Bank Rakyat.

TABLE 1. An example of *Ar-Rahnu* fast cash transaction

Date of transaction	17/12/2015	Item value	RM696.87
Due	17/06/2016	Loan (a)	RM450.00
Type of pledged item	Necklace	Monthly storage fee	RM 4.54
Weight (gm)	4.50	Total of storage fee (b)	RM27.25
Karat	916	Date of payment (a+b)	17/6/2016

Source: Bank Rakyat *Ar-Rahnu* Receipt

Ali who is a seller of food stuff pledged a 916 gold necklace which is valued at RM696.87. Bank Rakyat offered 65% fast cash loan from the item value, so it is amounted at RM450. The storage fee is only RM4.54 per month or RM27.25 for 6 month. If Ali used the loan as the business capital and get profit around 30% in a few days, he would get profit for RM135 and the fast cash will turn to RM585. He simply can pay the storage fee which amounted at RM4.54 per month. In literature review, there is lack of evidence to support that the needs of business capital become the determinant factor in *Ar-Rahnu* development (Zainal, Maamor & Md.Tahir 2014). The service of giving a business capital is faster than the other micro-credit scheme especially for small and medium enterprises.

UNDERLYING THEORIES

RELATIONSHIP VALUE IN *AR-RAHNU* TRANSACTION

The value in business is defined as the perceived worth in monetary units of economic, technical, service and social benefits received by the customer in exchange for the price paid for a product offerings taking into considerations the available alternative suppliers offerings and prices (Ulaga & Eggert 2005). The value of relationship embedded in the transaction between the customer and the Islamic pawn broker contribute to the long term relationship among the contracting parties. This value is suggested to become the result of *Ar-Rahnu* benefits and sacrifices gained by customers. Relationship value is the most recent research

development which considers the customer value from the viewpoint of relationship marketing (Ulaga & Eggert 2005).

In *Ar-Rahnu* research, relationship value and its dimensions can explain many insights of its development. Previous studies focus on the product awareness and satisfaction and neglecting the relational dimensions of customer-perceived value. The concept of value produces the exchange view of marketing. Market exchange takes place in *Ar-Rahnu* business because all parties involved expect to be better off after the exchange. The higher the net value expected or received, the stronger the motivation to commence and to sustain an exchange process respectively. Ulaga and Eggert (2005) state that the value can be investigated from two complementary perspectives. Research on "value-to-the-customer" focuses on the net-value a customer receives in a market exchange. Research on the value-of-the-customer captures the seller's perspective of net-value realized through market exchange with particular customer. One of the characteristic of value in business is the benefits and sacrifices obtained in the market exchange. The customer value is defined as the tradeoff between the benefits ("what you get") and the sacrifices ("what you give") in a market exchange (Ulaga & Eggert 2005).

From the discussion of *Shariah* (Islamic Law) justification within the operation and features of *Ar-Rahnu* in Malaysia made by Naim (2004), the *Ar-Rahnu* is originally based on a social welfare financial transaction (*Al-Aqd Tabarru'*). This means the contract should accommodate the poor people in fulfillment of their needs. The funders should not make any benefit from the pledged item except any amount that fulfills the actual cost sacrificed by them.

From the perspective of relationship value, the relationship between the customer of *Ar-Rahnu* (*Ar-Rahin*) and Islamic pawnbroker (*Al-Murtahin*) is based on the benefits and sacrifices bounded by each of the party. The benefit of customers is the fast cash loan of money they get from the pawnbroker in 6 months period of time and they can apply for extension if certain rules are fulfilled. Adding to that, they also obtain the facility of service quality, transparent and strategic locality which reduced the transportation cost. The benefit that gains by Islamic pawnbroker is the authority of pledged item storage and storage fee paid by the customer and the price of unredeemed pledged item. The fee is become the profitability when the customers have to pay the service charge of storage of the pledged item. The cost is charged upon each RM100 of pledged item real price. Furthermore, both parties bare the sacrifices. The customer should have to pay the storage fee and any other transaction cost, together with the risk of loss of pledged item (not because of negligence of pawnbroker) and unredeemed item which consider as the sacrifices from them in order to get the benefits. The Islamic pawnbroker bare the financing size, locality and regulation cost in order to provide the benefit to the customer.

