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In Search of Technology Interruption on the Acceptance and Financial Performance of Ar-rahnu Cooperative in Malaysia

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Abstract

The advancement of technology served as a wake-up call to the world about the importance of technology adoption. Technology is gradually becoming the new norms that must be followed by everyone. Ar-rahnu is embracing digitalization as well. Ar-rahnu is an Islamic social financing instrument that can be used to fund the initiatives given by governments. Therefore, the intention of this study is to investigate the role of technology in the relationship between ar-rahnu acceptance and financial performance. 455 questionnaires were distributed comprising 332 operated by individual co-operatives (non-franchisees), 52 operated as Permodalan Kelantan Berhad (PKB) franchisees, and 72 operated as Rakyat Management Systems (RMS) franchisees. However, 308 completed copies of the questionnaires were returned and used for analyse. The data then analyse using IBM SPSS and partial least squares-structural equation modelling (PLS-SEM) SmartPLS 3.2. This study found that, shari'ah compliance, locality, margin value and safekeeping fees has positive relationship towards financial performance. In fact, technology also moderate the relationship between acceptance and financial performance which indicate that the use of technology can improve the profitability of ar-rahnu operations. Therefore, it is imperative that every ar-rahnu co-operative continues to emphasise its acceptance factors, especially shariah-compliance as it is a pre-requisite for the sustainability of its business.

Keywords: Digital, Ar-Rahnu, Cooperative, Shari'ah Compliance.

Introduction

Technology is transforming global financial services as it shifts the distribution channel for financial resources from a traditional approach to one based on online platforms (Zhongming et al., 2019). Previous researchers such as Davis et al (1989); Lucas and Spitler (1999); Venkatesh and Davis (2000) have long debated technology applications, particularly in relation to information systems, processors, and applications. The advancement of

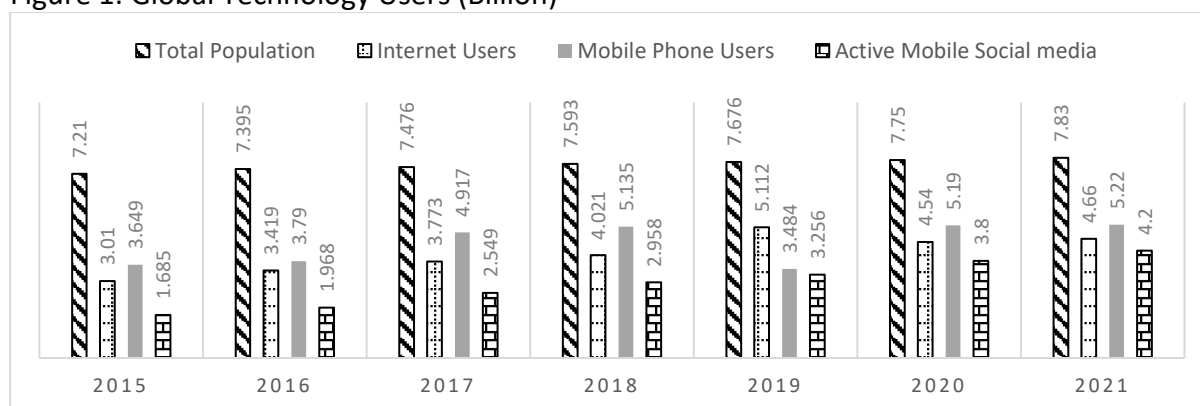
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technology, particularly during the global pandemic of Covid-19, served as a wake-up call to the world about the importance of technology adoption. Technology is gradually becoming the new norms that must be followed by everyone. As a result, digital technology now has a strong presence in the business world.

This cutting-edge technology, such as Industry 4.0, has created new business paradigms and principles. Consumers, retailers, regulators, and organisations have paid close attention to the development of digital technologies such as the internet of things (IoT), big data analytics, cyber-physical systems, smart contracts, efinance, social technology, machine learning, and so on. Technology advancements alter not only the consumer-organization relationship, but also the products and services offered by organisations. In fact, most businesses recognise the potential and benefits of digital technology as a means of improving customer service (Jung et al., 2018). The complex business culture has been transformed by digital technology into automated system management, which has created opportunities for organisations, industries, and the entire economy. Digital technology has shifted the complex business culture toward automated system management, allowing businesses, industries, and entire countries to restructure and innovate their existing business models. Furthermore, digital technology creates a transparent system that is free of fraud and manipulation.

