

CRITICAL SUCCESS FACTORS OF THE ISLAMIC PAWN BROKING SERVICES IN MALAYSIA – VIEWS FROM PROVIDERS

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ABSTRACT

Islamic Pawn broking industry is still new in Malaysia in which many of the outlets commenced operation actively since 2002. Up until now research pertaining to Ar-Rahnu is limited. Previous study only concentrated on customers' awareness and satisfaction of providers of the industry. The main purpose of this paper is to study on critical success factors of Ar-Rahnu, providers of micro-credit through Islamic pawn broking practices. Altogether a total of 109 respondents, comprising representatives of Ar-Rahnu outlets throughout Malaysia were selected for the study. The field works were conducted in late 2010 and early 2011. There were 7 organisations involved in the Ar-Rahnu business such as YaPEIM, Bank Rakyat, Agrobank, MAIDAM, PKB, Ar-Rahnu Cooperatives and Franchise Ar-Rahnu Cooperatives. These organizations were further divided into 3 clusters according to nature of their businesses. Data for the study were obtained from survey and SPSS facilitated data analysis. The performance of the Ar-Rahnu outlets under study is measured using variables implicit in the Ar-Rahnu business, including general business operation, types of gold, pawning conditions and charges, security, and internal as well as external control. In general the research found the modus operandi of each and every outlet is more or less similar – having standard operating procedures (SOP). Pawning process is also similar between clusters with each charging safekeeping fee at rates ranging from RM0.50 to RM0.80 for every RM100 of pawn value. A common issues of importance across Ar-Rahnu providers is competency in gold testing because of the presence of imitation gold and gold jewellery. Customer trust is a primary critical success factor (CSF) for all clusters, followed by competitive safekeeping charges, competency of employees, good quality service and strategic location. It was found that securing capital is not an issue for the larger organisations, but it is for the smaller ones.

Keywords: *Islamic Pawn Broking, Microcredit, Critical Success Factors (CSFs)*

INTRODUCTION

Islamic pawn broking (Ar-Rahnu) is beginning to be recognized by small and medium-scale traders and entrepreneurs as a source of quick and convenient micro-credit. One could obtain a loan from this service provider by using his/her gold in any form as security. Up until 2011, there were 354 Ar-Rahnu outlets in the whole country, they were owned by various agencies such as Muassasah Gadaian Islam Terengganu, Permodalan Kelantan Berhad, YaPEIM, Bank Rakyat, Agrobank and cooperatives. Although Muassasah Gadaian Islam Terengganu was the first to introduce Ar-Rahnu service, Bank Rakyat (the biggest and the most successful cooperative in Malaysia) hitherto operates the most number of outlets -127. State-wise, Selangor has the most number of Ar-Rahnu outlets (50) in 2010. Historically Ar-Rahnu was first started by Muassasah Gadaian Islam Terengganu on 23 January 1992; and later by YaPEIM together with Bank Negara through Bank Rakyat on 27 October 1993. Soon, Ar-Rahnu will have successfully reduce the popularity of the conventional pawn shops.

Looking at the Ar-Rahnu scheme which receives tremendous support in the market especially amongst micro, small and medium sized businesses, it is timely to look at its critical success factors (henceforth CSFs) because they are crucial contribute to organisational success. Against this background, this research has been conducted to see the current practices of providers of Ar-Rahnu scheme from cooperatives, banks and other organisations who see the prospects of such a scheme and at the same time to propose to interested and capable cooperatives the good practices which can be imitated and copied by other interested parties.

Hence, the main aim of this paper is to investigate CSFs of Ar-Rahnu providers based on a thorough investigation of all main service providers throughout the country.

LITERATURE REVIEW

Critical Success Factors

CSFs refer to several elements that are necessities for an organization or project to achieve its goal. These factors or activities are required for ensuring the success of an organization. The concept CSFs was first introduced by Rockart and the Sloan School of Management in the USA in their early 1980s. Rockart (1982) defined CSFs as “those few key areas of activity in which favourable results are absolutely necessary for a particular manager to reach his or her own goals”. In general literature pertaining to CSFs in other countries as well as in Malaysia related to construction of projects (Zhao, et al.2010, Toor, et al., 2008, Saqib et al.2008, Li, et al.2005, Abdul Aziz, 2010).

