

# FACTORS INFLUENCE THE ACCEPTANCE OF AL-RAHN AMONG ENTREPRENEURS

**Salimah Yahaya, Universiti Sains Malaysia (USM)**  
**Siti Syuhadah Mohamad, Universiti Utara Malaysia (UUM)**

## ABSTRACT

*This study encompasses intrinsic factors to identify the acceptance of al-rahn by entrepreneurs in Kelantan. Al-rahn have become one of the important Islamic financing instruments that can provide quick and easy short-term financing, especially in current uncertain economic conditions. However, small entrepreneur's acceptance of al-rahn is still low when al-rahn is said to be needed when the situation is urgent solely for business purposes. This situation sparks an interesting phenomenon on how to encourage the Muslim small entrepreneurs to accept al-rahn?*

*In order to achieve the objective of the study, quantitative analysis was applied using primary data from questionnaires distributed. The results of the study on 350 entrepreneurs around the state of Kelantan found that factor of understanding towards al-rahn and factor of halal and haram considerations significantly affected al-rahn acceptance. The benefit returns factor and preferential use factor were not significantly affected al-rahn acceptance.*

*The implication showed that small entrepreneurs have good and positive thinking about al-rahn as Islamic product based on Islamic sharia and principles. The main contribution of this study is to help small entrepreneurs to understand well the purpose of al-rahn in order to provide capital to their business. In other hands, it may help the al-rahn provider to provide better services.*

**Keywords:** Al-rahn, Islamic Pawn Brokers, Small Medium Entrepreneurs, Entrepreneurship.

## INTRODUCTION

The main purpose of al-rahn is to help low-income earners who are not eligible to get funding from financial institutions. Another purpose is to help small entrepreneurs to obtain funding for entrepreneurship (Rasmin & Markom, 2014). Although the goal of al-rahn's establishment is to provide capital funding for small entrepreneurship activities, but there is still lack of knowledge and awareness regarding al-rahn among small entrepreneurs.

Al-rahn is more commonly known for consumerism activities (personal purposes such as daily necessities, paying debts, medical, education, traveling or buying vehicles), rather than productive activities such as entrepreneurial activities (Sulaiman et al., 2014 & Azman et al., 2016). Thus, it should be asked whether the low response comes from issues related to the acceptance of al-rahn? What are the real factors that determine the acceptance of small entrepreneurs towards al-rahn? Therefore, the purpose of this article is to analyze the intrinsic factors affecting al-rahn's acceptance by Muslim small entrepreneurs in Kelantan. The discussions in this article include introduction, literature review, research methodology, discussions and conclusions.

## LITERATURE REVIEW

The low response to al-rahm is probably related to issues of public awareness and understanding. It could be due to the lack of awareness and understanding of the community towards al-rahm (Sam et al., 2010). This shows that conventional mortgage is still a consumer choice rather than al-rahm due to misunderstanding of al-rahm. Similarly, Hsni (2009) considered that the lack of knowledge of local community regarding al-rahm has become one of the factors that hinder the development of al-rahm. Therefore, Amin (2011) and Marimuthu et al., (2009) emphasize the importance of promotion factor in promoting the understanding and knowledge of the people towards al-rahm.

Issues related to halal and haram, such as riba and sharia compliance, are often the issues that raise the misconceptions of people towards al-rahm (Azman et al., 2016). A study by Hashim et al., (2013) considered that religious viewpoints cannot influence the society to accept al-rahm due to various religions background. According to Hsni (2009), the main factor that contributes to the use of al-rahm among Muslim users is caused by their awareness on the implications of usury. In addition, Amin et al., (2007) and Bhatt & Sinnakkannu (2008) argued that the sharia-compliant al-rahm operations could attract the Muslim community to pledge valuable items for cash.

This article finds that previous studies also focus on discussing the extrinsic factors (external stimuli) rather than intrinsic factors (internal stimuli). Hence, this article intends to provide new research scope when it comes to highlighting the influence of intrinsic factors. The intrinsic factor, according to Hendriyanto (2012), is derived from inner-self, while extrinsic motivation comes from outer-self. However, this article attempts to see the influence of intrinsic factors that have a direct relationship with religion such as factors of benefit return and preferential use that have been highlighted by Adnan (2010).

From this scenario, there is a question on the acceptance of small entrepreneurs towards al-rahm. What are the real factors that determine the acceptance of small entrepreneurs towards al-rahm? Is it possibly due to intrinsic factors (individual internal stimulus which include halal and haram considerations, understanding, benefit returns and preferential use) Hence, a survey should be conducted on small entrepreneurs to know their acceptance of al-rahm which will influence their tendency to deal with al-rahm. This study has been able to fill in the gap in the literatures.