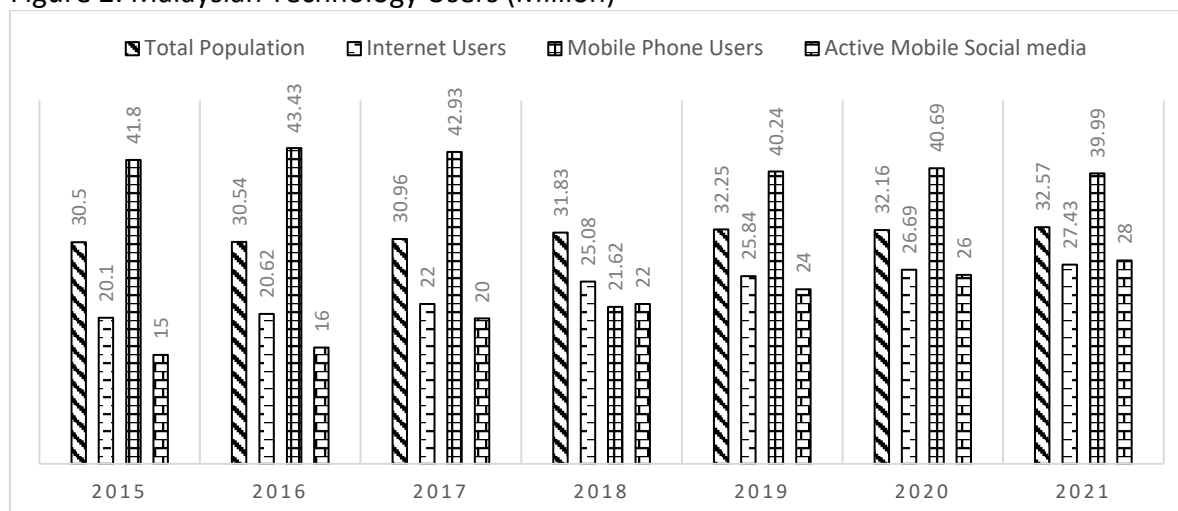
Furthermore, the number of people using digital technology platforms is increasing year after year (Figure 1). According to data from the Global Survey (2022), the trend of using technology is increasing in three major categories: Internet users, Social Media Users, and Mobile Phone Users. This pattern corresponds to the Malaysian phenomenon (Figure 2), which shows an increase of users in each components for each year from 2015 to 2021.

Figure 1: Global Technology Users (Billion)



Malaysians are adopting technology in a positive way (Figure 2). This could be aided by the Malaysian government's initiatives through the Malaysia Digital Economy Corporation (MDEC). Malaysia's government designed five digital key blueprints to be achieved by 2025, including the first, RM50 billion in digital economy investments, the second, a focus on five key industry sectors, five focus technologies, five emerging technologies, and digital global business services, the third, attracting 50 Fortune500 tech companies to land and expand in Malaysia, the fourth, the establishment of five unicorns, and the fifth, the creation of 50,000 high-tech jobs. AgTech, HealthTech, Islamic Digital Economy and FinTech, CleanTech, and FinTech are the five industry sectors identified as key drivers. These industries have been mapped to national priority sectors and are based on strategic national industries for digitalisation.

Figure 2: Malaysian Technology Users (Million)



Ar-rahnu is an Islamic social financing instrument that can be used to fund the initiatives mentioned. In fact, ar-rahnu is embracing digitalization as well. The ar-rahnu industry is generally keeping up with technological development, such as the use of digital platforms to attract more customers, and this could be identified as a factor that has increased customer acceptance of ar-rahnu, which contributes indirectly to the ar-rahnu's positive financial performance. Several previous studies, such as those by Purwanto et al. (2017) and Muhammadin et al. (2015), found that implementing new technology improved financial performance. However, these studies were limited to large corporations. As a result, more research on the impact of technology on ar-rahnu, which are mostly of smaller size during the Covid-19 pandemic, is needed. As a result, the goal of this study is to investigate the role of technology in the relationship between ar-rahnu acceptance and financial performance.

Literature Review

Financial Performance

Generally, there was not much interest in research on the topics of co-operative business (Hasan, 2016). With a dearth of research work on the performance of ar-rahnu in the past, this study must resort to looking at studies involving other institutions, in particular, on financial performance. The method of evaluation is by way of financial ratios. According to Brigham and Ehrhardt (2010), financial ratio analysis was designed to help evaluate a company's financial statement. These financial ratios would reveal whether a company's financial position is good or not. Oshoke (2015) found that profit ratios were positively correlated with financial performance. Nevertheless, Sexton dan Iskow (1993) and Mazzarol et al (2011) suggested that the business model for the private sector differed from that of co-operatives because of differences in ownership and disbursement of profit. At the same time, the co-operative business model is based on co-operative principles, aimed purely at the welfare of members. Thus, the performance of a co-operative should be viewed from the perspective of monetary value as well as the interest of members (Reynolds, 2013).

