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## The Effectiveness of Ar-rahnu Cooperative Financial Performance in Malaysia

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### Abstract

Malaysia cooperative come into existence since 90 years ago during the Colonial British administration. It is one of the vital institutions in Malaysia that offering various product and services towards community and its members. One of the demanding services by community is ar-rahnu. The increase in business in recent years has also been made possible by the fact that the number of co-operatives offering ar-rahnu financing has increased from 35 in 2010 to 103 in 2020, a threefold increase in ten years. Given the intriguing figures of cooperatives and outlets providing ar-rahnu services, it is critical for this study to assess the level of efficiency of co-operative ar-rahnu in the context of improving its financial performance in the future. This study uses the quantitative approach by distributing questionnaires to 455 ar-rahnu cooperative outlets in Malaysia. 308 completed copies of the questionnaire were then analyse using IBM SPSS for preliminary analysis on the data (descriptive analysis) and the partial least squares-structural equation modelling (PLS-SEM) SmartPLS 3.2 software for measurement and structural model. All in all, human capital has a significant relationship towards ar-rahnu financial performance. Therefore, human capital could be considered as an important element in strengthening and ensuring the sustainability of the financial performance of ar-rahnu business.

**Keywords:** Ar-Rahnu, Cooperatives, Efficiency, Financial Performance, Human Capital.

### Introduction

Cooperatives are people-centred enterprises that being control by their members to realise their common need. The acceptance of cooperative across the globe is due its peculiarity in managing the enterprise. As reviewing by previous studies such as Frederick (1997); Zeuli and Crop (2004); Othman and Kari (2008), cooperative is applying difference concept, organizational structure, governance and equity management from other enterprises. Nowadays, there are about 3 million

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cooperatives across the globe, which represent at least 12 percent of humanity, 2.14 trillions USD in turnover and providing 280 million people jobs opportunities (International Cooperative Alliance, 2022). Thus, indicating that, cooperative are relevant to the economic and social development of many countries.

In the same pace, Malaysia cooperative come into existence since 90 years ago during the Colonial British administration. It is one of the vital institutions in Malaysia that offering various product and services towards community and its members. Since the main objective of it is to addressing credit and indebtedness in rural area, it gains attention by the top level of policy maker (Fredericks, 1986). As define by the Malaysia Law (2008), co-operative as an organization consisting of individual persons with the objective of promoting the economic interest of its members in accordance with co-operative principles. This is in line with Malaysia economic policy which believed in a free market. This indirectly encourage cooperative to grow well in the economic growth, especially in reducing poverty.

In combating poverty issues in Malaysia, there are multiple plan taken by government such as New Economic Policy (1970-1990), Fourth Malaysia Plan (1981-1985), National Development Plan (1991-2000) and currently grand plan is Shared Prosperity Vision (2030). The booster vehicle for the movement of cooperative in Malaysia is recognise during the introducing the National Cooperative Policy (NCP) in 2002 as this latest policy tightening the co-operative's legislation to ensure better governance and management. Besides, due to that, government recognise the cooperative as the third sector in contributing towards the economic growth and establishing a commission, the Malaysia Co-operative Societies Commission (MCSC) to ensure the stability and soundness of financial and management operations of co-operatives. In fact, at that time, Co-operatives were given financial and non-financial support (related to management, audit and education) to enhance their development (Othman and Kari, 2008).

Figure 1: Malaysian GDP (Billion)  
(Billion)

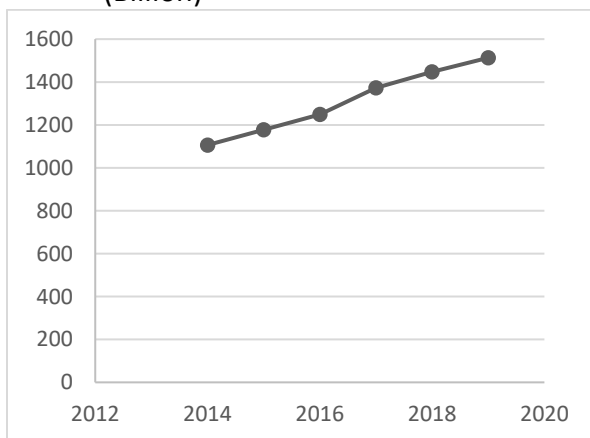
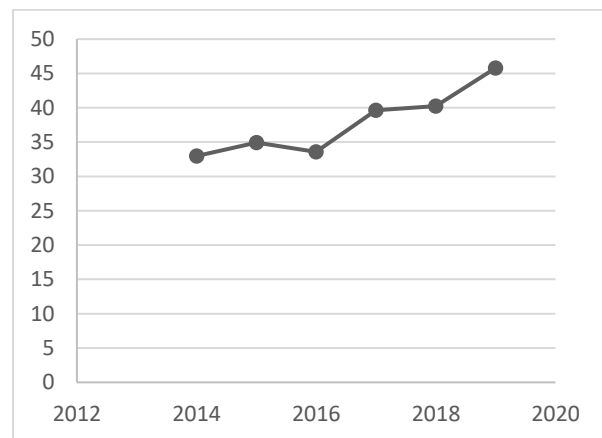