There is another benefit of customer which is not fully discussed by the previous researchers. The rotation of cycled redemption of pledged item such as gold can give some profits especially during the period of rising of the gold price. Some of customers are investing the gold to get some profits using the *Ar-Rahnu* transaction. The storage fee also will be increased because the customer extend the storage period to make sure the pledged gold is redeemed and replaced with another set pledged gold. This will caused the increased of Islamic pawnbroker profitability through the storage fee. This phenomenon suggests the long-term relationship among the contracting parties.

TABLE 2. Benefits and sacrifices of contracting parties in *Ar-Rahnu* transaction

	Benefits	Sacrifices
Customer of <i>Ar-Rahnu</i>	Fast cash loan within 6 months with extension facility Service quality Transparent Strategic locality Reduced transportation cost Profit of gold investment when cycle chain is rotated	Storage fee Transaction cost Trust Commitment Risk of loss the pledged item The loss of gold value when the price is low or maintained Unredeemed item
Islamic banks as the pawnbroker	Authority of pledged item storage Storage fee as service charge Price of unredeemed pledged item	Financing size Regulation cost Administration cost

Source: Azli et al. (2016)

From the above discussion, we can suggest that, the exchange between benefits and sacrifices of *Ar-Rahnu* produce the significant effects to long-term relationship between customer and financial institutions.

LONG-TERM RELATIONSHIP IN *AR-RAHNU* TRANSACTION

A long-term relationship is the perception of interdependence of outcomes which both a contracting party outcomes and joint outcomes are expected to benefit the counterpart in the long run. Both contracting parties focus on achieving future goals and are concerned with both current and future outcomes (Ganesan 1994). Thus, the niche of this research is focusing on the buyer and supplier relationships. Long-term relationship between *Ar-Rahnu* customers and institutions can interpret the sustainability and competitiveness of *Ar-Rahnu* business and industry in Malaysia. In today's business market, there

is a rich and growing body. The summary of relationships literature presented as in Table 3.

TABLE 3. Summary of relationships literature

Author	Concept	Methodology
Dwyer, Schurr, and Oh (1987)	Developing Buyer-Seller Relationships	Qualitative, Conceptual paper
Shanker (1994)	Determinants of Long-term Relationship	Quantitative, empirical research
Gefen and Ridings (2002)	User Evaluation of Customer Relationship	Quantitative empirical research
Luo (2002)	Trust and Privacy of Internet based on Relationship Marketing	Quantitative empirical research
Cropanzano and Mitchell (2005)	Social Exchange Theory	Qualitative, Conceptual paper
Ulaga and Eggert (2005)	Relationship Value	Quantitative empirical research

From the discussion above, the authors suggest that the concept of relationship value and long term relationship should be applied in *Ar-Rahnu* research. In order to elaborate the justification about legality of recent *Ar-Rahnu* transaction produced by IFIS, the discussion of exchange social and monetary values between the two contracting parties is regarded as relevant and imperative. The discussion of benefits and sacrifices is recognized by modern Muslim Scholar such as Al-Buthi, Al-Tusi and Izz Abdul Salam. According to Al-Buthi, benefits or *al-mashlahah* can be used as a source of law if it meets the five criteria of *Maqasid Al-Shariah*. First and foremost, the benefits must not contradict with *Al-Quran*, *Hadith*, consensus of *ulama* and *qiyas*. The relationship value can give more insights about *Ar-Rahnu* transaction. The result of this paper can determine the most factors that benefited the customer and the most factor that sacrificed by the customer. Therefore, the suggested research framework is presented. See Figure 1.

As shown in Figure 1, this paper suggests that the benefits of *Ar-Rahnu* namely; service quality, convenience in gold investment, product features, transparency, business capital and staff competency produce the positive effects on long-term relationship between *Ar-Rahnu* customer and institutions. The hypothesis is put forward for consideration.

