

## Bank Selection for SMEs: An Emirati Student Perspective

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### Abstract

*The focus of this research is to identify the factors that influence bank selection attitude amongst student entrepreneurs seeking financial support for their prospective business. The data generated from this study will not only apprise nascent Emirati entrepreneurs' perspective but also emphasize the role of the banking industry, in particular the UAE Islamic Banks, in the development and growth of national SME sector. The target population size is set as 500 Emirati graduating students and the target sample size is set as 410. Descriptive Statistics, Test of Reliability and Factor Analysis methods are applied to the collected data to check the reliability and validity of the model. Statistical tools such as Multiple Regression and ANOVA are then applied to analyze the data. The study findings explore factors that impact the expectations of prospective Emirati entrepreneurs and their bank selection criteria. Additionally, the findings identify significant factors that UAE Islamic Banks can utilize to update their strategies towards attracting prospective customers and increasing their client base by adopting innovative small and medium enterprise (SME) financial solutions for the emerging Emirati entrepreneurs.*

**Keywords:** Emirati Students, SME, Entrepreneur, Islamic Bank

### Purpose

The focus of this research is to identify the factors that influence bank selection attitude amongst student entrepreneurs seeking financial support for their prospective business. The data generated from this study will not only apprise nascent Emirati entrepreneurs' perspective but also emphasize the role of the banking industry, in particular the UAE Islamic Banks, in the development and growth of national SME sector.

### Design/methodology/approach

This study applies the analytical approach and statistical methods of research to explore the attitude of prospective Emirati entrepreneurs towards the selection of Islamic banks as a preferred choice to meet their business financial needs. Firstly, there is a critical examination of the literature on both Islamic and conventional (non-Islamic) banks and their financing policies. This is followed by an account of the empirical data generated as a result of a survey conducted in 5 pre-selected educational institutes in the UAE. The focused respondents to this study are Emirati graduating students aspiring to be entrepreneurs. The target population

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size is set as 500 Emirati graduating students and the target sample size is set as 410. Descriptive Statistics, Test of Reliability and Factor Analysis methods are applied to the collected data to check the reliability and validity of the model. Statistical tools such as Multiple Regression and ANOVA are then applied to analyze the data.

## Findings

The study findings explore factors that impact the expectations of prospective Emirati entrepreneurs and their bank selection criteria. Additionally, the findings identify significant factors that UAE Islamic Banks can utilize to update their strategies towards attracting prospective customers and increasing their client base by adopting innovative small and medium enterprise (SME) financial solutions for the emerging Emirati entrepreneurs.

## Introduction

It is an indisputable fact that SMEs are the backbone of an economy, however, their access to finance remains a critical issue not only in the under-developed countries but also in many of the developing countries. Since commercial banks are the main source of funding for this important segment of the economy, the symbiotic relationship between the two parties must be robust to ensure the success of both.

Hassan (2015) argues that SMEs are incubators for innovation as they tend to be more responsive and adaptable to local conditions than large corporations. However their biggest challenge, given that the entrepreneurs may be young and inexperienced, is access to capital. These young entrepreneurs represent the future economic success of a country and, as such, require a structured financial support system to enable them to reach their full potential. The properly aligned combination of the two is a winning combination and a symbol of a nation's economic success (Hassan, 2015). Thus SMEs and young entrepreneurs are powerful and vital contributors towards the development and economic growth of a country.

This study investigates the relationship between SMEs, young entrepreneurs and commercial banks within a UAE (United Arab Emirates) context. The primary reason for choosing the UAE is due to its cosmopolitan environment, good lifestyle and business orientation among the young generation. It is generally assumed that young Emiratis will opt for government positions on leaving full-time education, but many in fact start their own businesses. According to the annual report of the UAE Ministry of Economy (2018), more than 94 per cent of the companies operating in the UAE are SMEs and together they account for more than 86 per cent of the total private sector workforce as well as more than 60 per cent of the country's current GDP. This is something that the UAE government is keen to bolster by encouraging entrepreneurial activities in the country and providing a range of support facilities to all residents, with a particular focus on the young UAE nationals.