Until recently, a few studies look at critical success factors in service sectors. For example Faisal & Rahman (2010) based on extensive reviewed of literature have identified a total nine CSFs in service organisations: (a) top-management commitment, (b) customer focus, (c) training and education, (d) continuous improvement and innovation, (e) supplier quality management, (f) employee involvement, (g) employee encouragement, (h) benchmarking, (i) quality information and performance measurement. Sanda and Marko (2011) investigated CSFs for the success of retailing in Croatia using 350 customers. Results of the study showed in purchasing small quantities of fast moving consumer goods respondents preferred: a) stores with acceptable trading hours, (b) polite and helpful store personnel and (c) clean selling area. On the contrary, in purchasing large quantities of fast moving consumer goods, services related to parking area were the most important. In a recent study by Kim and Rhee (2012) on the impact of CSFs on the balance scorecard performance in Korean green supply chain management enterprises. In their research they decided CSFs in the non-finance performance and in the finance performance. In the non-finance performance amongst CSFs identified were: (a) planning and implementation, (b) collaboration with partners and integration of infrastructure, and (c) mutual trust. CSFs related to the finance performance were: (a) a dominant antecedent element to financial performance, and (b) planning and implementation. In a further study conducted by Hsu (2013), in which involved 300 respondents of 10 catering franchises stores in Tainan and Kaohsiung in Taiwan showed (a) service quality of franchise, (b) location of franchise, (c) marketing capability of franchisor, (d) characteristics of product and services and (e) management experience of franchisor as CSFs. Overall, the findings show that management as well as human capabilities apart from physical factors are CLs for service industry

Notwithstanding with the growing number of studies that investigated the CSFs, studies on CSFs in service sector in Malaysia are scarce. Hence this present study fills the lacunae by investigating the CSFs of Ar-Rahnu – providers of Islamic Pawn Broking.

Pawn Broking System

In Malaysia, pawn broking is one of the sources of micro-credit that is getting popular among the poor, as well as those in the middle class for the ease with which one could obtain fund. Because of the difficulty in getting loans from banks and often financial institutions, pawn shops provide the needed funds, whether for household expenses or in times of emergencies (Abdul Ghafar and Nur Azura, 2005). In the 1970s due to Islamic movements, the Muslims in Malaysia underwent to Islamic underwent a lifestyle including the way they deal with their financial needs. They began to look for syariah-compliant financial institutions to obtain non-interest bearing loans and other financial instruments. They used to patronise the conventional lending institutions to finance wedding receptions, home and vehicle purchases, education and

investment. This situation notwithstanding, the Islamic micro-finance scheme is said to be contributing to the improvement in the standard of living of the people (Seibel, 2008). According to Muhamad Ubaidullah (2008), the ability to understand religious obligations and the culture of the Muslim society has enabled micro-credit institutions to attract more than a billion Muslims. Apart from this, the products offered must suit the targeted markets and be syariah-compliant in order to attract more Muslims (Karim, Terrazzi and Reille, 2008). The Ar-Rahnu (Islamic pawnbroking system) and non-interest banking system grew rapidly with demand.

The introduction of the Ar-Rahnu system of pawn broking provides an alternative to conventional pawn shops as source of credit. These organisations run the Ar- Rahnu scheme under Section 46, Act 81 – Pawn broking Act of 1972, which exempts the following organisations from its provision:

- A bank licensed to carry out banking activities in Malaysia
- Bank Pertanian Malaysia established under the Bank Pertanian Malaysia Act, 1969
- A cooperative registered under any written cooperative act in Malaysia

The Ar-Rahnu Concept

Although there are similarities in modus operandi between conventional pawn broking and Ar-Rahnu, there are also significant differences between the two because the latter is based on a clear-cut Islamic concept. There are four main principles in the Ar-Rahnu concept that are not present in conventional pawn broking. First, Ar-Rahnu involves spoken expression of intent (ijab and kabul). Second, the lending and borrowing is based on Al-Qardh (non-interest loan). Third, it involves Al-Wadiah Yad Dhammanah (safekeeping of valuable articles with guarantee), and fourth, the elements of safekeeping and security that gives rise to al-ujrah (fee).