H₁ The benefits of *Ar-Rahnu* contribute the positive and significant effect towards long-term relationship between customers and financial institutions.

This paper also suggests the sacrifices which are transaction cost and time cost produce the effect on long-term relationship between *Ar-Rahnu* customer and institutions.

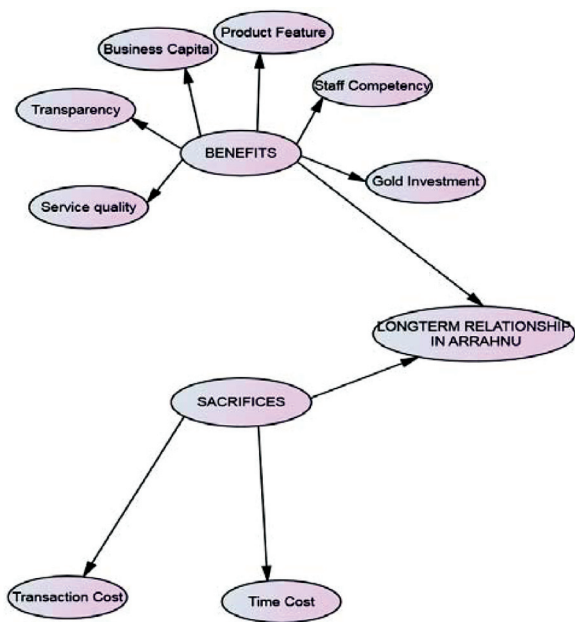


FIGURE 1. Theoretical framework

H₂ The sacrifices of *Ar-Rahnu* contribute the significant effect towards long-term relationship between customers and financial institutions.

METHODOLOGY

In order to confirm the suggested model and verify the hypothesis, the authors have take into account the three stages of analysis. Firstly, all the constructs are tested with Exploratory Factor Analysis (EFA). The items and constructs which appeared with low co-efficient value are removed from the model. No exogenous and endogenous construct is decided in this analysis, but not presented in this paper (Azli et al. 2016). Secondly, the Confirmatory Factor Analysis (CFA) is applied and presented in this paper. The exogenous and endogenous construct is decided in this analysis. Lastly, the Structural Equation Modelling (SEM) is tested in this paper to see the relationship between the exogenous and endogenous constructs.

A set of questionnaire is administered and reorganized from the EFA. All the variables which are the determinants factor of *Ar-Rahnu* usage is manipulated with the concept of Relationship Value. From EFA analysis, all the items are grouped into several dimensions. EFA produce 8 dimensions of benefits and 3 dimensions of sacrifices. Then, after CFA analysis which will be presented in following section, the Service quality, Product feature, Convenience in Gold Investment, Staff competency, transparency and Business Capital are regarded as Sub-constructs or namely as Second Order and are dimensioned in one construct (first order) which is Benefits. In addition, the transaction cost and time cost are regarded as dimensions for sacrifices.

SAMPLING SIZE

Two hundred and six (206) respective *Ar-Rahnu* customers from 7 *Ar-Rahnu* financial institutions are selected as the respondents. These seven financial institutions are solely *Ar-Rahnu* service providers which stated in central zone of Peninsular Malaysia. The data collection held between the months of January and April. Descriptive Analysis will be used to present the sampling size of this paper.

CFA by using Amos has been utilized in this paper to validate the measurement of theoretical framework of this paper. The model is tested by using three categories of Fitness Model, Reliability Analysis, Validity Analysis and Discriminant Analysis. The Fitness Model introduces three categories of fitness index which are Absolute Fit, Incremental Fit and Parsimonious Fit. Validity showed by AVE value and reliability showed by CR value. The validation of measurement model is presented. Table 4 illustrates the acceptable Fitness Indexes.

