

Muslim Small Entrepreneurs' Acceptance Towards *Al-Rahn*: A Case Study In Kelantan, Malaysia

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Abstract. Islamic pawnshops, or *al-rahn*, are Islamic financing instruments that provide quick and easy short-term funding to low-income earners. In addition, *al-rahn* also channel capital assistance to the community for small entrepreneurial activities. However, small entrepreneurs' acceptance towards *al-rahn* is still low since *al-rahn* are said to be needed solely for living purposes instead of entrepreneurship. Thus, *al-rahn* are perceived as not achieving the real objective, which is to provide capital funding to the community for productive activities that could generate income through entrepreneurial activities on a small scale. This situation has sparked an interesting phenomenon in how Muslim small entrepreneurs accept *al-rahn*. This article attempts to analyse the factors that influence Muslim small entrepreneurs' acceptance of *al-rahn* based on three main factors: intrinsic, extrinsic and religious compliance. This study's methodology involved a quantitative method and used a questionnaire to obtain data from 350 small entrepreneurs around Kelantan, Malaysia. The study's results found the religious compliance factor did not significantly affect acceptance towards *al-rahn*; furthermore, the intrinsic factor was more dominant than the extrinsic factor. The results indicated that *al-rahn*, as an Islamic institution, should not necessarily focus on promotion strategies that depend on the 'religion' approach alone.

Keywords: *Al-rahn*, Extrinsic & Intrinsic, Islamic Pawnshops & Broking, Entrepreneurship, Religiosity

1. Introduction

The main purpose of *al-rahn* is to help low-income earners who are not eligible for funding from financial institutions, as well as to help small entrepreneurs obtain financing for entrepreneurship activities [1]. Although the goal of setting up *al-rahn* is to provide capital funding for small entrepreneurship activities, it is said that small entrepreneurs' responses towards *al-rahn* are still low. This is based on the use of *al-rahn* for consumerism activities (personal purposes, such as daily necessities, paying debts, medical, education, travelling or buying vehicles) beyond the use for productive activities, such as entrepreneurship activities [2], [3]. Hence, is this low response due to issues related to the acceptance towards *al-rahn*? What are the real factors that determine small entrepreneurs' acceptance towards *al-rahn*?

This article aims to analyse the factors influencing the acceptance of *al-rahn* by Muslim small entrepreneurs in Kelantan based on three main factors: 1) intrinsic, 2) extrinsic and 3) religious compliance.

2. Literature Review

In some previous works, the importance of intrinsic and extrinsic factors in influencing consumer behaviour has been discussed from various perspectives. For example, Ryan and Deci (2000) explained intrinsic motivation comes from the inner-self, while extrinsic motivation comes from the outer-self. Intrinsic motivation has a significant correlation with extrinsic motivation; however, the correlation is significant. Similarly, Delener (1990), Doktoralina (2016) and Rekarti and Doktoralina (2017) agreed that both intrinsic and extrinsic variables affect consumers' acceptance and that the intrinsic motivation factor is more influential than the extrinsic motivation factor. However, extrinsic motivation can affect intrinsic motivation if the extrinsic motivation dominates oneself (in adaptability) and becomes a stand for each individual. In contrast to Rezvani et al. (2012), users can assess intrinsic features through their experience while using the product but agree that extrinsic factors are more likely to affect consumer ratings of the product. According to Gonçalves (2008), users rely on intrinsic and extrinsic features to get information about the quality of a product. The colour and shape of a product is the most important elements in marketing strategy and are regarded as external features that consumers use as a signal about a product's quality. In discussions on these intrinsic and extrinsic factors, most researchers have linked them with various dimensions. For example, Khan and Azam (2016) and Mohd Yusof, Bahari and Adnan (2014) related intrinsic factors to halal and haram considerations, benefits, preferential use and quality use, while extrinsic factors were related to Islamic banking institution policies, reputation and recommendation, product features and services, convenience and marketing and promotion. Various works have examined these factors. Bakhshi (2006) and Johan, Dali, Suki and Hafit (2017) emphasised the dimensions of the return of benefits, preferential use and halal and haram considerations on the acceptance of sharia credit cards. However, this contradicts Ahmad (2015), who considered the dimensions of religious compliance, understanding and service delivery in his research on cash waqf, and he examined these intrinsic and extrinsic factors in the same dimensions. However, to date, the effect of intrinsic and extrinsic factors towards *al-rahm* have not been investigated.

The religious compliance factor is also the main issue that Muslim users often consider when choosing *al-rahm*, and previous studies have reported 48.2% of respondents chose *al-rahm* because of religious factors when *al-rahm* were implemented in accordance with Islamic law [15]. Other studies that agree on the importance of religious factors in the implementation of *al-rahm* are Amin, Rosita, Dahlan and Supinah, (2007), Azman et al. (2016), Baharum, (2014), Bhatt and Sinnakkannu (2012), Hamid, Rahman and Halim (2014) and Yahaya and Bahari (2018). However, Hamid et al. (2014), Ibrahim, Yaacob and Ahmad (2012) and Rahman and Kassim (2017) found that the influence of religion has the lowest correlation value due to the diverse religious backgrounds in Sarawak. This is because awareness of an individual towards *al-rahm* is different according to religion. According to Appannan and Doris (2011), for example, the majority of Muslim societies are aware of the existence of *al-rahm* compared to the Indian and Chinese communities. Hence, in addition to intrinsic and extrinsic factors, it is also important to examine the influence of religious compliance on the acceptance towards *al-rahm*. This is because choosing *al-rahm* is a religious obligation; individuals can indirectly practice their religion for obtaining interest-free financing, according to Islamic principles and laws, without approaching conventional pawnshops.