Acceptance and Awareness

Four factors are considered under acceptance and awareness were shariah-compliance, location, safekeeping fees and margin value. In Islam, shari'ah-compliance is central in running a pawnbroking business. Ar-rahnu which is an alternative to the conventional bank

as a source of credit, just as a traditional pawnshop is, differs from the latter in that it uses the principle of Wadiah, Qardhul Hassan and Ujra, all circumventing the element of interest and gharar. According to the research on fiqh by Abdul Hamid et al. (2014), the adherence to shari'ah principles is to safeguard the interest of both parties in any financial dealing such as between borrowers and pawnshop operators in a mortgage transaction. In other words, there should be no exploitation or oppression affecting any of the parties. There is a strong relationship between one's knowledge on shari'ah and his/her acceptance of Islamic pawnbroking financing.

Studies on shari'ah-compliance were carried out by several researchers, among them, (Amin et al., 2017; Amin, 2011; Abdul Khir et al., 2013; Salleh, 2014; Azman et al., 2020). Amin et al (2007) pointed out that the most important aspect of ar-rahnu was adherence to the shari'ah principles based on Al-Quran and Hadith (Prophet's sayings). According to Abdul Hamid et al (2014), adherence to shari'ah principle is a pre-requisite in ar-rahnu transactions. This contention is shared by (Amin, 2011; Abdul Khir et al., 2013; Dan Salleh, 2014). Nevertheless, Azman et al (2017) revealed that elements of interest in Islamic mortgage transactions in Malaysia with respect to collateral safekeeping fee were still evident. On the other hand, Saleh et al (2006); Azman et al (2020) found that the mortgage system of borrowing, and lending offered by several institutions is indeed shari'ah-compliant. Consequently, this study hypothesises that shari'ah-compliance is positively correlated with the financial performance of ar-rahnu.

H1: Shari'ah-compliance is positively correlated with the financial performance of ar-rahnu

Then there's the matter of location. Strategically located Ar-rahnu outlets should be able to attract more customers. The closer ar-rahnu is to its prospective customers, the more likely they are to use ar-rahnu (Abdul Hamid et al., 2014). According to Johari et al (2007), potential customers prefer pawnshops that are close to their home because they save money on transportation and waiting time. Similarly, Ismail and Ahmad (1997) found that customers preferred doing business with businesses that were close to them, offering simple procedures and quick processes to avoid incurring additional costs. Calculative customers prefer low transaction costs because they do not want to be burdened with additional costs (hidden cost). According to Ismail and Ahmad (1997), pawnshops should be established primarily in urban and suburban areas, as these areas are expected to have a high demand for assisting people in need.

This rule applies to all retail establishments, including businesses, product markets, and other retail outlets. Location is important for a business to be competitive and prosper, according to (Nurfaizah, 2021; Mohammed et al., 2005; Amin et al., 2007). For the convenience of borrowers, the majority of ar-rahnu outlets are located in urban areas. Nonetheless, Ismail and Ahmad (1997) believed that the locations of mortgage lending businesses in Malaysia were haphazardly chosen, despite the fact that population density had been taken into account. Furthermore, it is believed that location is not the only factor that contributes to ar-rahnu acceptance and awareness. Nonetheless, this study hypothesises that ar-rahnu's financial performance is positively correlated with its location.

H2: Locality has positive relationship towards financial performance

The next factor is the value of the margin. Borrowers' decisions to enter into a mortgage transaction are influenced by the value of the margin. This is because the amount of money received by the borrowers is determined by the margin value (Othman et al., 2013). As the latter compete for customers, there are always differences in margin values between ar-rahnu outlets. Agrobank ar-rahnu outlets are currently offering the highest margin value, which is equivalent to 80% of the marhun value (Azman et al., 2018). Pos Malaysia Berhad and Muassasah Gadaian Islam Terengganu are next, both at 75% of the marhun value. According to a study by Muhamad et al (2019), customers who owned valuable jewellery usually prefer short-term mortgage financing which paid high margin value, thereby enabling them access to more capital at a low cost. Therefore, this study hypothesises that margin value offered by ar-rahnu is positively correlated with its financial performance.

H3: Margin value offered by ar-rahnu is positively correlated with its financial performance

Then there's the cost of storage. Safekeeping fee is the cost incurred by ar-rahnu operators for maintaining collateral items mortgaged by borrowers, which is then charged to the latter. Mohammed et al (2005); Ismail and Ahmad (1997) both discussed the importance of safekeeping fees in ar-rahnu transactions. According to these researchers, the collateral items that borrowers had to surrender were the source of uncertainty. Ar-rahnu's keeping valuable collateral items poses several possible risks. Although some ar-rahnu outlets adopt and practise Qardhul Hassan's credit lending without charging collateral safekeeping fees, it is important to understand the viability and stability of those ar-rahnu outlets that do. The safekeeping fee is also used for administrative purposes, such as paying bills.