One key factor in determining the success of an SME is access to finance and commercial banks have a huge role to play in facilitating that access. The relationship between the two is vitally important. However, to date there is very little research to further our understanding of the dynamics involved in the selection of banks and banking facilities by emerging entrepreneurs.

To obtain precise understanding of the factors that influence SME owners' funding decisions, we framed our study using Ajzen's (1991) theory of planned behaviour (TPB). TPB has been



successfully applied in the small business research domain (Brettel et al., 2009; Ghouri et al., 2016) where it fits particularly with understanding financing decisions (Brettel et al., 2009; Kelley and Buultjens, 2003). Brettel et al. (2009) also support TPB's empirical validity in the finance context, specifically SMEs' financing decision behaviour. Furthermore, TPB has been widely used to evaluate a range of individual behaviours in the finance and investment context (Koropp et al., 2014; Sondari & Sudarsono, 2015; Al Balushi et al. 2018).

This particular study will contribute to the SME finance literature in several ways. Firstly, the understanding of the SME financial decision-making process, by aspiring entrepreneurs, will be enhanced. Secondly, since most studies on SME finance focus on conventional financing, this study extends the scope to include a more comprehensive perspective by also analyzing Islamic financing policies. Finally, we examine the factors that influence attitude formation towards Islamic finance from the perspective of Emirati students aspiring to be entrepreneurs; a group seldom represented in previous research studies (Basha et al. 2015).

## **Literature Review**

SME projects play a major role in the growth and development of most economies by creating employment opportunities and are often also a source of technological innovation creating new products. Furthermore, the economic wealth that they generate is instrumental in the eradication of poverty. As established by Muhammad et al. (2019), the role of SMEs in the economic growth of a country is indisputable.

SMEs are often small scale and have poor financial information transparency thus they rely greatly on bank loans and credit guarantees for sources of funds. However, financial institutions do not prioritize loans to SMEs enterprises because the loans tend to be smaller and there may be a variety of other reasons including: an SME may have a less strict accounting system; incomplete financial data; lack of full disclosure of information; poor quality of accounting personnel; strong family business ties; insufficient collateral; uncertainty of cash flow and poor response to economic situations. Hence, SMEs either fail to access loans or suffer from high cost for the relatively small funds that they need (Chih et al. 2018).

Islam & Miajee (2017) concur that banks do not express enthusiasm towards SME financing. The explanation for their apparent reservation is due to higher operational costs, lower return on their investment and a perceived high risk related to SME financing. For banks there is relatively small financial return in relation to the operational expenses involved and SMEs tend to need proportionally higher supervision and monitoring whilst not conforming to the insurance prerequisites and thus banks are hesitant to back SMEs.

It is clear that SMEs have unique characteristics and López-Gracia and Sogorb-Mira (2008) and Berger and Udell (1995) confirm that SMEs not only behave and act differently from larger firms but also utilize different financing mechanisms. Ndiaye et al. (2018) ascertain that in order to provide effective support it is essential that the drivers of SME performance are investigated. Moreover, they contend that policymakers need to go beyond basic measures to improve access to finance but enhance the institutional support that would allow small and medium businesses to thrive sustainably. One of the key areas of investigation, as highlighted by Ndiaye et al. (2018), is that the access to finance is not the only issue for SMEs but the specific type of finance also matters to SME performance, particularly for developing

economies. Correspondingly, Koropp et al. (2014) maintain that the financial decision-making poses one of the main challenges in SMEs all over the world.

Financial support is key to SME success, as discussed, but Stenholm & Nielsen (2019) highlight the crucial role that motivation plays in that success claiming that the strongly passionate entrepreneurs are more likely to dedicate time and resources towards their ventures and their ventures are accordingly more likely to survive and become profitable ventures compared to those operated by less passionate entrepreneurs. Financial support has influence therefore, not only through its economic functions, but also through the perception of emotional support attached to receiving the financial support. Furthermore, their findings demonstrate that public funding in the form of a start-up grant (Tokila, 2009) also carries an important emotional meaning for entrepreneurs (Semmer et al., 2008). This means that financial support has an impact not only through its economic function (e.g. Baumgartner and Caliendo, 2007; Tokila, 2009), but also through the emotional support attached to receiving it.