## RESEARCH METHODOLOGY

This article applies design of descriptive study using inferential statistical analysis (multiple regression). Quantitative method were applied in this study. This article uses a purposive sampling method to obtain available information from individuals (Sekaran, 2003). The sample comprised Muslim small entrepreneurs in Kelantan, one of the states in east of the peninsular Malaysia which involved more with al-rahm funding since 1992 (Mohamad & Salleh, 2008). Kelantan was chosen as a location of the study as the communities in Kelantan were actively doing small business (Al Mamun & Ekpe, 2016). Questionnaires were distributed to 350 small entrepreneurs in major markets in ten districts in Kelantan. According to Clark and Creswell (2015), 350 respondents are sufficient as minimum sample size needed in a questionnaire survey. The focus area of the questionnaire distribution was around the large markets in each of the affected district. In this research, the samples chosen were ten markets in every district in Kelantan located nearby the al-rahm branch. Most of the respondents already

have information and familiar about the al-rahn. Every entrepreneur selected at the sampling location was approached and asked for permission to be respondent. After getting approval, the respondent was given a questionnaire to complete before submitting it back to the researcher. Then, the findings were analyzed using the Statistical Packages for Social Science (SPSS) software 22.0. This article has 7 questions, namely level of acceptance of al-rahn as dependent variable in this study. All of the items on questionnaire in this article were referred to the specialist for review and verification. Table 1 shows the dependent variable used in the questionnaire.

No.	Questionnaire Statement
1	I chose al-rahn because of family advice
2	I chose al-rahn because of friend advice
3	I chose al-rahn because of the financial performance of al-rahn institutions
4	I chose al-rahn because its staff had enough knowledge
5	I chose al-rahn because of having experience with previous al-rahn institutions
6	I chose al-rahn because it makes life a nuisance (barakah)
7	I chose al-rahn because it is free of element of riba and gharar

Table 2 presents the independent variable which included intrinsic factor.

Factor	Questionnaire Statement
Halal and Haram Consideration	<ol style="list-style-type: none"> <li>1. I choose al-rahn to take care of my relationship with Allah SWT</li> <li>2. As a Muslim, I must choose al-rahn compared to the conventional pawn</li> <li>3. If I need to be in debt, I still choose al-rahn although it is even more expensive than the conventional pawn</li> <li>4. I reject the loaning facilities on business that raises suspicion, especially in terms of its halal nature</li> </ol>
Understanding	<ol style="list-style-type: none"> <li>1. I obtain complete information about al-rahn</li> <li>2. I know the difference between al-rahn and conventional pawnshops</li> <li>3. I know that there is the concept of helping each other in al-rahn</li> <li>4. I know al-rahn does not contradict Islamic principles</li> <li>5. I know that al-rahn is free from the elements of riba</li> <li>6. I have knowledge about the shari'a principles, namely qard al-hasan, al-wadiah and ujah contained in al-rahn</li> </ol>
Benefit Return	<ol style="list-style-type: none"> <li>1. By choosing al-rahn, I will obtain a good profit for my worldly affairs and rewards in the Here after</li> <li>2. I realize that there are bad impacts from al-rahn that practices riba</li> <li>3. I believe that al-rahn promises a share of profit to the lenders and borrowers</li> <li>4. I believe that al-rahn promises the share of loss to lenders and borrowers</li> <li>5. I believe that al-rahn practices the principle of joint fairness between the lender and borrower</li> <li>6. My participation in al-rahn can help contribute to the Muslims' economic development.</li> </ol>
Preferential Use	<ol style="list-style-type: none"> <li>1. I believe that leaving riba is more important than doing sunat acts of worship</li> <li>2. I believe that al-rahn can give benefit to the people compared to individuals</li> <li>3. I prioritise al-rahn which is free from syubhah compared to the conventional pawn that has elements of syubhah</li> <li>4. I priorities the conventional financing priority in some circumstances</li> </ol>

## DISCUSSION

Based on the analysis using multiple regression demonstrated in Table 3, it showed the influence of dimension of intrinsic factors on al-rahn's acceptance. These findings showed that there were two intrinsic dimensions that significantly affected the acceptance of small entrepreneurs towards al-rahn, namely factors of understanding towards al-rahn and halal and haram consideration.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	R <sup>2</sup>	F	
	B	Std. Error	Beta					
1	(Constant)	0.326	0.181		1.800	0.073	0.477	78.734
	HH	0.161	0.058	0.168	2.753	0.006*		
	UN	0.556	0.079	0.502	7.059	0.000*		
	BR	-0.031	0.076	-0.028	-0.403	0.688		
	PU	0.120	0.072	0.103	1.664	0.097		