There are several views on ar-rahnu's safekeeping fee. There are those who question why do some ar-rahnu outlets use the Qardhul Hassan method of credit lending but charge collateral safekeeping fees at various rates. Some believe that ar-rahnu institutions gain monetarily from certain hidden transactional intricacies (Othman et al., 2013). It is argued that safekeeping fee goes to pay for managing the mortgaged collateral items and making sure of its safety (Azman et al., 2020). Although ar-rahnu outlets have different safekeeping rates, these are lower than those charged by conventional pawnshop operators. A study by Hassan et al (2011) revealed that non-Muslim borrowers were attracted to ar-rahnu because the fees on the collaterals mortgaged compared favourably against those of the traditional pawnshops. Shah and Yaacob (2018) also found that the attractiveness of ar-rahnu had to do with its lower safekeeping fees. So did (Suhana et al., 2016; Hisham et al., 2013; Mohammed et al., 2005; Ismail and Ahmad, 1997). Moreover, Nik Azman et al. (2018) believed the lower safekeeping fees and the difficulty of obtaining loan from other sources made ar-rahnu popular. Thus, this study hypothesise that safekeeping fee is significantly correlated with ar-rahnu's financial performance.

H4: safekeeping fee is significantly correlated with ar-rahnu's financial performance.

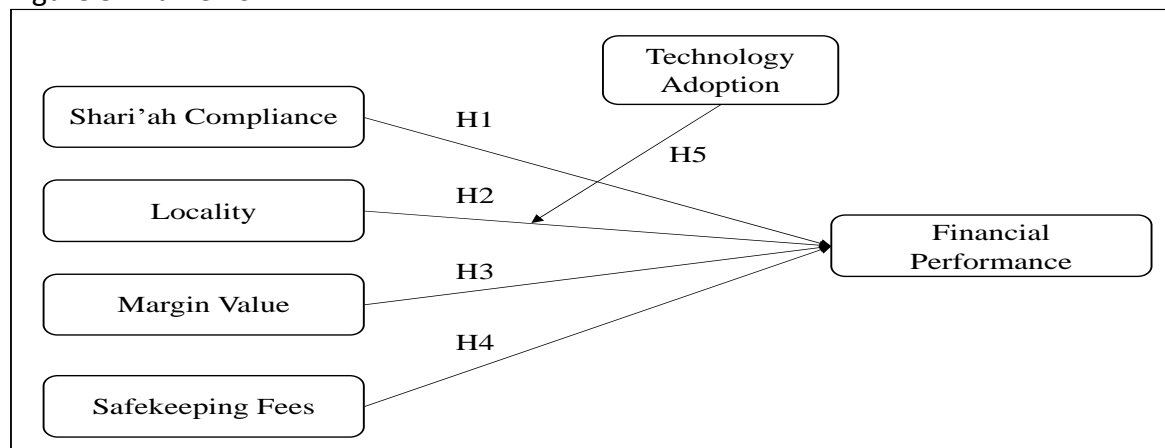
Use of Technology

Technology, in particular ICT, is essential world-wide and invariably people use it to update data on purchases and search for valuable information. One could master and control almost anything by the fingertips (Abdul Razak, 2011). According to Schrader (2000), the use of technology, such as computer software and programmes, allows pawnshop owners to keep up with modern developments. Traditional pawnshops can now compete on an equal footing with traditional banks, and they can advertise their products cheaply in mainstream and social media. The ar-rahnu service is constantly improving its technological capabilities by

incorporating new technology and computer software into its operations to improve efficiency. As a result, this study hypothesises that technology has a positive impact on ar-rahnu financial performance.

H5: Technology is positively moderated the relationship between locality and financial performance of ar-rahnu.

Figure 3: Framework



Methodology

This study uses the quantitative approach as according to Creswell (1994), a quantitative study refers to the analysis of social and human issues based on a theory, with variables measured in numerical values and analysed using statistical tools. The convenience sampling method was used in the study. The survey technique employed a questionnaire approach to collect data from respondents, who were divided into 455 ar-rahnu outlets: 331 operated by individual co-operatives (non-franchisees), 52 operated as Permodalan Kelantan Berhad (PKB) franchisees, and 72 operated as Rakyat Management Systems (RMS) franchisees. Data collection was done in two stages. The first stage involved an invitation to complete the questionnaire online using google form, while for the second stage it was distributed by hand. Following several follow-up reminders over a four-month data collection period (March to July 2020), 308 completed copies of the questionnaires were returned and used, resulting in a very satisfactory response rate of approximately two-thirds (67.7 percent). IBM SPSS was used to perform preliminary analysis on the data (descriptive analysis). The research model was subjected to a partial least squares-structural equation modelling (PLS-SEM) analysis using SmartPLS 3.2 software (Ringle et al., 2015). The measurement model (validity and reliability of the measures) was tested first, followed by an examination of the structural model (testing the hypothesised relationships) in accordance with Anderson and Gerbing's (1988) recommended two-stage analytical procedure (see Hair et al., 2014; Ramayah et al., 2017; Cheah et al., 2021). To test the significance of the path coefficients and loadings, the bootstrapping method (5000 resamples) was used (Hair et al., 2014).