According to Aliero et al. (2018), a number of studies have been carried out, world-wide, to analyze the factors that affect customers' preference in banking services. Among these studies Mokhlis *et al.* (2008) examined the determinants of bank selection criterion in Malaysia considering undergraduate students and examined whether undergraduates constitute a homogeneous group in relation to the way they select a bank. In another study, Mokhlis (2009) attempted to analyze gender-based choice decisions. Correspondingly, in Bahrain Almossawi (2001), undertook a similar study of college students, while in Greece, Mylonakis (2009) carried out a research of customer preferences in the home loans market. Similarly, Aamir and Mubeen (2012) conducted a study to identify the factors that influence the bank selection decision of the undergraduate students.

In Australia, Tucker and Jubb (2018) studied students' attitude towards the selection of bank and revealed that the bank customers have become more cautious in selecting their bank and their products and services. Accordingly, they recommend that retail banks in Australia need to be constantly reshaping their marketing strategies to target, attract and retain student customers. Khaitbaeva et al. (2015) in their study conducted in the United Arab Emirates (UAE) found that the four most important factors in selecting a bank for students were service charges, proximity of location and ATM, convenience and bank reputation. Erol and El-Bdour (1989) examined the banking behaviour of customers for both conventional Western and Islamic banks in Jordan. Their study revealed significant differences between conventional and Islamic bank customers in relation to rating bank products/services. Although rated in a different sequence, the three most useful bank services were the provision of loans, accessing current account facilities and offering securities. According to the authors, this finding suggests that respondents do not differentiate between the two types of banks in terms of the services they offer.

Researchers revealed that personal characteristics (gender, age, education, experience) and firm characteristics (firm size, ownership, firm type) effect the decision making of SMEs towards selection and adoption financial products and services (Low & Mazzarol 2006; Xiang et al, 2011; Zabri et al, 2015). McKechnie (1992) refers to the dependability and size of institution, location, convenience and ease of transactions, professionalism of bank personnel and availability of loans, as some of the common bank choice criteria. According to the research findings, reputation, price and service, were the key variables that consumers look



for, when evaluating a bank (Kennington et al. 1996). Similarly, Khazeh and Decker (1992) investigated the consumers' decision-making criteria in the USA, considering also the degree of dissimilarity among banks with respect to these criteria and found that service-charge policy, reputation, competitiveness of loan rates, time required for loan approval and friendliness of tellers, are the most important factors in explaining how customers choose banks (Lymperopoulos et al. 2006). Nevertheless, Gait and Worthington, (2009) found religion as the primary motivation towards potential use of Islamic finance among business firms. Haque, (2010) confirmed that *Shariah*-compliance or factor of religion as an important factor which drives Muslim owner-managers towards Islamic finance.

Since customer behavioral intention is a strong indication of actual behavior, therefore, exploring such information will assist banks to recognize the appropriate marketing strategies needed to attract new customers and retain existing ones (Kaynak, Kucukemiroglu & Odabasi, 1991). With growing competitiveness in the banking industry, and similarity of services offered by banks (Holstius & Kaynak, 1995), it has become increasingly important that banks identify the factors that determine the basis upon which customers choose between providers of financial services (Alierio et al. 2018).

Despite all the issues mentioned above, the banks are nevertheless the major finance providers for the financial needs of a variety of businesses ranging from microfinance to the large enterprises. Banks are considered as the engines of trade and business and recognized as the solution for financial needs. Though banks provide financial solutions to all ranging from microfinance to the large enterprises, the selection of a bank for financial support of SMEs remains a challenge.