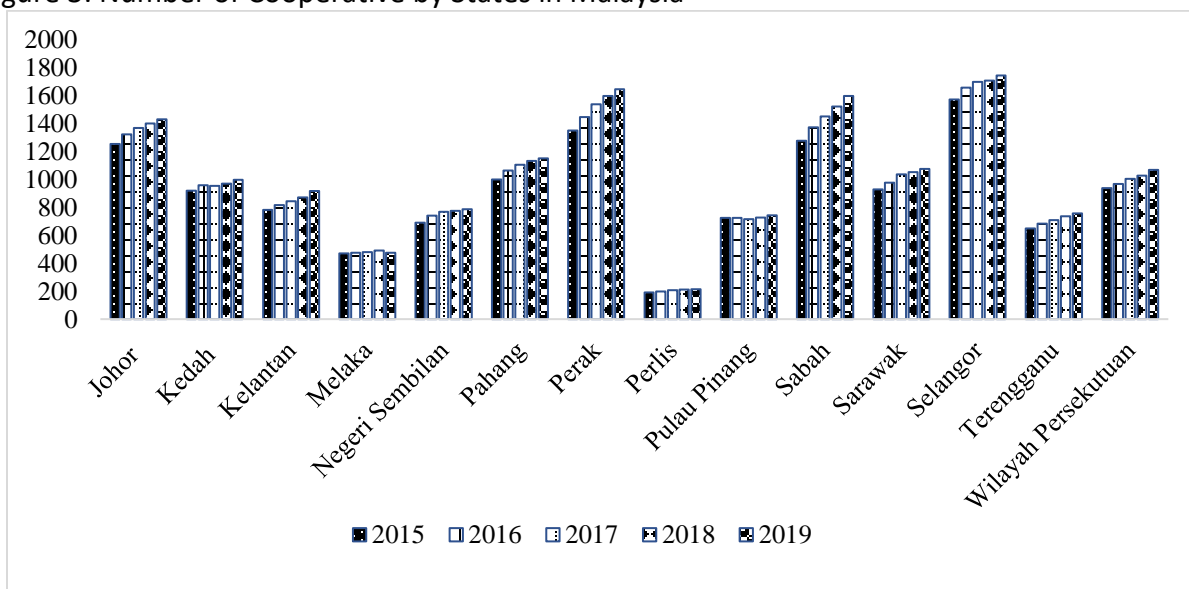
Figure 2: Cooperative Revenue



Source: Economic Planning Unit Report 2022 (Figure1), Malaysia Co-operative Societies Commission Report 2021 (MCSC)

It is worth noting that, at the moment, revenue gains by cooperative (Figure 2) synchronously reflect the movement of growth domestic products (Figure 1) in Malaysia. The continuous increase in cooperative revenue as a result of the various cooperative functions introduced from time to time. Despite the fact that the movement is strong and stable, the cooperative experienced slow growth from 2014 to 2018. This could be due to the global financial crisis that is affecting the global economy, which is also affecting the Malaysian economy. The effect was only temporary, as the cooperative regained its momentum in 2018 and 2019, increasing its revenue to RM 45.8 billions (2019) from RM 32.97 billions in 2014 (MCSC, 2021). Indeed, this can be seen in the rising number of cooperatives (Figure 3), which increased from 12,769 in 2015 to 14,625 in 2019. These cooperatives operate in nine different industries, including services, banking, agriculture, credit, housing, industrial, consumer, construction, and transportation.

Figure 3: Number of Cooperative by States in Malaysia



Source: Malaysia Co-operative Societies Commission Report (MCSC), 2021

Given the potential of cooperatives, the second National Co-operative Policy (NCP-2) emphasised that co-operatives should offer new financial products such as ar-rahnu, micro-credit, and other types of financing services in addition to personal loans. According to a June 2017 MCSC report, 83 percent of the co-operatives' revenue came from their financial services sector. As a result, ar-rahnu is one of the potential financial products that would be beneficial to the cooperative. According to Azman et al (2020); Yahaya (2021), the pawnbroking industry has the potential to become agents for social development, particularly for those who have difficulty accessing the formal credit market.