Result and Analysis

The profile of the respondents of this study, representing 308 ar-rahnu outlets operated by co-operatives is presented in Table 1. As expected, a very large proportion (95.8%) among the respondents were Malays, while the rest was made of others (2.6%) and Chinese (1.6%). The majority were quite young, between 26 to 35 years old (67.5%), and married (81.8%). They were very well-educated as revealed by the fact that more than 90 per cent (91.2%) had

tertiary education with at least a certificate or diploma qualifications (47.1%). A high proportion had a first degree (40.6%), while the remaining had either a master (2.9%) or professional degree (0.6%). Most were also holding important managerial positions in their respective establishments. Most were ar-rahnu managers (41.2%), followed by supervisors (18.5%) and assistant managers (11.4%). Most of the respondents (59.7%) had been holding their current positions with ar-rahnu for more than five years. In contrast, only a small proportion (6.5%) could be considered as new staff with less than one-year experience. In terms of location, slightly more than one-third (111; 36.0%) of the respondents were in the Central Zone, comprising of Selangor (59), Perak (36) and WPKL (16). The East Coast states comprising of Kelantan, Terengganu and Pahang made up the next largest group with about a quarter of the sample (76; 24.7%).

Table 1: Characteristics of Respondents

Variable	Category	Sample Size	[%]
1. Ethnic Group	Malay	295	[95.8]
	Chinese	5	[1.6]
	Others	8	[2.6]
2. Age-group	Up to 25 years old	13	[4.2]
	26-35 years old	208	[67.5]
	36-45 years old	75	[24.4]
	46-55 years old	9	[2.9]
	At least 56 years old	3	[1.0]
3. Marital Status	Married	252	[81.8]
	Single	53	[17.2]
	Divorced/Widowed	3	[1.0]
4. Education Level	Secondary School	27	[8.8]
	Certificate/Diploma	145	[47.1]
	First Degree	125	[40.6]
	Master's degree	9	[2.9]
	Professional Qualification	2	[0.6]
5. Position at Ar-Rahnu	Co-operative manager	8	[2.6]
	Ar-rahnu manager	127	[41.2]
	Ar-rahnu supervisor	57	[18.5]
	Assistant manager	35	[11.4]
	Branch manager	18	[5.8]
	Operation executive officer	27	[8.8]
	Assistant operation executive	26	[8.4]
	Ar-rahnu assessor	4	[1.3]
	Clerk	6	[1.9]
	Less than 1 year	20	[6.5]

6. Length of service at current position	1-5 years	104	[33.8]
	6-10 years	122	[39.6]
	11-15 years	58	[18.8]
	More than 15 years	4	[1.3]
7. State	Selangor	59	[19.2]
	Perak	36	[11.7]
	Kelantan	29	[9.4]
	Kedah	27	[8.8]
	Johor	25	[8.1]
	Pahang	24	[7.8]
	Terengganu	22	[7.1]
	Pulau Pinang	19	[6.2]
	Wilayah Persekutuan	16	[5.2]
	Sabah	16	[5.2]
	Negeri Sembilan	13	[4.2]
	Sarawak	12	[3.9]
	Melaka	6	[1.9]
	Perlis	4	[1.3]
8. Zone	North	48	[15.6]
	Central	111	[36.0]
	East	76	[24.7]
	South	45	[14.6]
	Sabah & Sarawak	28	[9.1]

Note: N=308

The measurement model is then reviewed in this study. According to Hair, Matthews, Matthews, and Sarstedt (2017), convergent validity is the degree to which indicators of a specific construct converge or share a high proportion of variance in common, as shown in Table 2. The convergent validity of the study was assessed using the indicators proposed by (Sarstedt et al., 2022). They proposed having an average extracted variance (AVE) greater than 0.5, a cut off value for factor loading of 0.5, and all composite reliability (CR) greater than 0.7. All of the items had loadings of 0.5 or higher. Table 2 shows that the AVE is greater than 0.5 and the CR is greater than 0.7. At this point, it was determined that the structure met both reliability and convergence validities.