Islamic banks are regarded as a good platform to increase access to financial inclusion as well as easy access to finance for SMEs to support economic development and growth (Abdesamed & Wahab, 2015). There exists a body of literature discussing the motivations of consumers to select Islamic financing and Islamic banks in general over conventional banks based on expected value. Studying consumer attitudes in Pakistan indicated that customers value service quality in Islamic Banks as the top priority followed by religious motivations (Jamal & Naser, 2003). Another study in Jordan showed that customers prioritize speed of service and bank reputation (Erol and El-Bdour, 1989; Erol et al., 1990). Similarly, studying Muslim and non-Muslim consumer attitudes in Malaysia (Haron et al., 1994; Marimuthu et al., 2010; Echchabi & Olaniyi, 2012) and Singapore (Gerrard & Cunningham, 2001) revealed that speed of service, location convenience and service quality are the most important factors for bank selection, be it an Islamic or a conventional bank. In contrast, four studies revealed that Muslims in the UK (Omer, 1992), Kuwait, Saudi Arabia (Metwally, 1996), Egypt (Metwally, 1996; Hegazy, 1995) and Bahrain (Metawa & Almossawi, 1998) would select Islamic financial products for religious reasons. However, regardless of their religious motivation, those studies revealed that customers rank speed of service as the top of their priorities (El Ebrashi et al., 2018).

Hassan (2015) reveals in his lecture, delivered at the IFSB 7<sup>th</sup> Public Lecture, that the SMEs in MENA countries will benefit from the increased funding that they have sought for decades. Furthermore, he discloses that the potential of SMEs in the MENA region has been evolving over time and financial institutions have been working to meet the needs of SMEs in terms

of Islamic liability products, however, there are still gaps with respect to non-borrowing services.

Moving now to the UAE context, likewise, the earlier research in this area has confirmed that every major project's financial deal in the GCC region today invariably includes an Islamic tranche. The UAE government also understands the importance of SMEs and their financial requirements and is working towards providing better opportunities for investment in trade and finance to improve the economic resources of the country through entrepreneurial innovation which is noticeably expressed in the UAE Vision 2021 as well as in the Abu Dhabi Economic Vision 2030.

In most developed countries, entrepreneurship has become a focal point of national governmental policies and decision makers are engaged in specifically developing and implementing creative opportunities for young entrepreneurs (Jong, 2013). Similarly, the UAE government has also shown its keen interest in encouraging Emirati youth to play a significant role in the national economy at large as publicized in 'the National Agenda' of 'UAE Vision 2021'. The National Agenda of UAE Vision 2021 aims for the UAE to be among the best in the world in entrepreneurship as this is recognized as playing a key role in unlocking the potential of nationals and enables them to be a driving force of the UAE's economic development through small and medium enterprises in the private sector (UAE Government, 2019).

### **UAE Vision 2021**

The UAE Vision 2021 (2010) clearly states that due to expected significant variation in the global economy in the coming years the 'UAE Vision 2021 National Agenda' aims to focus on the UAE becoming the economic, touristic and commercial capital for more than two billion people by transitioning to a knowledge-based economy, promoting innovation and research and development, strengthening the regulatory framework for key sectors, and encouraging high value-adding sectors. These steps are envisaged to improve the country's business environment and increase its attractiveness to foreign investment.

Furthermore, the National Agenda strives to instill an entrepreneurial culture in schools and universities to foster generations endowed with leadership skills, creativity, a sense of responsibility and a driving ambition. This is expected to allow the UAE to be among the best in the world in terms of ease of doing business, innovation, entrepreneurship and R&D indicators. The National Agenda seeks to place the UAE among the top countries in the world in income per capita and ensure high levels of national participation in the private sector workforce. A diversified and flexible knowledge-based economy will be powered by skilled Emiratis and strengthened by world-class talent to ensure long-term prosperity for the UAE.