The ar-rahnu industry began in 1992 with Majlis Agama Islam dan Adat Melayu Terengganu (MAIDAM) and Permodalan Kelantan Berhad (PKB) (Othman et al., 2013). The Malaysian cooperative movement later actively participated in the new Shariah-compliant credit lending scheme, offering the convenient financing arrangement to its members and the general public. Bank Rakyat and Koperasi YaPIEM Berhad were the forerunners of the ar-rahnu scheme in the

co-operative sector, launching their operations in 1993. By the end of 2020, 103 co-operatives had been granted permission to operate the ar-rahnu scheme, which had 627 outlets across Malaysia (Table 1) (Roslan, 2021)

Table 1: Cooperative Ar-rahnu Outlets in Malaysia

| <b>Cooperatives</b>   | <b>No. Outlet</b> |
|---|-------------------|
| Koperasi Pembangunan Pulau Lumut Klang Berhad   | 2                 |
| Koperasi Al-Raudhah Terengganu Berhad   | 1                 |
| Koperasi Serbaguna Iman Malaysia Berhad   | 3                 |
| Koperasi Ukhwah Malaysia Berhad   | 1                 |
| Koperasi Jabatan Kesihatan Kedah Berhad   | 1                 |
| Koperasi Kakitangan Bank Rakyat Berhad  | 8                 |
| Koperasi Pekerja-Pekerja Jabatan Perdana Menteri Malaysia Berhad [Jpm]                | 2                 |
| Koperasi Pegawai-Pegawai Melayu Malaysia Berhad [MOCCIS]                              | 3                 |
| Koperasi Simpanan Dan Kredit Bersatu Malaysia Berhad                                  | 1                 |
| Koperasi Wawasan Malaysia Berhad  | 6                 |
| Koperasi Pekerja-Pekerja Kerajaan Sabah Berhad  | 2                 |
| Koperasi New Straits Times Press (Malaysia) Berhad                                    | 2                 |
| Koperasi Wawasan Pekerja-Pekerja Berhad   | 5                 |
| Koperasi Serbaguna Anak-Anak Selangor Berhad  | 2                 |
| Koperasi Serbamaju Daerah Jempol Berhad   | 1                 |
| Koperasi Telekom Malaysia Berhad  | 2                 |
| Koperasi Pembangunan Daerah Petaling Berhad   | 2                 |
| Koperasi Staf Cidb Malaysia Berhad  | 2                 |
| Koperasi Guru-Guru Dtc Malaysia Berhad  | 1                 |
| Koperasi Pos Dan Telekom Pulau Pinang Berhad  | 1                 |
| Koperasi Kampung Jawi Johor Bahru Berhad  | 1                 |
| Koperasi Pegawai-Pegawai Kerajaan Malaysia Berhad                                     | 3                 |
| Koperasi Melayu Bukit Gelugor Pulau Pinang Berhad                                     | 1                 |
| Koperasi Pegawai-Pegawai Kerajaan Taiping Berhad                                      | 1                 |
| Koperasi Warisan Terengganu Berhad  | 1                 |
| Koperasi Seri Beruas Berhad   | 1                 |
| Koperasi Mitra Usahawan Berhad  | 1                 |
| Koperasi Persatuan Kebajikan Anak-Anak Pahang Di Ibu Kota (Pekap) Kuala Lumpur Berhad | 1                 |
| Koperasi Keluarga Ibnu Umar Terengganu Berhad   | 1                 |
| Koperasi Keluarga Wadi Sofi Terengganu Berhad   | 1                 |
| Koperasi Kakitangan Bank Pertanian Malaysia Berhad                                    | 1                 |
| Koperasi Universiti Teknologi Malaysia Berhad   | 1                 |
| Koperasi Pendidikan Usahawan Berhad   | 1                 |
| Koperasi Kimma Malaysia Berhad  | 1                 |
| Koperasi Amanah Pelaburan Berhad  | 2                 |
| Koperasi Masyarakat Muslim Bukit Jelutong Berhad                                      | 1                 |