Transaction in Islamic Pawn Broking

A person coming to borrow money from an institution carrying out this scheme has only to bring an article that would be used by the lender as a security on the said loan. The amount of loan is based on a percentage of the value of the article (marhun), which is invariably gold jewellery. Normally, the loan amounts to 50-70 per cent of the market value of the article. The borrowers are charged only safekeeping fee (al-ujrah) upon the safekeeping of the articles which is based on Al-Wadiah Yad Dhammanah, meaning that the holder of the pawned article gives an assurance that the article would be kept safely. The amount of the safekeeping fee is based on the value of the gold article, not on the amount of the loan. The gold jewellery is used as a security for the money lent because it is readily saleable, can be auctioned off in case a borrower is unable to pay back the amount owed. In addition, the purity of gold could be determined easily and the risk of under or over-valuation could be

minimised (Skully, 1994). In case there is loss or damage during safekeeping, the holder of the pawned article has to replace or make good of the damage. Based on the principle of Ar-Rahn, the holder of pawned articles is entitled to keep these until the debt is fully paid. If the debt is not settled, the holder of the pawned articles has the right to proceed auctioning it to settle the debt. However, the balance after deducting for the loan has to be returned to the borrower (Shamsiah and Safinar, 2008).

METHODOLOGY

The framework of this study (Figure 1) adapted for this study was structured based on the literature reviews and related researches. The framework defines the measures using several variables related to the operation, types of gold, pawn broking conditions and charges, as well as internal control and security. These variables were deemed to be indirectly contributing to Ar-Rahnu performance.

The survey questionnaire, the main source of primary data for this study, was developed based on literature review and the face-to-face interviews of the pilot survey. Data analyses were facilitated by using the Statistical Program for Social Sciences (SPSS).

Sampling Framework and Sampling Procedure

The sample selection began with the initial clustering of the Ar-Rahnu organisations and cooperatives into seven (7) groups as follows (Table 1):

Based on the figures from 2007 and previous years, the number of Ar-Rahnu outlets is 199 (Table 1). Those that were in operation from 2007 onwards were excluded from the study because the performance of an Ar-Rahnu can only be known after two or more years of operation. From these figures, a total of 110 outlets (55.3%) were finally selected as the study sample. The sampling technique used in the study takes into consideration size of the Ar-Rahnu population, geographical locations (urban and rural) and their modus operandi. Based on these criteria, the sample of 110 Ar-Rahnu outlets was grouped into five clusters, namely, Cluster 1 to Cluster 5 (Table 2). Cluster 1 is made up of Ar-Rahnu outlets of Permodalan Kelantan Berhad (PKB) and Muassasah Gadaian Islam Terengganu (MAIDAM), which are 'state based' in operation, fewer in number, and have similar modus operandi. Cluster 2 consisted of 30 Ar-Rahnu branches of Koperasi YaPEIM with its own unique modus operandi. Cluster 3 comprises branches of Bank Rakyat Ar-Rahnu (including Bank Rakyat outlets) and branches of Agrobank Ar-Rahnu, with similar modus operandi and which are numerous. Cluster 4 is made up of independent cooperatives providing Ar-Rahnu service under its own models, while Cluster 5 comprises

Ar-Rahnu franchisees of Ar-Rahnu X'change Bank Rakyat, operating -in both urban and rural areas.

Study Instrument

1. Face-to-face interview with senior management staff, board chairman, secretaries and cooperative senior managers. This involved 30 Ar-Rahnu outlets (Permodalan Kelantan Berhad, Agrobank, Bank Rakyat, Cooperative, Yapiem and Muassasah Gadaian Islam Terengganu.
2. Survey questionnaire was developed to secure information and data pertinent to the objective and mission of the study, as well as following literature review of past studies on related topic. The study team had also conducted a pilot study to get a feel of the current Ar-Rahnu's state of business. The pilot study yielded valuable information for the preparation of the final survey questionnaire.
3. Structure of Survey Questionnaire - The structure and content of the survey questionnaire are presented in Table 3. It consists of seven sections (Section A to Section G).