TABLE 4. Acceptable fitness indexes

Categories	Index	Accepted Value
1. Absolute fit	RMSEA	RMSEA <0.08
2. Incremental fit	CFI	CFI >0.90
3. Parsimonious Fit	Chisq/df	Chisq/df <3.0

Source: Awang (2015)

From Table 4, we can summarize that, in order to justify the goodness of measurement model, Absolute Fit must be used and it should achieve below than 0.08 for RMSEA. Incremental Fit should achieve more than 0.90 for CFI and Parsimonious Fit should achieve below 3.0 for Chi-square. The CR value should achieve more than 0.6 while AVE should achieve more than 0.5.

The Structural Equation Model (SEM) Analysis will be used to test the relationship between construct of Benefits of *Ar-Rahnu* and Long-term Relationship (Figure 3).

TABLE 5. Fitness index for the model

Index Categories	Name of Indexes	Index Values	Comment
1. Absolute Fit	RMSEA	0.065	Index achieved
2. Incremental fit	CFI	0.904	Index achieved
3. Parsimonious Fit	Chisq/df	1.873	Index achieved

From Figure 3 and Table 4, we can conclude that the measurement model of this paper theoretical framework has achieved the Absolute and Incremental Fitness Index. The Parsimonious Fit is achieved very well.

The Table 5 shows the reliability and validity analysis result. All the items in the construct of Long-term