|   |     |
|---|-----|
| Koperasi Bandacaya Berhad   | 1   |
| Koperasi Kumpulan Profesional Kuala Lumpur Berhad                         | 1   |
| Koperasi Pekerja Yayasan Sabah Berhad                                     | 1   |
| Koperasi Keluarga Haji Kamarol Baharin Dan Hajah Norpipah Selangor Berhad | 1   |
| Koperasi Peserta-Peserta Rancangan Felcra Seberang Perak Berhad           | 1   |
| Koperasi Pembangunan Usahasama Masyarakat Maju Sabah Berhad               | 1   |
| Koperasi Permodalan Kelantan Berhad                                       | 1   |
| Koperasi Permodalan Felda Malaysia Berhad                                 | 23  |
| Koperasi Tanjong Keramat Kota Kinabalu Berhad                             | 1   |
| Koperasi Guru Melayu Kelantan Berhad                                      | 3   |
| Koperasi Sahabat Amanah Ikhtiar Malaysia Berhad                           | 15  |
| Koperasi Rakyat Kelantan Berhad   | 3   |
| Koperasi Usahawan Tawau Berhad  | 6   |
| Koperasi Anak-Anak Tempatan Pantai Barat Sabah Berhad                     | 1   |
| Koperasi Permodalan Melayu Negeri Johor Berhad                            | 6   |
| Koperasi Anggota-Anggota Kerajaan Batu Pahat Berhad                       | 1   |
| Koperasi Pegawai Kerajaan Daerah Johor Bahru Berhad                       | 1   |
| Koperasi Yapeim Berhad  | 212 |
| Bank Kerjasama Rakyat Malaysia Berhad                                     | 26  |
| Koperasi Serbaguna Kakitangan Mas Malaysia Berhad                         | 1   |
| Koperasi Kakitangan Kementerian Pertanian Malaysia Berhad                 | 1   |
| Koperasi Angkatan Tentera Malaysia Berhad                                 | 8   |
| Koperasi Pos Nasional Berhad  | 75  |
| Koperasi Jurukur Tanah Berlesen Berhad                                    | 1   |
| Koperasi Co-Opbank Pertama Malaysia Berhad                                | 22  |
| Koperasi Kakitangan Kumpulan Bimb Holdings Malaysia Berhad                | 2   |
| Koperasi Rakan Tekun Berhad   | 9   |
| Koperasi Habib Malaysia Berhad  | 2   |
| Koperasi Koguma Berhad  | 1   |
| Koperasi Kakitangan Universiti Teknologi Mara Berhad                      | 1   |
| Koperasi Unikeb Berhad  | 3   |
| Koperasi Keluarga Ramlah Zahari Selangor Berhad                           | 3   |
| Koperasi Renesas KI Kuala Langat Berhad                                   | 1   |
| Koperasi Guru-Guru Agama Islam Selangor Berhad                            | 1   |
| Koperasi Keluarga Nawal Dan Zainab Kelantan Berhad                        | 8   |
| Koperasi Seruan Emas Perak Berhad   | 1   |
| Koperasi Bina Bersama Kampong Gajah Perak Berhad                          | 2   |
| Koperasi Pekerja-Pekerja Kerajaan [Kospek] Hilir Perak Berhad             | 1   |
| Koperasi Orang Melayu Kerajaan (Skomk) Perak Berhad                       | 3   |
| Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah Darul Aman Berhad          | 2   |
| Koperasi Pegawai-Pegawai Kerajaan Negeri Pahang Darul Makmur Berhad       | 2   |
| Koperasi Serbausaha Makmur Berhad   | 1   |
| Koperasi Pengguna Pahang Berhad   | 1   |

|   |    |
|---|----|
| Koperasi Kakitangan Kerajaan Dan Badan-Badan Berkanun Terengganu (Kokanun) Berhad | 3  |
| Koperasi Cobe Pantai Timur Berhad   | 2  |
| Koperasi Bekas Pegawai Tadbir Negeri Terengganu Berhad                            | 1  |
| Koperasi Kakitangan Kerajaan Terengganu (Kokitab) Berhad                          | 1  |
| Koperasi Kemas Terengganu (Ko-Kemas) Berhad                                       | 2  |
| Koperasi Warga Pendidikan Terengganu Berhad                                       | 1  |
| Koperasi Melayu Berjawatan Kerajaan Negeri Sembilan Berhad                        | 2  |
| Koperasi Koperkasa Sarawak Berhad   | 1  |
| Koperasi Dagang Emas Pulau Pinang Berhad  | 11 |
| Koperasi Guru-Guru Lepas Maktab/Pusat Latihan Harian Pahang (Koguru) Berhad       | 1  |
| Koperasi Pusaka Penampang Berhad  | 1  |
| Koperasi Perniagaan Sabah Berhad  | 1  |
| Koperasi Pelaburan Kakitangan Bank Muamalat Malaysia Berhad                       | 1  |
| Koperasi Serbaguna Dara Berhad  | 1  |
| Koperasi Pegawai-Pegawai Keda Berhad  | 1  |
| Koperasi Maal Nizami Negeri Selangor Berhad                                       | 1  |
| Koperasi Cahaya Al-Kifayah Berhad   | 2  |
| Koperasi Serbaguna Miri Berhad  | 1  |