\*HH (Halal and Haram Consideration), UN (Understanding), BR (Benefit Returns), PU (Preferential Use)

The main predictor which affected Muslim small entrepreneurs in Kelantan on al-rahn acceptance was the dimension of understanding towards al-rahn ( $\beta=0.502$ ,  $t=7.059$  &  $p=0.000$ ). This situation showed that the score for dimension of understanding towards *al-rahn* increased by 1 unit, while the acceptance of al-rahn increased by 0.502 units. These findings demonstrated that understanding towards al-rahn was the main factor that mostly influenced respondents towards al-rahn's acceptance. Another contributing factor in sequence was the halal and haram consideration factor ( $\beta=0.168$ ,  $t=2.753$  and  $p=0.006$ ) which also showed significant influence on the acceptance of small entrepreneurs towards al-rahn.

The findings of this study showed that understanding towards al-rahn was the most influential factor in determining the al-rahn's acceptance. This reflected that respondents have sufficient understanding towards al-rahn in terms of obtaining sufficient information on al-rahn, knowing the difference between al-rahn and conventional pawnshops, understanding the concept of mutual assistance in al-rahn and knowing the concept of free-of-usury and sharia compliance implemented in al-rahn. This understanding indirectly gives entrepreneurs a positive response to al-rahn, besides helping to increase the knowledge and awareness of entrepreneurs towards al-rahn. This is in align with a study by Koe & Abdul Rahman (2012) who agreed that there was a strong relationship between understanding with the intention of using al-rahn by bank users in Malaysia.

Halal and haram considerations were also the important factors affecting the acceptance of small entrepreneurs towards al-rahn. al-rahn has long been operating in Kelantan so that entrepreneurs are very exposed to al-rahn's services. Therefore, small entrepreneurs understand that al-rahn offers shariah-compliant, free-of-usury and transparent services (Yaacob et al., 2012 & Bahari et al., 2015). This finding is in line with the study of Bhatt and Sinnakannu (2008) that al-rahn, which adheres to sharia principles, has attracted the Muslim community to pledge jewelry. Similarly Hamid et al. (2016) stated the importance of sharia factor in influencing the acceptance of al-rahn by consumers in Bank Rakyat. This sharia factor includes abandoning riba which is found in conventional pawnshops, while choosing the halal service of al-rahn to obtain

financial assistant. However, there were two other dimensions of intrinsic factors which insignificantly influenced the acceptance of small entrepreneurs to al-rahn, such as the factors of benefit return and preferential use.

## CONCLUSION

In conclusion, the acceptance of small entrepreneurs towards al-rahn was low based on previous studies. The findings from this article suggested that the factor of understanding and halal and haram consideration as the intrinsic factors showed positive and significant acceptance by Muslim small entrepreneurs in Kelantan towards al-rahn. The findings also showed that Muslim small entrepreneurs in Kelantan have a good response to al-rahn which carries out its operations according to sharia and true Islamic principles.

In addition, the finding showed that al-rahn has a great potential to continuously grow and can give various benefits to the entrepreneurs. It also helps the society's social development by reducing poverty through productive activities. This is important for the entrepreneur because their awareness can make a huge difference to the al-rahn industry.

However, the dimensions of benefits return factor and preferential use factor have contradicted result. The regression analysis showed that there was no significant relationship between Muslim small entrepreneurs in Kelantan towards al-rahn's acceptance. Therefore, this study is proposed to be expanded to a wider scope particularly to other states as well as to look at extrinsic factors (external stimuli). The reason is because some states in Malaysia also consist of entrepreneurs who run small businesses. In addition, the results of this study can give understanding to entrepreneurs regarding the al-rahn instrument, and thus improving their business. This study also helps al-rahn institutions to be empowered and better in providing their services without involving with loans.

If al-rahn policymakers take this study seriously, they may help the entrepreneurs to have better understanding about al-rahn, increase awareness among the entrepreneurs, and contribute to the economy.