Table 2: Measurement Model

Construct	Items	Loadings	CR	AVE
Shari'ah Compliance	This Ar-rahnu operates in accordance with Islamic laws and principles (PS1)	0.791	0.88	0.56
	The business process at this ar-rahnu is very transparent (in particular, when appraising the value of a collateral) (PS2)	0.631	6	6
	This ar-rahnu ensures to satisfy the expectation that no additional charges are added to the amount borrowed (<i>riba</i>) (PS3)	0.727		
	This ar-rahnu ensures to satisfy the expectation that uncertainty is absent in all ar-rahnu transactions (Gharar) (PS4)	0.81		
	This ar-rahnu practise ijab and qabul for all transactions with customers (PS5)	0.574		
	This ar-rahnu employs officers who are competent in shariah to monitor all shariah-related requirements (PS6)	0.632		
Locality	Ar-rahnu is located close to customers' home and place of work (L1)	0.639	0.86	0.62
	Ar-rahnu is located close to public transportation (L2)	0.815	8	2
	Ar-rahnu is located close to shopping and business centres (L4)	0.776		
	Most Ar-rahnu premises are located in town areas (L5)	0.717		
Safekeeping Fees	This Ar-rahnu charges a competitive safekeeping fee to customers (US1)	0.697	0.93	0.82
	This Ar-rahnu charges a fair safekeeping fee to customers (US2)	0.698	4	5
	This Ar-rahnu charges the lowest safekeeping fees compared with other similar institutions (US3)	0.742		
	The higher the financing value, the higher the safekeeping charges (US4)	0.683		
	Ar-rahnu practices Ibra' or discount for early redemption (US6)	0.663		
Margin Value	This ar-rahnu has set a competitive financing margin to customers (NM1)	0.581	0.79	0.56
	This ar-rahnu has set the same financing margin for all customers irrespective of income (NM2)	0.513	3	3
	This ar-rahnu provides the highest financing margin compared to other ar-rahnu institutions (NM3)	0.583		

Technology	This Ar-rahnu is always using an up-to date technology to improve performance (T1)	0.821	0.95	0.79 1
	This Ar-rahnu is always using technology (social media) in its operation (T2)	0.759		
	This Ar-rahnu is always receptive to new technology and software to improve operation efficiency (T3)	0.858		
	This Ar-rahnu is using technology to complete tasks faster (T4)	0.887		
	The use of technology in business operation is clearer and easy to comprehend (T5)	0.815		
Financial Performance	From my observations, ar-rahnu's profit increases every year (PK1)	0.836	0.95	0.79 2
	From my observations, the number of financing approvals increases every year (PK2)	0.857		
	From my observations, the number of transactions (customers' accounts) increases every year (PK3)	0.848		
	From my observations, the number of gold pawning transactions increases every year (PK4)	0.847		
	From my observations, ar-rahnu's revenue increases every year (PK5)	0.769		
	From my observations increase in gold price leads to increase in pawning activities (PK6)	0.678		

Note: LC3, US5, NM4 are deleted due to low loadings

As a result, the study investigated the model's discriminant validity further (Table 3). Fornell and Larcker (1981) propose that items should load more strongly on their constructs than on other constructs in the model. Furthermore, the average variance (AVE) shared by each construct and its measures should be greater than the variance shared by the constructs themselves. Its measures must be greater than the variance shared by the construct and the other constructs.