Accordingly, the UAE government is passionately focused and is striving to harness the full potential of its national human capital by maximizing the participation of Emiratis, encouraging entrepreneurship, and nurturing home-grown public and private sector leaders while attracting and retaining the best talent to make a valuable contribution to their nation's growth by building their knowledge and applying their talent with innovation and drive. Moreover, the UAE Vision 2021 highlights that the promising Emiratis must be nurtured to

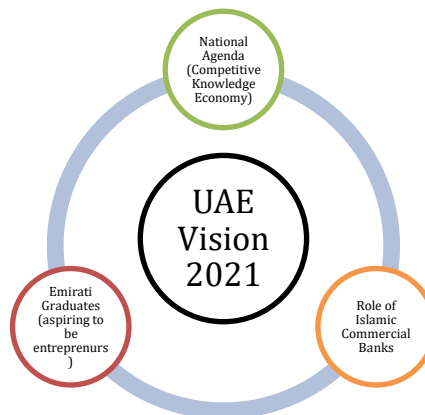


become captains of industry and dynamic entrepreneurs, marshalling the country's resources to bring innovative products to the marketplace.

It is also highlighted in the agenda that the UAE government is looking to sustain its drive toward economic diversification by expanding new strategic sectors to channel their energies into industries and services where they could build a long-term competitive advantage. It is considered that by stimulating home-grown entrepreneurship and attracting foreign direct investment, the UAE economy will mature into a model of sustainable and responsible growth that will ensure long-term prosperity for all Emiratis. Therefore, to ensure lasting competitiveness, the UAE is looking beyond traditional economic models and considering a more flexible perspective. It is stressed upon the businesses in the UAE to adopt an increasingly customer-centric approach to customizing their products and services, and should learn to coordinate in efficient networks to meet the complex demands of the marketplace.

The UAE Vision 2021 also specifies that innovation, research, science and technology will form the pillars of a knowledge-based, highly productive and competitive economy, driven by entrepreneurs in a business-friendly environment where public and private sectors form effective partnerships. This shift to a knowledge economy can only be accomplished within an entrepreneurial environment that harnesses the talent and creativity of Emiratis. A new class of entrepreneurs will be nurtured and supported with the help of practical programs such as start-up incubators. In a national effort, the UAE will cultivate a healthy risk-taking culture where hard work, boldness and innovation are rightfully rewarded. In this way the UAE will become one of the best places in the world to do business. (UAE National Agenda and UAE Vision 2021, 2010)

**Figure 1.**



Source: Authors develop from the UAE Vision 2021

### **Abu Dhabi Economic Vision 2030**

The Abu Dhabi Economic Vision 2030 identifies Abu Dhabi as a sustainable, diversified, high-value-added economy that encourages enterprises and is well integrated in the global economy leading to better opportunities for all. It aims to 'Enlarge the Enterprise Base'. According to the Abu Dhabi Vision 2030, Abu Dhabi will establish a comprehensive business

facilitation program in order to ease the process of setting-up new business. The emirate will work to guarantee that nationals have the skills required for competing in a growing and open economy. Though at 3.5%, overall unemployment levels in the Emirate remain low, however, unemployment among Nationals is relatively high and Abu Dhabi aims to reduce this figure to ensure they are benefiting from the Emirate's development.

Almost two-third of Nationals are aged 24 and younger, while two-fifths are below the age of 15. This is a significantly higher proportion of youth than that seen in other transformation economies. These young Nationals will shape the Emirate's future and will be the major economic contributors of tomorrow. Rapid population growth has followed economic success, and Abu Dhabi must ensure that the benefits of social and economic development are shared among all the Emirate's residents. The government is working to ensure that Abu Dhabi's substantial youth population is eventually able to compete in the international economy.

Objective 2 of Abu Dhabi Economic Vision 2030 relates to the size of the enterprise base and states, "It is important to enlarge the enterprise base, both through the continued growth and expansion of large National Champions, attracting of FDI (Foreign Direct Investment) in leading-edge technology sectors, and through the stimulation of more vibrant SME sector. This will provide more meaningful opportunities for UAE Nationals, encourage innovation in higher value-added sectors, and mitigate the risk to the economy of shocks to large enterprises. Coupled with the traditional support mechanisms-financial or technical that could be offered to SMEs, it is expected that the revision of anti-trust laws, the removal of entry barriers into some economic sectors, and encouraging market-based competition mechanisms will encourage entrepreneurship and foster the SMEs sector growth" (Abu Dhabi Government, 2019).