Source: Malaysia Co-operative Societies Commission Report (MCSC), 2021

The revenue generated by ar-rahnu financing has increased rapidly, from RM5.02 billion in 2018 to RM5.5 billion in 2019. The increase in business in recent years has also been made possible by the fact that the number of co-operatives offering ar-rahnu financing has increased from 35 in 2010 to 103 in 2020, a threefold increase in ten years. Given the intriguing figures of cooperatives and outlets providing ar-rahnu services, it is critical for this study to assess the level of efficiency of co-operative ar-rahnu in the context of improving its financial performance in the future, particularly during pandemic Covid-19.

### **Literature Review**

This section investigates empirically the determinants of the effectiveness of financial performance at ar-rahnu Cooperative in Malaysia during Pandemic Covid 19. Based on previous research, this study considers three efficiency elements: human capital, member participation, and external structure.

### **Financial Performance**

In general, there was little interest in cooperative business research (Hasan, 2016). Because there has been a scarcity of research on the performance of ar-rahnu in the past, this study must rely on studies involving other institutions, specifically financial performance. Financial ratios are used in the evaluation process. Financial ratio analysis, according to Brigham dan Ehrhardt (2010), was created to aid in the evaluation of a company's financial statements. These financial ratios would indicate whether a company's financial position is sound. Profit ratios were found to be positively correlated with financial performance by (Oshoke, 2015). Nonetheless, Sexton

and Iskow (1993); Mazzarol et al (2011) proposed that the private sector's business model differed from that of co-operatives due to differences in ownership and profit distribution. At the same time, the co-operative business model is founded on co-operative principles and is solely concerned with the welfare of its members. As a result, the performance of a cooperative of this study is evaluated in terms of monetary value at ar-rahnu cooperative (Reynolds, 2013).

### **Human Capital**

Human Capital is an important factor in determining ar-rahnu efficiency through financial performance. Human capital includes people who have knowledge, talent, confidence, a positive attitude, and a high morale, as well as those who are disciplined, innovative, and creative (Schultz, 1960; Becker, 1964). Workers' skill and knowledge differ even when they work in the same organisation and perform the same task. This is because of the various qualifications and knowledge acquired through education and experience (Idris, 2019). As a result, it is critical for a business to continuously improve its human capital through a series of well-designed training programmes.

An organisation is akin to a nation. It is widely held that the quality of human capital varies between developed and developing nations. The same is true for organisations. Without quality human capital, an organisation is unable to initiate new ideas on economic activities (Mohamad & Salleh, 2009). A capable management creates an excellent pool of human capital in an organisation. A capable management recognises that workers must be knowledgeable and skilled in order to perform well within the scope of their work. According to Atmadja et al (2021), an organization's human resource unit is critical and is responsible for ensuring the latter achieves the desired goals and performance.

To reduce the risk of having a problematic workforce, a good strategy is required when hiring new employees. Experience, skills, certain demographic characteristics, educational qualification, and gender, according to Makhbul and Hasun (2007), are among the criteria considered when hiring new employees. An organization's performance is inextricably linked to its human capital (Martini, 2017). Thus, the human resource management unit oversees developing and implementing plans to conduct/send staff for training and education in order to improve their skills.

Furthermore, an organisation that prioritises human capital development will need to invest in it. According to Pasban et al (2016), human capital includes elements such as creativity and innovation, knowledge, and skills, added value, competitive advantage, and customer satisfaction. Employees who are creative and innovative, for example, help their organisations improve their performance and value. The ability to use ICT technology is an important asset of co-operatives and their subsidiary business organisations. It aids in task simplification and efficiency. Education, computer experience, and length of service in an organisation, all of which are elements of human capital, are expected to increase level of competency in the use of computer and ICT equipment. As a result, this study hypothesises that human capital is also important.



H1: Human Capital has a positive and significant relationship towards ar-rahnu cooperative financial performance

### **Member Participation**

Birchall and Simmons (2004) emphasised the importance of active participation by co-operative members as a requirement for the latter's success. Harun et al (2012) also emphasised the importance of members in ensuring the success of their co-operatives. Apart from being active, they must also be steadfast supporters of their organisations. As a result, more cooperatives are making a concerted effort to encourage members to actively participate in any activity deemed beneficial to the organisations. According to Mahazril'Aini et al (2012), member participation is critical for the co-operative movement in Malaysia to thrive. Although they are not involved in administration, their attendance at annual meetings is critical for them to present their ideas and fulfil their responsibilities to the organisations. According to Osterberg and Nilsson (2009), members' belief in the existence of democratic processes in their organisations took precedence over other considerations. The same study noted that member participation was related to co-operative principles, and the board encouraged members to support any decision it made as part of a democratic process.