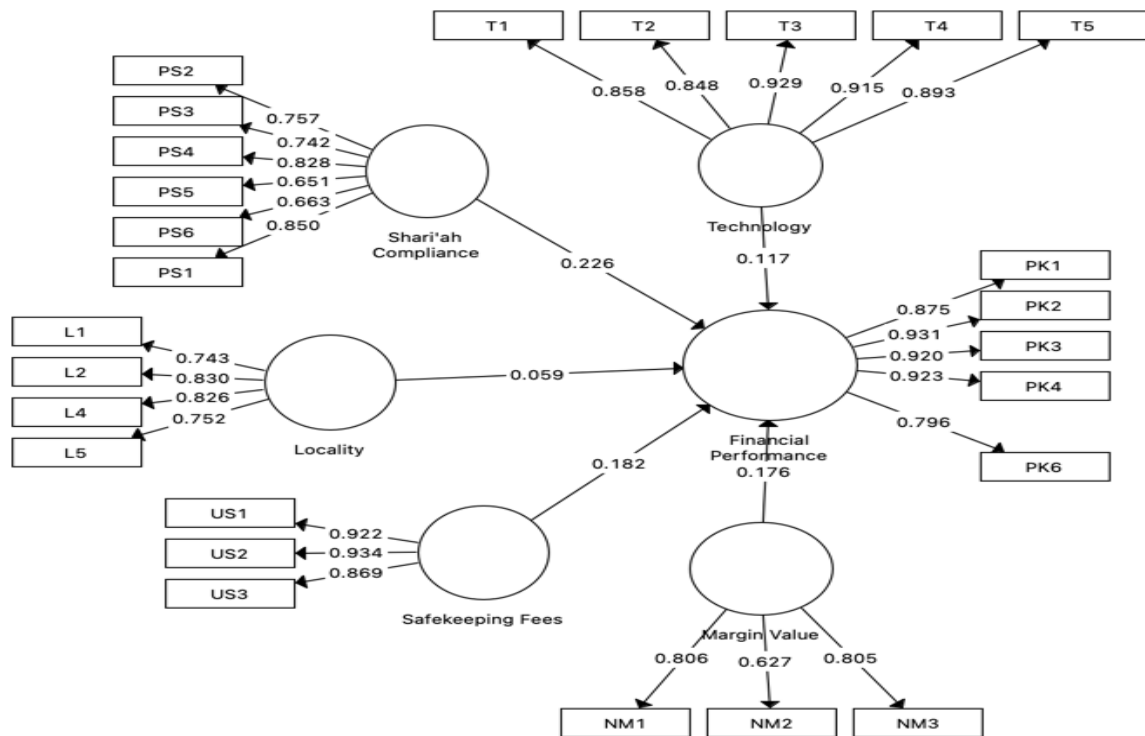
Table 3: Discriminant Validity

	1	2	3	4	5	6
1. Financial Performance	0.89					
2. Locality	0.319	0.789				
3. Margin Value	0.465	0.397	0.751			
4. Service Charges	0.481	0.496	0.598	0.909		
5. Shari'ah Compliance	0.461	0.243	0.432	0.504	0.752	
6. Technology	0.409	0.38	0.503	0.428	0.454	0.889

Following that, interaction terms were added to represent the quadratic effects. The bootstrapping results with 5000 samples and no sign changes revealed that none of the nonlinear effects were significant. The proposed hypotheses were then examined. Between

the constructs, four direct hypotheses were developed (Figure 4). T-statistics for all paths were generated using the SmartPLS 3.0 bootstrapping function to test the significance level.

Figure 4: Hypothesis Model (SEM)



Based on Table 4, all the relationships had mixed of t-values >2.33, indicating that the relationships have significant at difference significant level. Specifically, the predictors of shari'ah compliance ($\beta=0.226$, $p<0.01$), locality ($\beta=0.059$, $p<0.10$), margin value ($\beta=0.176$, $p<0.01$), safekeeping fees ($\beta=0.182$, $p<0.05$), and technology ($\beta=0.117$, $p<0.10$) which explains 33% in cooperative financial performance. As a result, H1-H5 are supported. The R^2 value of 0.33, as suggested by Cohen (1988), which indicates a substantial model.

Table 4: Hypothesis Testing

		Std Beta	Std Error	t-value	BCI LL	BCI UL	R ²	Result
Shari'ah Compliance	->	0.226	0.071	3.176***	0.103	0.34		Supported
Financial Performance (H1)								
Locality	->	0.059	0.062	1.963*	-0.037	0.161	0.330	Supported
Financial Performance (H2)								
Margin Value	->	0.176	0.075	2.342***	0.027	0.283		Supported
Financial Performance (H3)								
Safekeeping fees	->	0.182	0.092	1.973**	0.054	0.358		Supported
Financial Performance (H4)								
Technology	->	0.117	0.092	1.273*	-0.034	0.267		Supported
Financial Performance (H5)								

Notes: *** p-value < 0.01; ** p-value < 0.05; * p-value < 0.10

Next, this study evaluate the indirect relationship (moderating) of technology use in a relationship of locality and financial performance. Since previous studies found mixed findings between these variables, which some found positive relationship such as Johari et al (2007), Ismail and Ahmad (1997) and some previous studies found it to be insignificant such as Abdul hamid et al (2014); Amin et al (2007), which indicated that the locality of where the *Ar-Rahnu* scheme was offered was least important for the respondents. As a result, the moderating effect of technology is examined further in this study.

Table 5: Results of the Moderator Analysis

	Std Beta	Std Error	t-value
TECH*LC -> Financial Performance (H5)	0.076	0.057	1.336*

Notes: *** p-value < 0.01; ** p-value < 0.05; * p-value < 0.10

The relationship between locality and financial performance is interrupted in this study by using technology adoption as a moderator. The interaction between technology and locality is positive and significant ($\beta = 0.076$, $p < 0.010$), as shown in Table 5. Thus, it reflects that, the positive relationship between locality and financial performance would be weaker when technology adoption is higher.