Furthermore, Objective 3 of Abu Dhabi Economic Vision 2030 relates to competitiveness and it states, "Abu Dhabi will enhance competitiveness and productivity. Not only will steps in this regard bolster the entrepreneurial SME sector, but it will also generate significant economic growth in an underperforming segment of the economy."

As the local economy grows, there is a greater demand for increasingly sophisticated financial services, from commercial banking to investment, insurance and large-scale corporate and project finance. To meet the financial needs of business sector Abu Dhabi operates from a position of strength within the UAE banking sector, with its top three banks accounting for 50.7% of overall UAE bank assets. Abu Dhabi already has a large and thriving conventional and Islamic banking sector servicing a population with one of the world's largest capital bases per capita. With such liquidity, it is well placed to maintain a place as a regional leader in the sector.

Among the banking sector Islamic banks have been growing at spectacular rates in the UAE, outpacing the growth of conventional banks and reflecting the continued regional trend towards Islamic finance. Further capitalization and development of the Islamic banking sector in Abu-Dhabi will provide another source of funding to future developments (Abu Dhabi Government, 2030).

The launch of Dubai Center for Islamic Banking and Finance is another significant boost to the Islamic Economy sector in the UAE and a major step forward in the economic development agenda of Dubai transforming the emirate into the global capital of Islamic

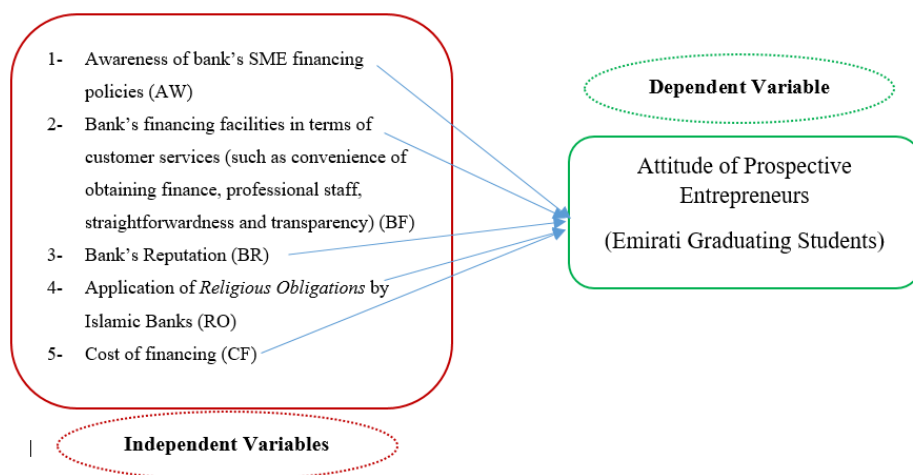


economy. Being a Muslim majority country it is envisaged that the young entrepreneurs would seek the financial support for their enterprises from the Islamic banks (Hamdan Bin Mohamed Smart University, 2016).

However, the issue of the wide credit gap is one of the challenges which Islamic finance has had to deal with in the past and even more so in the present. In addition, when they decide to fund a project or to lend money, Islamic banks are known to charge higher rates compared to conventional banks. Quite apart from losing the younger generation, *Islamic* banks tend to lose potential ‘good’ debtors who choose to obtain loans from conventional credit institutions. Therefore, it is of significant importance to analyze the issue and conduct an in-depth study of the case particularly with reference to the UAE potential SME entrepreneurs as ascertained in the seminar conducted by the UAE Bank Federation (UBF Annual Report, 2017). This focuses on discussion for best practices to increase opportunities of access to finance, exploring ways to support the development of its business, and the challenges facing the relationship between banks and SMEs; existing as well as the forthcoming.

This study addressing the gap in the literature analyzed the factors using the following model.