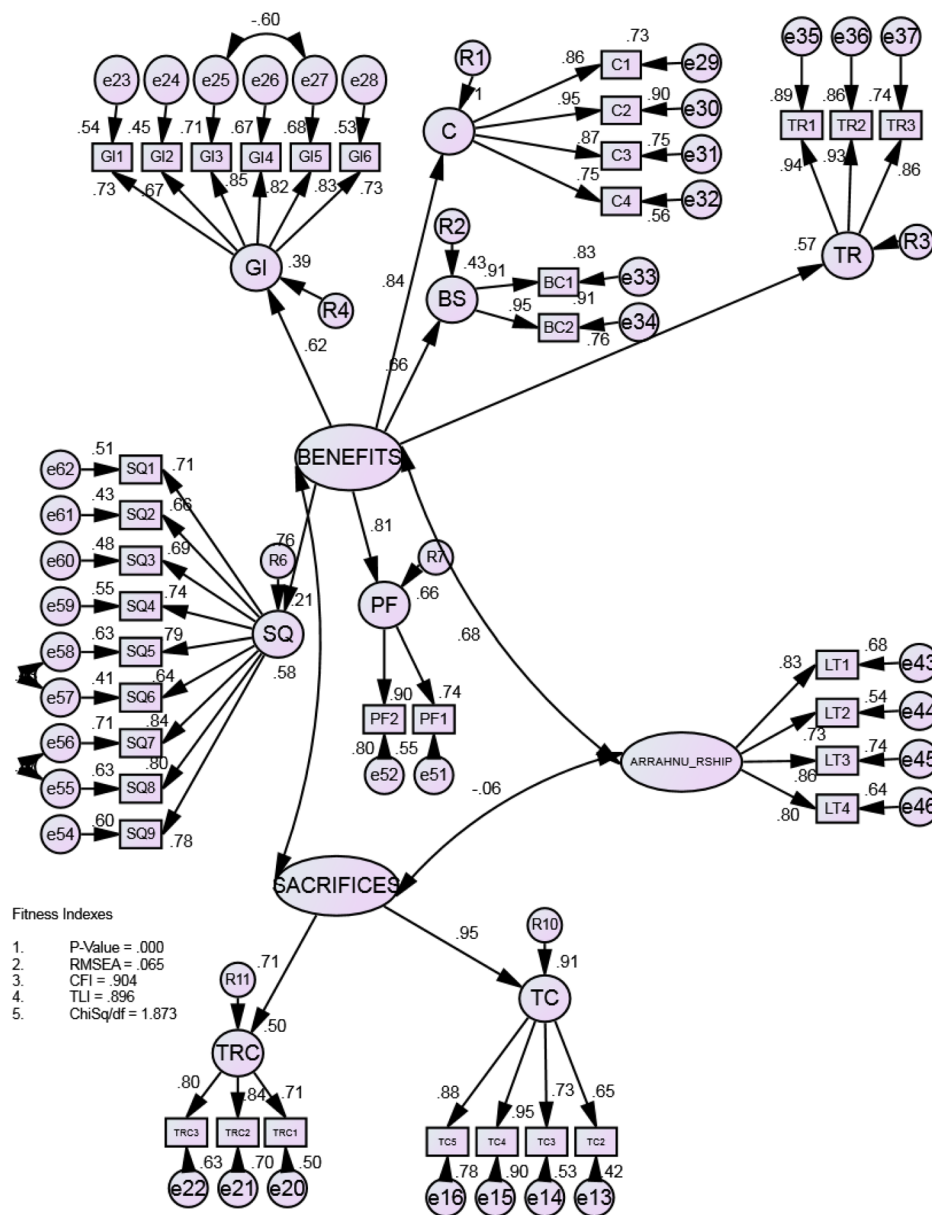


FIGURE 2. CFA analysis

TABLE 6. Reliability and validity analysis

Construct	Item	Factor Loading	CR (Reliability)	AVE (Validity)
Long-term relationship	LT1	0.83	0.881	0.650
	LT3	0.86		
	LT2	0.73		
	LT4	0.80		
Benefits	SQ	0.76	0.881	0.556
	GI	0.62		
	C	0.84		
	TR	0.76		
	PF	0.81		
	BS	0.66		
Sacrifices	TC	0.95	0.823	0.703
	TRC	0.71		

relationship, Benefits and Sacrifices are reliable and valid. The values of all items are above the 0.6.

Table 6 shows that all items have high factor loading. This also means all the items used in the survey questionnaire are reliable and valid. We can conclude that the measurement model of theoretical framework has achieved the minimum of Validity and Reliability test requirement. Every single of dimension suggested by this research is confirmed to be the sub-construct in *Ar-Rahnu* benefits and sacrifices.

DISCRIMINANT VALIDITY

This paper also attempts to demonstrate the Discriminant Validity. This test would show the correlation between constructs.

From Table 7, we can see the measurement model is achieved the Discriminant Validity Test. The square-root AVE of Benefits is valued at 0.745. The square-root AVE of Sacrifices is 0.838 and the square root of Long-Term Relationship is valued at 0.806. The correlation value between the three above said constructs is smaller than all the value of Square root value. According to statistician, when the correlation value is smaller than square root AVE values, the model is regarded as valid.

After the validation of theoretical framework has been achieved, the analysis of Structural Equation Modeling by using AMOS is applied on the data. In order to confirm the hypothesis, the interrelationship between the constructs is tested. The results are presented in following section.

TABLE 7. Detailed results on reliability and validity of benefits' and sacrifices' item

(Benefits)	Item	Factor Loading	CR (Reliability)	AVE (Validity)
Service Quality	SQ1	0.71	0.916	0.550
	SQ2	0.66		
	SQ3	0.69		
	SQ4	0.74		
	SQ5	0.79		
	SQ6	0.64		
	SQ7	0.84		
	SQ8	0.80		
	SQ9	0.78		
Gold Investment	GI1	0.73	0.899	0.600
	GI2	0.67		
	GI3	0.85		
	GI4	0.82		
	GI5	0.83		
	GI6	0.73		
Competency	C1	0.86	0.919	0.740
	C2	0.95		
	C3	0.87		
	C4	0.75		
Transparent	TR1	0.94	0.936	0.829
	TR2	0.93		
	TR3	0.86		
Product Feature	PF1	0.74	0.807	0.679
	PF2	0.90		
Business Capital	BC1	0.91	0.928	0.865
	BC2	0.95		
Transaction Cost	TRC1	0.71	0.828	0.617
	TRC2	0.84		
	TRC3	0.80		
Time Cost	TC2	0.65	0.883	0.658
	TC3	0.73		
	TC4	0.95		
	TC5	0.88		

RESULTS AND FINDINGS

DESCRIPTIVE ANALYSIS

Descriptive analysis shows that majority of *Ar-Rahnu* customers are from lower class. As shown in Table 8, 64% customers have the income from RM1001-RM5000.