Data Collection

Data were obtained by way of face-to-face interview of respondents with the help of a survey questionnaire. The face-to-face interview involving cooperative board members and managers and supervisors of Ar-Rahnu companies enhanced the accuracy of the data. Apart from this, visits to Ar-Rahnu premises enabled personal observation to be made on the conduct of the business in terms of their dealings with customers and administrative procedures. Table 4 shows target and actual sample size.

From five clusters, the Ar-Rahnu outlets were then condensed into three (3) clusters (Table 5) based on the similarity of modus operandi, number of branches and financial strength. The grouping of Ar Rahnu outlets of YaPEIM, Bank Rakyat and Agrobank into the same cluster (Cluster 1) was on the basis that the three organisations were large, had branches nation-wide and had access to large capital. Cluster 2 is made up of local organisations with a smaller number of branches and equally smaller capital. Cluster 3 consists of Ar-Rahnu providers made up of individual cooperatives. These Ar-Rahnu outlets run on their own models and a few are franchisees.

FINDINGS AND DISCUSSION

Critical Success Factors (CSF)

Cluster 1 has deemed that their CSFs are customer trust, competitive safekeeping fees, competency of staff, location and system. Customer trust, being the top in the list of CSF, is paramount in sustaining the loyalty of the present customers and

continues to become repeat customers. For the Cluster 2 outlets, these are revolving capital, customer trust, system, insurance, security and wage rates. The rationale for placing Insurance at the top of the list of CSF is because it is difficult to get maximum coverage for the Ar-Rahnu business as the local insurance agents consider the business very risky. The latter attribute the high risk to the large volume (and monetary value) of the pawned items being kept within the Ar-Rahnu organisations and the premium for its maximum coverage is beyond the financial means of the outlets. In the case of Cluster 3 outlets, their CSF are staff competency, revolving capital, customer trust, system and competitive wage rates, in that order (Table 6). Each cluster associates itself with different CSF because of differing strengths. For example, Cluster 2 and Cluster 3 put revolving capital on top, while Cluster 1 places it at number seven, far down the list. This is because Cluster 2 and Cluster 3 Ar-Rahnu providers are made up of small organisations with limited capital, whereas Cluster 1 comprises larger organisations with equally large capital and at the same time enjoying the financial backing of their parent companies.

It is evident that all outlets place a premium on customer trust ahead of competitive wages/salaries, staff competency, system, insurance and security, in that order. Staff competency is considered important to the success of Ar-Rahnu business because of the need to test the authenticity of the gold items brought in for pawning in order to determine its value accurately. If the staffs are competent, this would minimise cheatings and enhance customer trust, not to mention its positive impact on efficiency. For example, in Cluster 1, there are those among the staff who only have SPM qualification, but they were sent for gold testing courses to acquire skills in this important aspect of pawn broking field. In fact, each Ar-Rahnu organisation had established its own training unit specialising in gold testing.

As far as this study is concerned, the critical success factors for the average Ar-Rahnu business are customer trust, staff competency, rate of safekeeping fee, system and revolving capital. There are five critical success factors (CSF) for the Ar-Rahnu business. These are customer-trust, competitive safekeeping fee, staff competency, system and business location, in that order.

The most important CSF from the perspective of the scheme operators is customer-trust. With customer-trust, volume of business increases, hence the total collection of safekeeping charges, the main revenue of Ar-Rahnu. With increased revenue, there would likely be an increase in profit. The act of pawning one's property is highly personal, and a trustworthy Ar-Rahnu organisation will, according to the experience and perception of the respondents, continue to attract customers. The ability to charge a consistent and competitive safekeeping fee on the pawned items is important in order to retain customers. This is especially so in an industry that is already competitive, and where the supply of the service is homogenous.