Othman et al (2012) suggested the idea that co-operatives did not only depend on efficient and effective administration, but also on members' participation. Moreover, members may make monetary contribution as well as provide ideas, man-hour, and other forms of support. A study on 322 members of agricultural co-operatives in France by Barraud-Didiera et al (2012) revealed that members' commitment acted as a moderator in the relationship between trust given to co-operatives and members' participation in the co-operative administration. The said study also noted that members' trust had an impact on their participation by supporting the co-operatives. As such, this study hypothesises that the involvement of members is positively correlated with the financial performance of ar-rahnu.

H2: Member Participation has a positive and significant relationship towards ar-rahnu cooperative financial performance

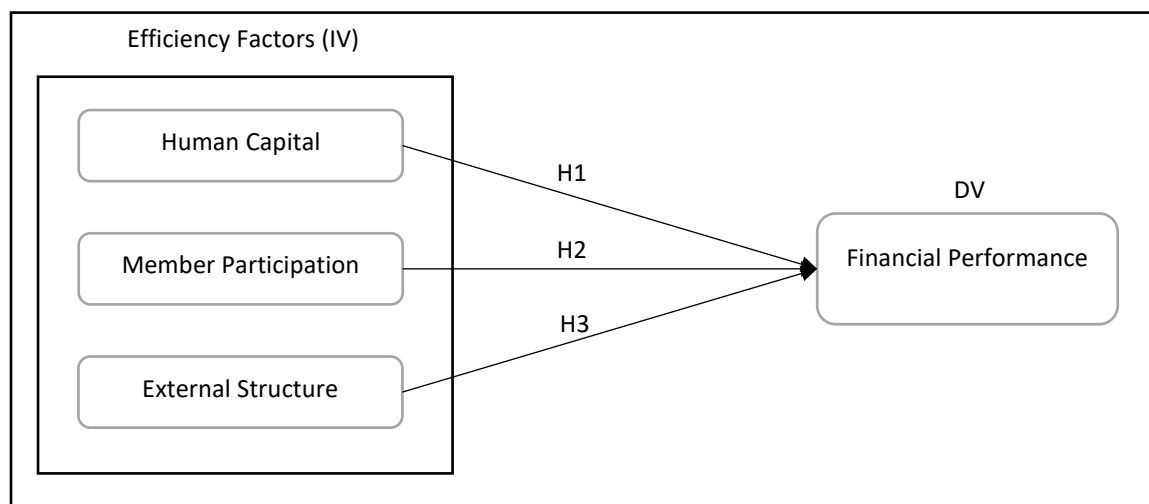
### **External Structure**

External structure is one of the important elements used to gauge the efficiency of ar-rahnu, which in turn is linked to financial performance. External structure refers to such things as government institutions, franchisors/mentors/co-operatives, consultants, and customers. Among the important elements of external structure in the ar-rahnu industry is customers who contribute to the income and profit of ar-rahnu outlets. Active participation of customers has a substantial impact on the performance of the organisations (Khan et al., 2016; Yaacob et al., 2012). Apart from providing business to ar-rahnu through mortgaging of valuable jewellery, customers also provide valuable feedback about the business activities of their respective co-operatives. Active customers who are also patronise the business products of their co-operatives are more likely to be faithful. As such, this study also hypothesises that external structure is positively correlated with the financial performance of ar-rahnu.

H3: External Structure has a positive and significant relationship towards ar-rahnu cooperative financial performance

Based on the review of work and discussion related to the topics, this study analyses the financial performance of ar-rahnu business operated by co-operatives in Malaysia from the perspective of the respondents. The variables used in this study are made up of a set of independent variables and one dependent variable, which is the financial performance of ar-rahnu. Independent variables comprise efficiency components, namely, human capital, members' involvement, and external structure. Figure 4 depicts the relationship between the independent and dependent variables.