Figure 2: Research Framework



Source: Author generated

A number of factors were determined that could significantly influence the attitude of Emirati students in the selection of bank for availing financing facilities for their prospective businesses. Nevertheless, following five potential determinants influencing bank selection attitude are analyzed in this research:

1. Awareness of banks' SME financing policies (AW)
2. Banks facilities in terms of customer services (such as convenience of obtaining finance, professional staff, straightforwardness and transparency) (BF)
3. Bank's Reputation (BR)
4. Application of *Religious Obligations* by Islamic Banks (RO)

## 5. Cost of financing (CF)

Based on the five potential determinants, following hypotheses are addressed by this research:

1. Awareness of banks' SME financing policies has no influence on the attitude of Emirati graduating students aspiring to be entrepreneurs towards the selection of Islamic banks.
2. Bank financing facilities, in terms of customer services, have no influence on the attitude of Emirati graduating students aspiring to be entrepreneurs towards the selection of Islamic banks.
3. Bank market reputation does not influence the attitude of Emirati graduating students aspiring to be entrepreneurs towards the selection of Islamic banks.
4. Religious obligations followed by the banks do not influence the attitude of Emirati graduating students in their selection of Islamic banks.
5. Cost of financing does not influence the attitude of Emirati graduating students aspiring to be entrepreneurs towards the selection of Islamic banks.

## Definition of Variables

### Awareness of bank's financing policies

*Awareness* is the knowledge, understanding and or perception of a situation or a fact. It is a state of an individual of knowing or being conscious about something. It stimulates an individual to take a decision based on his/her positive or negative attitude towards the subject matter. According to Sarbo (2016), the first step of an individual in the product adoption process is awareness followed by knowledge, persuasion, decision and confirmation (Rasheed et al, 2018). Tawfiqi et al. (2018) also take *awareness* as one of the key factors in bank selection criteria by Bahraini entrepreneurs. One of the core influencing factors, *awareness* of banking facilities with respect to Islamic financial decision-making among SME owner managers is also specifically addressed by Balushi et al. (2018). This variable measures the impact of respondent's awareness of the bank's financing offerings, interest rates, services and other miscellaneous charges on his/her bank selection criteria.

### Bank financing Facilities

This variable relates to evaluating the facilities and suppleness of banks requirements regarding the negotiating terms and other difficulties faced by customers that are perceived as ease of doing business with the banks. It also relates to the convenience of obtaining finance, professional staff, straightforwardness and transparency maintained by the bank. Furthermore, it is also considered that the loan terms including collateral and the type of guarantee required by the bank before approving the finance are important elements when it comes to lending issues. This variable is also addressed by Jubb and Tucker (2017) who found *good customer service* offered by the banks as one of the key influencing factors on the customer attitude towards bank selection.

### Bank Reputation

This variable covers the respondent's consideration of a bank's market standing before attaining the financial services. It includes the general perception of the bank amongst the customers, particularly SME entrepreneurs functioning in the market. Tucker and Jubb (2017)



significantly address this very important factor in their study on the bank and product selection – an Australian student perspective.

### **Application of *Religious Obligations* by Islamic Banks (RO)**

This variable examines the influence of religious beliefs and thoughts of the respondent in terms of availing financing facilities from lending institution. It is evident from the review and analysis of research literature that religiosity has a greater impact on the customer's attitude in the selection of financial institution and its products or services, particularly, in a religiously-motivated society. One of the significant studies on the topic, Islamic financial decision-making among SME owner managers conducted by Balushi et al. (2018) also takes *religiosity* as an important influencing factor that impacts the behavioural intention of customers. Other studies addressing *religiosity* as one of the key factors influencing the customer attitude towards bank selection include, El Ebrashi et al. (2017), Alam et al. (2011), Mokhlis (2009), Ali et al. (2015).

### **Cost of Financing**

This variable corresponds to the respondent's response towards measuring and considering the various costs such as interest rate, length of loan, documentation charges and assessment fees etc. directly associated with obtaining finance for its business financial needs. *Cost of financing* as one of the impeding factors in obtaining the bank financing facilities for SMEs is addressed by many researchers such as; Islam & Miajee (2017), Tucker & Jubb (2017)

### **Research Methodology**

A self-administered questionnaire is developed to collect the data from a focused group of respondents i.e. Generation X and millennial graduates aspiring to start their business. The questionnaire has three main sections. The first section covers demographics and consists of five items that measure the demographic characteristics of the respondents. The second section covers the independent variables, which are divided into five variables: namely, the Bank Awareness (BA), Bank Facilities (BF), Bank Reputation (BR), Religious Obligation (RO) and Cost of Financing (CF). The third section relates to the dependent variable i.e. attitude of Emirati graduating students aspiring to be entrepreneurs towards the selection of Islamic Banks' SME Financing Policies.