3. Research Methodology

This article applies a descriptive study design using inferential statistical analysis, and the study is quantitative. This article uses a sampling method aimed at obtaining information from easily accessible individuals [24]. The sample consisted of Muslim small entrepreneurs in Kelantan, a state in East Malaysia, who had been exposed to *al-rahn* financing since 1992 (Mohamad & Salleh, 2008). Questionnaires were distributed to 350 small entrepreneurs in large markets in 10 districts in Kelantan. The questionnaire focused on large markets in each of the districts involved. The findings were analysed using Statistical Packages for Social Science (SPSS) 22.0, while multiple regression analysis was used to analyse the data.

To determine the overall factors affecting Kelantan Muslim small entrepreneurs' acceptance towards *al-rahn*, multiple regression analysis was performed for intrinsic, extrinsic and religious Compliance factors.

Table 1: The Results of Multiple Regression Analysis for the Overall Factors that Influence the Acceptance of Small Scale Muslim Entrepreneurs Towards Al-Rahn

Model	Unstandardized Coefficients		Standardised Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	0.073	0.292		0.251	0.802	
	Intrinsic Factors	0.637	0.076	0.518	8.384	0.000*	0.414 2.414
	Extrinsic Factors	0.217	0.075	0.183	2.889	0.004*	0.395 2.529
	Religious Compliance Factors	0.031	0.067	0.020	0.470	0.639	0.891 1.123

R = 0.674

R² = 0.454

ΔR² = 0.449

a. Independent variable (constant): mean religious compliance, mean intrinsic, mean extrinsic.

b. Dependent variable: level of acceptance.

The R and R² values indicated that intrinsic factors, extrinsic factors and religious compliance factors were predictor variables (independent variables) to the level of acceptance towards *al-rahn*, with a correlation value of 0.674 and a variation of 45.4%. Table 5.17 shows that the major predictor affecting Muslim small entrepreneurs in Kelantan regarding the acceptance towards *al-rahn* was the intrinsic factor ($\beta = 0.518$, $t = 8.384$ and $p = 0.000$). This situation showed that when the intrinsic factor score increased by 1 unit, the acceptance towards *al-rahn* increased by 0.518 units. The findings showed that the intrinsic factor predominantly affected Kelantan Muslim small entrepreneurs' acceptance towards *al-rahn*. Next, the second factor affecting the acceptance of Kelantan Muslim small entrepreneurs towards *al-rahn* was the extrinsic factor ($\beta = 0.183$, $t = 2.889$ and $p = 0.004$). This finding showed that the intrinsic factor was more dominant than the extrinsic factor in influencing the acceptance of small entrepreneurs towards *al-rahn*. However, the religious compliance factor ($\beta = 0.020$, $t = 0.470$ and $p = 0.639$) was found to be insignificant to Kelantan Muslim small entrepreneurs' acceptance towards *al-rahn*. Based on past researches, Islamic institutions are more concerned with religious factors in mobilising their promotional strategies, particularly for Muslim consumers. Kamarulzaman and Madun (2013) also stated that Islamic institutions' promotional activities are quite ineffective compared to conventional institutions in Malaysia, as Islamic institutions rely more heavily on 'religion' approaches, and this strategy is inferior to attracting consumers. Therefore, *al-rahn* are no exception to using the approach.

However, this study found that the religious compliance factor was not the main factor influencing small entrepreneurs' acceptance towards choosing *al-rahm*. This has led to a promotion strategy that uses a less-than-effective religious approach to Muslim consumers, which has a negative correlation to the acceptance towards *al-rahm*. Thus, institutions such as *al-rahm* should not emphasise only promotional strategies with religious approaches, nor should they focus only on Muslim consumers. Ismah, Husniyati, Zainuddin, Rashid and Jusoff (2009) suggested that Islamic institutions should offer quality products and services and not only rely on religious and Islamic images to attract consumers. However, according to Solichun, Syafei, Setiawan and Solimun (2013), although the religious factor is extremely effective in attracting users, Islamic institutions do not have the ability to meet the users' expectations; thus, users choose to get them from other institutions. Therefore, an Islamic institution must have the ability to meet consumers' expectations not only from a religious perspective but also from an economic perspective.

Some previous studies have shown that Islamic institutions, including *al-rahm*, promote Islamic products or services using the religion approach for the purpose of a sales pitch. However, based on this study's findings, the religious variable was not the major factor affecting entrepreneurs' decisions in selecting financing for businesses. Hence, Islamic institutions, particularly *al-rahm*, must consider other factors in an effort to highlight *al-rahm* as Islamic capital financing for the small business sector.

4. Conclusion

This article examined the study's results inferentially and quantitatively. The analysis of the factors that influence Kelantan Muslim small entrepreneurs' acceptance showed a positive and significant correlation with intrinsic and extrinsic factors. However, the dimension of religious compliance factor showed a contradictory result: the multiple regression analysis showed there was no significant relationship between the religious compliance factor and acceptance towards *al-rahm*. In the future, this study is expected to be expanded to a wider scope to include other states in Malaysia. Additionally, this study's results can assist entrepreneurs in understanding *al-rahm* while enhancing entrepreneurial activities in the country. The study will also help in improving and empowering *al-rahm* in the future.

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