Table 9 shows that 39.8% customers are SPM holders. This follows by degree holders.

TABLE 8. Discriminant validity

Construct	Benefits	Sacrifices	Long-term relationship
Benefits	0.745		
Sacrifices	0.210	0.838	
Long-term relationship	0.680	-0.060	0.806

TABLE 9. Level of income of *Ar-Rahnu* customers

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Under 1000	38	18.4	18.4
	1001-5000	133	64.6	83.0
	5001-10000	30	14.6	97.6
	10001-15000	4	1.9	99.5
	Above 15000	1	.5	100.0
	Total	206	100.0	100.0

The result in Table 10 demonstrates the frequencies of *Ar-Rahnu* customers in nine financial institutions of *Ar-Rahnu*. 35% from respondents are Bank Rakyat customers. This is because Bank Rakyat provides the largest number of *Ar-Rahnu* outlets throughout the central zone in Malaysia.

TABLE 10. Level of education

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	SPM	82	39.8	39.8
	Certificate	34	16.5	56.3
	Bachelor	56	27.2	83.5
	Master	13	6.3	89.8
	No certificate	3	1.5	91.3
	Others	18	8.7	100.0
	Total	206	100.0	100.0

STRUCTURAL EQUATION MODELING (SEM) ANALYSIS BY USING AMOS

SEM presented result of interrelationship between the benefits and sacrifices and dimensions and long-term relationship.

EFFECT OF BENEFITS ON *AR-RAHNU* LONG-TERM RELATIONSHIP

H₁ *The benefits of Ar-Rahnu contribute the positive and significant effect towards long-term relationship between customers and financial institutions.*

From the result of SEM Analysis in Figure 5 and Table 11, the level of significance for regression weight can be justified. The probability of getting a critical ratio as large as 7.335 in absolute value is less than 0.001. In other words, the regression weight for BENEFITS in the prediction of *ARRAHNU_RSHIP* is significantly different from zero at the 0.001 level (two-tailed). In other words, there is a significant effect of *Ar-Rahnu* benefit towards long-term relationship between customer and IFIs.

EFFECT OF SACRIFICES ON *AR-RAHNU* RELATIONSHIP

H₂ *The sacrifices of Ar-Rahnu contribute the significant effect towards long-term relationship between customers and financial institutions.*

TABLE 11. Customer of *Ar-Rahnu* in nine financial institutions

	Frequency	Percent	Valid Percent	Cumulative Percent
BANK RAKYAT	72	35.0	35.0	35.0
YAPIEM	11	5.3	5.3	40.3
POS MALAYSIA	19	9.2	9.2	49.5
KOPERASI	24	11.7	11.7	61.2
EKSPRESS	39	18.9	18.9	80.1
Valid Not mentioned	9	4.4	4.4	84.5
AGRO BANK	10	4.9	4.9	89.3
BANK MUAMALAT	17	8.3	8.3	97.6
BANK ISLAM	2	1.0	1.0	98.5
AFFIN ISLAMIK	3	1.5	1.5	100.0
Total	206	100.0	100.0	