Discussion

It was mentioned in the research framework that that shariah-compliance, locality, margin value and safekeeping fees were expected to be significantly correlated with financial performance. The results of analysis indeed indicate that these four components of acceptance are positively correlated with financial performance. These results are similar to those of (Amin et al., 2007; Abdul Khir et al., 2013; Abdul Hamid et al., 2014; Baharum et al., 2014; Azman et al., 2017; Abu Bakar et al., 2013). Among the four components, the most important is shariah-compliance, followed by safekeeping fees, margin value and locality.

The findings of this study prove that in ar-rahnu cooperative in Malaysia conduct their business based on the laws and Islamic principles, are transparent (especially in valuing collateral items), do not charge additional amount which may be regarded as a usury in transactions (*Gharar*), execute the *ijab* and *qabul* during transactions with clients, and more importantly, employ shariah-competent officers who oversee compliance towards Shariah laws. These results are supported by past studies such as the one by Amin et al (2007) that suggested one should use shariah-compliant practices that are based on Al-Quran and Hadith. Moreover, (Abdul Khir et al., 2013; Abdul Hamid et al., 2014; Baharum et al., 2014; Azman et al., 2017; Abu Bakar et al., 2013) similarly pointed out that ar-rahnu outlets must make it known to its customers that shari'ah-compliance is practiced, and on its part, the latter must adhere to the Islamic principles to avoid usury and gharar totally. Salleh (2014) also stated that customers of ar-rahnu look for elements of shariah-compliance in the service provided. Therefore, it is imperative that every ar-rahnu co-operative continues to emphasise its shariah-compliance as it is a pre-requisite for the sustainability of its business.

The second element of acceptance which is positively correlated with financial performance is safekeeping fee. Safekeeping fees increases with the amount of loan which is based on the value of the gold surrendered as collateral. Mohamad et al (2014) found that customers look for attractive safekeeping fees as another reason for them patronising the service. Due to that, ar-rahnu is becoming customers options which indirectly contribute towards financial performance of ar-rahnu (Abdul Razak, 2011; Azman et al., 2018; Mohammed et al., 2005; Ismail and Ahmad, 1997).

The third element of acceptance that is positively correlated with financial performance is margin value. This indicates that ar-rahnu operated by co-operatives have established credit financing margins that are competitive and applying it evenly to all customers although the latter have different income, thereby giving the best financing based on the value of gold compared with other ar-rahnu institutions. This finding is similar to that of past studies such as by Othman et al (2013) that customers look for attractive margin value. Moreover, Muhamad et al (2019) found that customers who owned valuable item that could be mortgaged usually looked for short-term credit that gave high margin value at a lower cost. Therefore, ar-rahnu must give a competitive margin value. According to Nik Azman et al. (2018), Agrobank ar-rahnu currently offers the highest margin value (80%), followed by both Pos Malaysia and Muassasah Gadaian Islam Terengganu at 75 per cent each. This indicates that, the higher the margin value given to customers, the better financial performance of ar-rahnu.

The fourth element, locality, has significant relationship with financial performance. This finding is supported by Mohammed et al (2005); Johari et al; (2007); Amin (2011); Appannan et al (2011); Salleh (2014); Mohamad et al (2014) who found that there was a significant relationship between locality and financial performance. Amin et al (2017) was of the opinion that it was essential for ar-rahnu outlets to have a good location in order to attract more

customers to their outlets. The fifth element focuses on the technology's moderating effect. The findings of the study show that technology has a moderating effect on the relationship between locality and ar-rahnu financial performance. As a result, when technology adoption is higher, the positive relationship between locality and financial performance is weaker. This is rational to assume is that technology can reach customers in ways that physical outlets cannot. Indeed, as Schrader (2000) points out, the use of technology can improve the efficiency of ar-rahnu operations.

Conclusion

This study seeks to examine factors influencing the financial performance of ar-rahnu business. The results of this study show that shariah-compliance, locality, margin value and safekeeping fees have an impact on financial performance. In fact, technology also play an important role in enhancing the business to be visible to customers. This study findings are critical for co-operatives currently operating ar-rahnu and other co-operatives interested in entering the ar-rahnu business to consider all influence factors to be profitable in doing ar-rahnu business. In fact, this can be used as a guide for ar-rahnu operators to develop relevant strategies to improve their financial performance in the future. The increased acceptance of ar-rahnu as a source of credit, as well as increased awareness of the ar-rahnu service, contribute to the growth of the ar-rahnu financing market. Since borrowers appear to be picky about shariah-compliance elements, the Shariah Advisory Committee of the Shariah Unit at the cooperative level must continue to monitor and ensure that shariah-compliance adherence is maintained among the ar-rahnu cooperative. Better margin value, lower safekeeping fees, and a borderless location attract repeat and new customers to ar-rahnu loan facilities at the expense of other mortgage credit operators, thereby contributing to ar-rahnu's stability.

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