Figure 4: Conceptual Framework



Source: Author's own compilation

## 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 questionnaire 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., 2012; 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 2. 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%). The majority 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 2: 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      |
| 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]  |
| 6. Length of service at current position |                            | Less than 1 year     | 20     |
|  | 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 et al (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 3. 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 3 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 3: Measurement Model

| Construct     | Items  | Loading | CR    | AVE   |
|---------------|--|---------|-------|-------|
| Human Capital | This ar-rahnu has qualified staff (MI1)  | 0.771   | 0.922 | 0.703 |
|               | The staff of this ar-rahnu have the required knowledge and skills to perform their tasks (MI2) | 0.866   |       |       |
|               | The staff of this ar-rahnu are creative in providing ideas for improving performance (MI3)     | 0.751   |       |       |

|                       |  |       |       |       |
|-----------------------|--|-------|-------|-------|
|                       | The staff of this ar-rahnu are competent in utilising information system (ICT) for their tasks (MI4)   | 0.739 |       |       |
|                       | This ar-rahnu provides suitable training and education programmes to enhance the staff efficiency (MI5)                                      | 0.687 |       |       |
| Member Participation  | In my opinion, feedback from members during the annual general meeting contribute to the success of ar-rahnu (PA1)                           | 0.73  | 0.917 | 0.690 |
|                       | In my opinion, members have a strong influence on how co-operatives make decisions (PA2)   | 0.751 |       |       |
|                       | In my opinion, active participation from members is beneficial in determining the direction and success of this co-operative (PA3)           | 0.806 |       |       |
|                       | In my opinion, feedback from members is taken into consideration when implementing any activities (PA4)                                      | 0.771 |       |       |
|                       | In my opinion, members utilize all facilities/ services (loans, withdrawal from contribution) provided by co-operative (PA5)                 | 0.722 |       |       |
| External Structure    | Government agencies are very supportive of this ar-rahnu (SL1)   | 0.694 | 0.917 | 0.735 |
|                       | This ar-rahnu relies on the feedback and suggestions from franchisor/mentor/co-operative to come up with better products and services (SL2)  | 0.750 |       |       |
|                       | This ar-rahnu relies on feedback and suggestions from third parties (government agencies, consultants) to come up with better services (SL3) | 0.734 |       |       |
|                       | This ar-rahnu is using the feedback from customers effectively to come up with quality products and services (SL4)                           | 0.779 |       |       |
| Financial Performance | From my observations, ar-rahnu's profit increases every year (PK1)   | 0.853 | 0.934 | 0.707 |
|                       | From my observations, the number of financing approvals increases every year (PK2)   | 0.891 |       |       |

- From my observations, the number of transactions (customers accounts) increases every year (PK3) 0.887
- From my observations, the number of gold pawning transactions increases every year (PK4) 0.884
- From my observations, ar-rahnu's revenue increases every year (PK6) 0.767
- From my observations increase in gold price leads to increase in pawning activities (PK7) 0.535

Note: SL5 and PK5 are deleted due to low loading

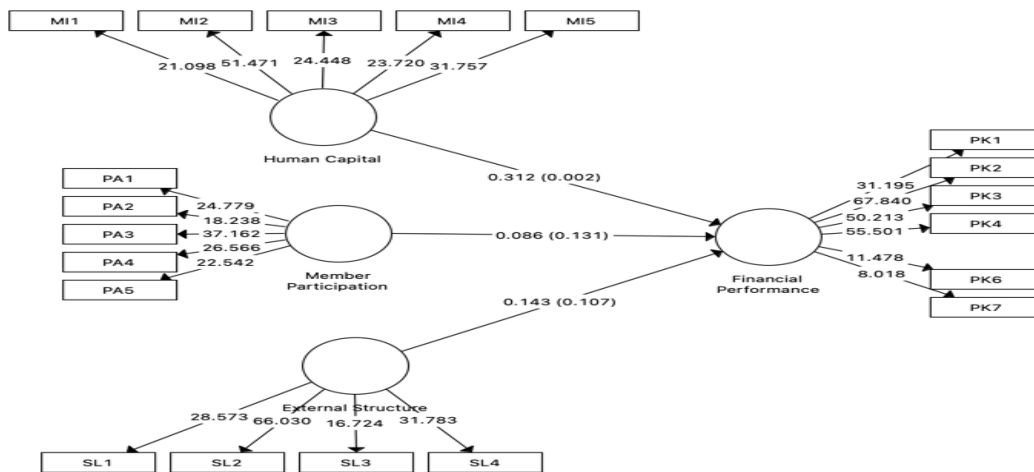
As a result, the study investigated the model's discriminant validity further. Fornell and Larcker (1981) propose that items should load more strongly on their constructs than on other constructs in the model. Furthermore, the average variance (AVE) shared by each construct and its measures should be 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. The discriminant validity of the study is shown in Table 4.