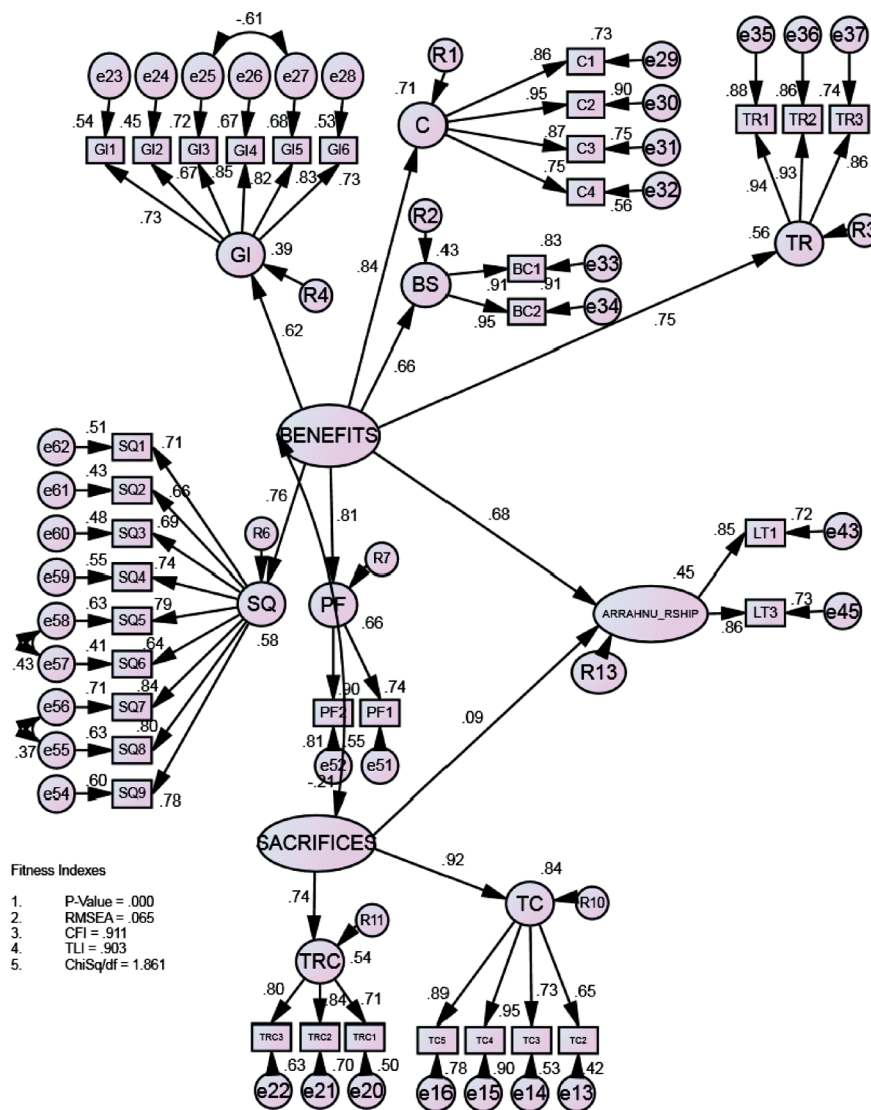


FIGURE 3. SEM analysis

TABLE 12. Result of SEM analysis

CONSTRUCT		CONSTRUCT	ESTIMATE	S.E	C.R.	P-value	RESULT
ARRAHNU_RSHIP	<==	BENEFITS	0.940	0.128	7.335	***	Significant
ARRAHNU_RSHIP	<==	SACRIFICES	0.077	0.064	1.211	0.221	Not significant

The probability of getting a critical ratio as large as 1.211 in absolute value is 0.226. In other words, the regression weight for *SACRIFICES* in the prediction of *ARRAHNU_RSHIP* is not significantly different from zero at the 0.05 level (two-tailed).

DISCUSSION

This paper aims to proof the effect of *Ar-Rahnu* benefits and sacrifices on long-term relationship between customer and financial institutions. Thus, the results from this study provide substantial support from the framework of Figure 2. This result confirmed that the benefits produce significant effect towards long-term relationship. Service quality, gold investment, business capital, transparency, staff competency and product feature of *Ar-Rahnu* are benefited to the customers and produce towards long-term relationship. However, sacrifices did not give any effect towards long-term relationship. These results challenge the traditional notion that all factors influenced the *Ar-Rahnu* usage. As compared to previous literature, the result shows the same findings in the perspective of benefits. It means that the *Ar-Rahnu* benefits which comprised the quality services, gold investment, product features, transparency, staff competency and business capital needs are produce towards the long-term relationship.