## REFERENCES

- Adnan, A.A. (2010). *Determining the Selection of Islamic Banking Institutions in Muslim Countries in Terengganu*. (Doctoral Thesis Social Science). Universiti Sains Malaysia.
- Al Mamun, A., & Ekpe, I. (2016). Entrepreneurial Traits and Micro-Enterprise Performance: A Study among Women Micro-Entrepreneurs in Malaysia. *Development in Practice*, 26(2), 193-202.
- Amin, H. (2011). Modelling Ar-Rahnu use in Eastern Malaysia: Perspectives of Muslimah. *Journal of Islamic Economics, Banking and Finance*, 7(3), 1-14.
- Amin, H., Chong, R., Dahlan, H., & Supinah, R. (2007). An Ar- Rahnu shop acceptance model (Arsam). *Labuan e-Journal of Muamalat and Society*, 1, 82-94.
- Hendriyanto, A. (2012). *The effect of intrinsic, extrinsic motivation on employee performance (Study of Sub Divre Bulog of South Surabaya) (Master's Thesis)*. Universiti Brawijaya, Indonesia.
- Azman, N.H.N., Kassim, S. & Adeyemi, A.A. (2016). Role of Ar-Rahnu as micro credit instrument in achieving financial self-sufficiency among women micro entrepreneurs. *Islamic International University Malaysia (IIUM) Journal*, 24, 36-385.
- Bahari, N.F, Safii, Z., Ahmad, N.W, Fisal S., & Shahar, W.S.S. (2015). A reviews on the regulation and conflicting issues of al-rahn operation in malaysia. Paper presented at *The 2nd International Conference on Management and Muamalah*.
- Bhatt, P. & Sinnakkannu, J. (2008). *Ar-Rahnu (Islamic Pawning Broking) opportunities and challenges in Malaysia*. Paper presented at the 6<sup>th</sup> International Islamic Finance Conference 2008.

- Clark, V.L.P., & Creswell, J.W. (2015). *Understanding research: a consumer's guide*. New Jersey: Pearson Education.
- Hamid, M.A., Rahman, I.A., & Halim, A.N.A (2016). Key factors influencing customers to use Ar-Rahnu (Islamic Pawn Shop) in Malaysia: Evidence from Bank Rakyat. *The Macrotheme Review: A Multidisciplinary Journal of Global Macro Trends*, 5(1), 108-117.
- Hamid, M.A., Rahman, I.A., & Halim, A.N.A. (2014). Factors affecting the acceptance on Ar-Rahnu (Islamic Based Pawn Broking): A case study of Islamic banking in Malaysia. *The Macrotheme Review: A Multidisciplinary Journal of Global Macro Trends*, 3(4), 22-35.
- Hashim, N., Akir, O., & Kamil, D. (2013). Customers' acceptance of Islamic Pawn broking service in Sarawak. Paper presented at the *Borneo VI International Islamic Workshop (KAIB 2013)*, UiTM Sarawak.
- Hsni, E.N.T. (2009). *Factors that determine the user's response to Islamic and conventional pawnshops in the Master Dissertation Social Science*. Universiti Sains Malaysia.
- Koe, W. L., & Rahman, N.Z.A. (2012). Intention to use al-rahn among Islamic bank customers. Paper presented at *The International Conference on Science, Technology and Social Science 2012 (ICSTSS 2012)*, Universiti Teknologi Mara (UITM) Pahang, Hotel Vistana, Kuantan.
- Marimuthu, M., Lam, H.Y., Chee, C.Y., Razali, H., & Kolandaisamy, I. (2009). Islamic pawning (Ar-Rahnu) and factor affecting customer's switching behavior: An exploratory study. Paper presented at the *The 3rd ISDEV International Islamic Development Management Conference (IDMAC2009): Islamic Capital Market*, University Conference Hall, Universiti Sains Malaysia, Penang, Malaysia.
- Mohamad, S., & Salleh, S. (2008). Wages of goods in the Ar-Rahnu scheme: A revaluation. *Journal of Fiqh*, 5, 52-60.
- Rasmin, N.H., & Markom, R. (2014). An overview on implementation of Ar-Rahnu in Malaysia. Paper presented at the *Persidangan Kebangsaan Ekonomi Malaysia ke-9 (PERKEM ke-9)*, Kuala Terengganu, Terengganu.
- Sam, M.F.M., Tahir, M.N.H. & Latif, N.K.A. (2010). The awareness and the acceptance of Islamic Pawnshop. *International Journal of Research and Reviews in Applied Sciences (IJRRAS)*, 2(2), 117-125.
- Sekaran, U. (2006). *Research methods for business: A skill building approach*. Daryaganj, New Delhi: John Wiley & Sons, Inc.
- Sulaiman, N.S., Kassim, S.F., Alzoubi, I., Ashaboul, K., & Abidin, M.Z. (2014). The comparison between Ar-Rahnu and conventional Pawn Broking. *Global Business and Economics Research Journal*, 3(5), 57-65.
- Yaacob, M.R., Ahmad G., & Ibrahim M.D. (2012). Developing a Customers' Oriented Al-Rahn (Islamic Pawn Broking) Model for Cooperatives in Microfinancing in Malaysia. Paper presented at *The 13th Malaysia Indonesia Conference on Economics, Management and Accounting (MIICEMA)*.