Table 4: Discriminant Validity

|                          | 1     | 2     | 3     | 4     |
|--------------------------|-------|-------|-------|-------|
| 1. External Structure    | 0.857 |       |       |       |
| 2. Financial Performance | 0.387 | 0.841 |       |       |
| 3. Human Capital         | 0.600 | 0.444 | 0.839 |       |
| 4. Member Participation  | 0.665 | 0.348 | 0.536 | 0.831 |

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, three direct hypotheses were developed. T-statistics for all paths were generated using the SmartPLS 3.0 bootstrapping function to test the significance level.

Figure 7: Hypothesis Model (SEM)



Based on Table 8, all the relationships had mixed of t-values >1.28, indicating that the relationships have both significant and insignificant results. Specifically, the predictors of human capital ( $\beta=0.312$ ,  $p<0.01$ ), member participation ( $\beta=0.086$ ,  $p>0.10$ ) and external structure ( $\beta=0.143$ ,  $p>0.10$ ) which explains 26.1% in cooperative financial performance. As a result, only H1 (human capital) is supported while H2 and H3 are rejected. The  $R^2$  value of 0.261, as suggested by Cohen (1988), which indicates a substantial model.

Table 8: Hypothesis Testing

|   | Std Beta | Std Error | t-value | p-value | BCI LL | BCI UL | $R^2$ |           |
|---|----------|-----------|---------|---------|--------|--------|-------|-----------|
| <b>Human Capital -&gt; Financial Performance</b>        | 0.312    | 0.105     | 2.963   | 0.002   | 0.109  | 0.45   |       | Supported |
| <b>Member Participation -&gt; Financial Performance</b> | 0.086    | 0.077     | 1.121   | 0.131   | -0.049 | 0.205  |       | Rejected  |
| <b>External Structure -&gt; Financial Performance</b>   | 0.143    | 0.115     | 1.244   | 0.107   | -0.026 | 0.349  | 0.261 | Rejected  |

**Discussion**

This study aims to investigate the effectiveness factors influencing the financial performance of ar-rahnu businesses among Malaysian cooperatives. According to the study, three efficiency elements, namely human capital, member participation, and external structure, were likely to have a positive effect on ar-rahnu's financial performance. According to the results of the analysis, only human capital (H1) has a significant impact on financial performance. It means that



the qualifications, knowledge, and skill of ar-rahnu workers are crucial in determining the profit and revenue of the ar-rahnu cooperative. Indeed, it has been demonstrated that trainings provided by ar-rahnu operators have a positive impact on worker productivity. This study finding is in line with Diebolt et al (2022); Demeulemeester et al (2011); Schultz (1960); Becker (1964) stated that human capital is an important element for a country economics growth.

Surprisingly to note, external structure and member participation have no effect on financial performance. External organisations such as government institutions, franchisors/mentors/co-operatives, and consultants do not play an important role in the ar-rahnu industry because the main contributors to the income and profit of ar-rahnu outlets are customers. This also demonstrates that the loading (Table 3) for customers' attributes toward external structure is the highest (0.779) when compared to other loading items.

In terms of member participation, this study discovered that member participation has no bearing on the financial performance of the ar-rahnu cooperative. This study appears to contradict findings by Khan et al (2016); Yaacob et al (2012), which stated that active participation of members in cooperative activities could have an impact on financial performance. This disparity in findings could be attributed to differences in business categories, as previous studies focused on cooperative activities while this study focused on ar-rahnu business. In doing ar-rahnu business, regardless of whether the member participates or not, the ar-rahnu business continues to operate because the ar-rahnu operation is gaining demand from customers who may be outside of the cooperative as well. In fact, whether customers are cooperative members or not, the service charge is the same. Although, as stated by Mahazril'Aini et al (2012), member participation is critical for the co-operative movement in Malaysia, it may differ depending on the types of business carried out by cooperatives.

### **Conclusion**

Overall, this study concludes that human capital must be considered as an important element in strengthening and ensuring the sustainability of the financial performance of ar-rahnu business. It is possible that providing workers with knowledge and special skills in the ar-rahnu arena will improve the financial performance of the ar-rahnu business. As the external structure and member participation are less important in determining the financial performance of ar-rahnu cooperative, it is critical for entities such as the Co-operative Commission of Malaysia, the Ministry of Entrepreneur Development and Co-operatives, and Bank Negara to review their policies toward ar-rahnu business. As digital environment is gaining acceptance among community, this study suggests that elements of digital technology training for ar-rahnu workers be included as one of the primary determinants of ar-rahnu cooperative in future research. This is in preparation for dealing with the future fintech environment.

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