This study confirmed the finding of Ahmad et al. (2012), Nor et al. (2012) and Othman et al. (2012) about the factor of service quality produce towards *Ar-Rahnu* customer satisfaction. This study also confirmed the finding about gold investment, transparency, staff competency and product features which have been made by Hosen and Sa'roni (2012), Abdul-Razak (2011), Hisham et al. (2013) and Muhamat et al. (2011). However, the result of this research become more valuable and meaningful because it manipulating the construct of service quality and other factors in the social dimension towards long-term relationship instead of customer satisfaction. The findings show that these seven dimensions of *Ar-Rahnu* benefits become the value-to-the-customer. The higher these dimensions received by the customer, the stronger the motivation of customer to commence and to sustain an exchange their gold with fast cash respectively. This phenomenon will contribute to the competition among the *Ar-Rahnu* financial institutions to enhance the benefits.

MANAGERIAL IMPLICATIONS

From a managerial implication, this research is important to Islamic institutions in order to know the orientation of *Ar-Rahnu* customer. The management should understand that a customer will choose to renew the relationship with *Ar-Rahnu* outlet if the premis completed by a special room and security, limited forms and waiting time, and accurate information about prices and Islamic contracts. The management of *Ar-Rahnu* should enhance the gold valuing system in their institutions. The expertise of staff in valuing the gold produces towards long-term relationship between customer and institutions. Product features and transparency also be improved. The customer needs a long financing tenure and reliable renewal period to pay the storage fee and redeem the pledged item.

This research also verifies the effect of gold investment and business capital needs as a new construct in this model. This means, from the sampling size, majority of the customer prefer to use *Ar-Rahnu* to fulfill their needs in gold investment and business capital. The management should make some innovation and adaptation to the product.

The results also demonstrate that only benefits of *Ar-Rahnu* support the long-term relationship. The sacrifices which are transaction cost and time cost did not give any effect to the same relationship. This suggests the role bias in terms of how from the customers perceived the benefits and sacrifices. However, the authors believed that *Ar-Rahnu* in Malaysian Central Zone is most benefited by the customers who are businessmen and gold holders. In other words, the *Ar-Rahnu* customers try to avoid the usage of loan to fulfill the domestic needs but keep manipulating the gold in managing their business and investment. The people did not feel that the storage fee and other transaction cost as a burden. They obey to allocate their time in *Ar-Rahnu* outlets and allow the Islamic bank recorded their names in Central Credit Reference Information System.

SHARIAH JURISDICTION IMPLICATION

The benefits and sacrifices of *Ar-Rahnu* are investigated among customers. From the results, we can observe that the benefits of *Ar-Rahnu* are greater than the sacrifices. Rather, the role of *Ar-Rahnu* loan is extended as a business capital and gold investment to the gold holder. The storage fee is not regarded as a burden for these categories of *Ar-Rahnu* customers. Although, the demographical statistics show that the majority of customers are from

lower level of income and education, but the data proofed that *Ar-Rahnu* relationship is supported by money accumulation activities. We can justify that *Ar-Rahnu* transaction is regarded as a halal transaction and still not exceed the rules and regulation of Islamic Transaction Law as approved by *Shariah*. By the way, there are certain practices of *Ar-Rahnu* should be the concern of *Shariah* Advisory Board of IFIs. The standardization of product features and competencies of staff and gold valuation system is thoroughly suggested to avoid *gharar* in *Ar-Rahnu* business.

The guideline of Islamic Pawn Broking should be reviewed from time to time because the demographical, social status and gold price is increased and changed. The flexibility of financing limit, storage fee and the other product feature must be suited with the level and need of customers.

CONCLUSION

From the discussion above, we can conclude that the research of *Ar-Rahnu* will become more accurate and meaningful if the benefits and sacrifices of transaction are investigated. This paper proves the validation of conceptualization of relationship value and long-term relationship of *Ar-Rahnu* contracting parties and improves the *Shariah* justification about *Ar-Rahnu*. This model can be adapted in the other Islamic business relationship. The status of value of each contracting parties can be assessed. The role of each party can be understood. The limitations of this paper are the small and less universal of sample unit. In future research, it is suggested to assess the influence of mediator and moderators between the constructs in the conceptual framework of this paper.

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