Staff competency is important because they have to determine the purity of gold, especially gold jewellery, and prevent cheatings. For this, the staff involved in the Ar-Rahnu transaction need to be sent for training on a continuous basis because cheating cases involving fake gold are becoming more sophisticated and complex with the advent of technology. An efficient system of work enables staff to perform their task effectively, speedily, and with consistency. The majority of the outlets have SOP to guide their operation, and this SOP incorporates elements that are syariah-compliant.

Business location is important in the context of accessibility to customers. For this reason, an Ar-Rahnu outlet in Kelantan opened near a commercial centre and a market; Agrobank set up its outlets near active agricultural areas; while Bank Rakyat and YaPEIM operate Ar-Rahnu outlets in large cities and small towns with their target market comprising micro and small traders, housewives and civil servants.

CONCLUSION

This study has provided an insight into CSFs of the Islamic pawn broking system, Ar-Rahnu. Amongst others CSFs of the industry are: customer's trust, competitive rates of safe keeping fees, staff competency, organizational system as well as business location. These factors are critical to customers expectation because they would contribute to financial bottom line of the providers.

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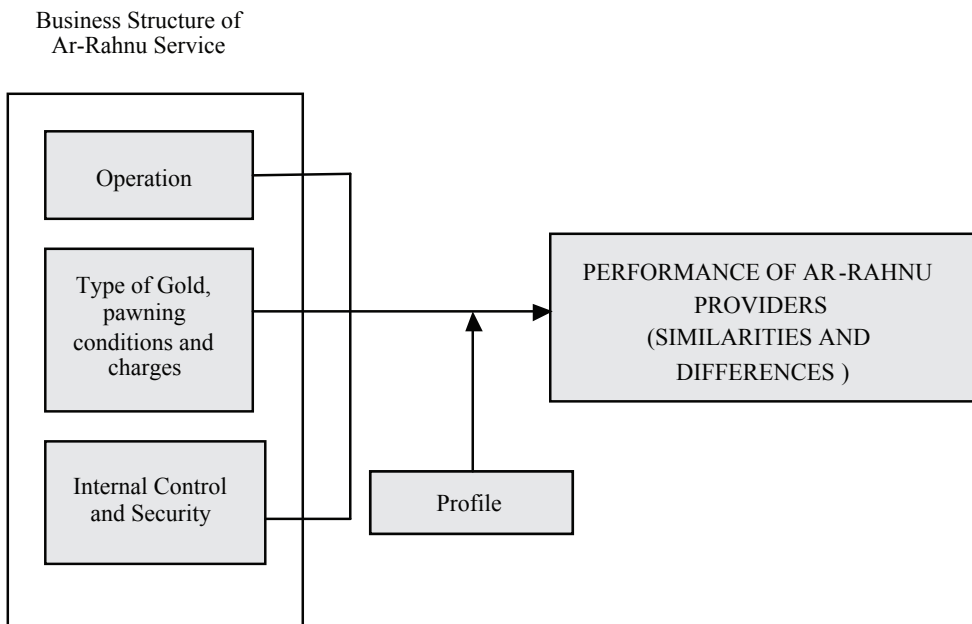


Figure 1: Framework of the Study

Table 1: Number of Ar-Rahnu Outlets by Organisation, 31 December 2007

No.	Ar-Rahnu Provider	Number
1.	Muassasah Gadaian Islam Terengganu	8
2.	Permodalan Kelantan Berhad	11
3.	Koperasi YaPEIM branches	30
4.	Bank Rakyat Ar-Rahnu branches	77
5.	Agrobank A-Rahnu branches	56
6.	Cooperative Ar-Rahnu with own models	15
7.	Ar-Rahnu X'change Bank Rakyat franchisee cooperatives	2
Total		199

Table 2: Sampling Procedure by Cluster

Cluster	Ar-Rahnu Provider	Population	Sampel Size	(%)	Sampling Technique	Justification
1.	i. Muassasah Gadaian Islam Terengganu	8	4 (U-2/R-2)	50.0	Census	<ul style="list-style-type: none"> · 'State based' · Small number · Similarmodus operandi
	ii. Permodalan Kelantan Berhad	11	6 (U-2/R-4)	50.0		
2.	Koperasi YaPEIM	30	15 (U-4/R-11)	50.0	SRS	<ul style="list-style-type: none"> · Numerous · Similar modus operandi
3.	i. Bank Rakyat	77	40 (U-26/R-14)	52.0	SRS	<ul style="list-style-type: none"> · Numerous · Similar modus operandi
	ii. Agro Bank	56	28 (U-14/R-14)	50.0		
4.	Cooperatives with own models	15	15 (U-12/R-3)	100.0	Census	<ul style="list-style-type: none"> · Small number · Different SOP
5.	Cooperative franchisees	2	2 (U-1/R-1)	100.0	Census	<ul style="list-style-type: none"> · Small number · Franchise
	Total	199	110 (U-64/R-55)	55.3		

Note: SRS – Stratified Random Sampling; U – Urban; R – Rural

Table 3: Structure of Survey Questionnaire by Section

Section	Description
A	Profil of Ar-Rahnu outlet
B	Operation <ul style="list-style-type: none"> i. Capital and financing ii. Daily operation iii. Workforce iv. Promotion v. Database
C	Types of gold, pawn contract conditions and charges to borrowers
D	Internal control and security
E	Revenue and expenditure
F	Other items <ul style="list-style-type: none"> i. Customers' trust ii. Competitive advantage iii. Critical succes factors iv. Important issues for future Ar-Rahnu
G	Performance of Ar-Rahnu outlets in the last three years

Table 4: Targeted and Actual Sample Size

Bil.	Service Provider	Targeted Sample Size	Sample Obtained	Success Rate (%)
1.	MAIDAM	4	3	75.0
2.	PKB	6	6	100.0
3.	YaPEIM	15	15	100.0
4.	Bank Rakyat	40	40	100.0
5.	Franchisee	2	2	100.0
6.	Agrobank	28	28	100.0
7.	Cooperative with its own model*	15	15	100.0
	Total	110	109	99.0

Table 5: Ar-Rahnu Outlets by Cluster, Organisation and Number

Cluster	Ar-Rahnu Provider	Number of outlets
1	YaPEIM	15
	Bank Rakyat	40
	Agrobank	28
2	MAIDAM	3
	PKB	6
3	Cooperative with own model	15 primary cooperatives
	Franchise cooperative	2 primary cooperatives

Table 6: Critical Success Factors

Item	Cluster 1		Cluster 2		Cluster 3		All Clusters	
i. Revolving capital	(35.0%)	7	(87.5%)	1	(82.4%)	2	(46.7%)	6
ii. SOP	(30.0%)	10	(25.0%)	5	(23.5%)	10	(28.6%)	10
iii. System	(47.5%)	5	(50.0%)	3	(64.7%)	4	(50.5%)	4
iv. Insurance	(33.8%)	8	(50.0%)	3	(35.3%)	9	(35.2%)	8
v. Staff competency	(67.5%)	3	(37.5%)	4	(88.2%)	1	(68.6%)	3
vi. Having more than one branch	(26.3%)	11	(37.5%)	4	(5.9%)	11	(23.8%)	12
vii. Business location	(50.0%)	4	(37.5%)	4	(52.9%)	6	(49.5%)	5
viii. Internal control	(32.5%)	9	(12.5%)	6	(47.1%)	7	(33.3%)	9

Table 6: *cont.*

Item	Cluster 1		Cluster 2		Cluster 3		All Clusters	
	(%)	n	(%)	n	(%)	n	(%)	n
ix. Security	(38.8%)	6	(50.0%)	3	(35.3%)	9	(39.0%)	7
x. Well-organised premise	(23.8%)	12	(12.5%)	6	(35.3%)	9	(24.8%)	11
xi. Customer trust	(88.8%)	1	(62.5%)	2	(70.6%)	3	(83.8%)	1
xii. Full support from Board Members	(3.8%)	14	(12.5%)	6	(41.2%)	8	(10.5%)	14
xiii. Evaluation of pawned items (marhun)	(18.8%)	13	(25.0%)	5	(23.5%)	10	(20.0%)	13
xiv. Competitive rates of safekeeping fee	(77.5%)	2	(50.0%)	3	(58.8%)	5	(72.4%)	2