### **Sampling Procedure and Data Collection**

This research explores the generation X and millennial graduates who are willing to take risks and are interested in investing their time, money, energy and ideas to transfer a concept into a business solution. The research probes the attitude of graduating Emiratis aspiring to be entrepreneurs towards the selection of Islamic banks as preferred choice for meeting the financial needs of their prospective business. A convenient sample of 500 respondents (Emirati student entrepreneurs) from five reputed academic institutes of the UAE were selected. The students were asked to express the factors that motivate and influence their attitude towards the selection of Islamic banking products.

A preliminary questionnaire was distributed to ascertain interest in being an entrepreneur. A full set of questionnaires was only given to those students who either have an existing business

or are planning to start a business soon and who proved their knowledge of both Islamic and conventional banks, or, those who had dealt with both banks before.

In analyzing bank selection criteria, mean scores and factor analysis were used. Factor analysis is a statistical technique to reduce a large set of variables or statements to a smaller number of coherent subsets or factors that are relatively independent of each other. This research used confirmatory factor analysis method to validate the data set option. A review of the literature shows that this technique has been employed in many previous studies to rank the criteria used by students to select their bank (e.g. Haron et al., 1994; Gerrard & Cunningham, 1997, 2001; Almossawi, 2001).

## **Measurement Instrument**

The survey questionnaire consists of 3 sections. The first section (A) of the questionnaire records the respondents' demographics information, whereas the second section (B) relates to the eligibility of the respondent to provide a response for third section (C). Section C questionnaire of independent variables extracted from an in depth study of literature. Section C also includes the required information for dependent variable. The study adapts a 5-point Likert scale (1=strongly agree to 5=strongly disagree) assessment tool. A Likert scale is a commonly used rating scale to measure or judge the respondents' feeling and attitude towards something to be analysed.

## **Data Analysis and Findings**

The sample size was set as 500 and data was collected from the students using a convenience sampling technique. Questionnaires were distributed to the Emirati students at the designated colleges situated in three Emirates of the UAE. To focus the target respondent only those students were asked to take the survey questionnaires who have either entrepreneurial background or planning to start the business. The questionnaires were given to the students who passed the preliminary screening criteria. Out of 500 respondents, 450 respondents were allowed to complete the survey. Out of 450 respondents further 40 responses were screened out as disqualified due to the inappropriate or biased selection i.e. either ticked all 'agree' or 'disagree' or 'incomplete answer'.

The table below shows the analysis of the demographic factors of the respondent participated in the survey. The respondents were divided into three categories such as gender, education and location. The analysis table below shows that the male responses represent 76.6% whereas the female respondents represent 23.4%. Furthermore, the education level shows that the highest percentage of respondents who answered the survey were studying business and they account for 34%, followed by the students from information technology 27.8%. Students of Health Sciences account for 20.2% and lastly students from the engineering department account for 18.0%. The data set further divided into location which cover the three major cities. Abu Dhabi represent 51.2%, trailed by Dubai 41.4% and lastly Sharjah account for 07.6%. The SPSS software is used to analyse the collected data. The SPSS is the most frequently used software to understand the perception and attitude of the respondent due to its tool of multi regression and correlation. The author decided to test the data with the following set of analytical tools i.e. Cronbach Alpha for reliability of the data, EFA test to validate the set of data, ANOVA to check the fit of the model, Pearson Co-relation to understand the interdependence of the data and Multi-regression to check the impact of the



independent variable on the dependent variable. The breakdown of the demographic variable is displayed in table 1, below.

**Table 1.** (Demographic – Gender, Education, Age and Location)

Gender	Frequency	Percent
Female	96	23.4
Male	314	76.6
<b>Education</b>		
Business	139	34
Computer information system	114	27.8
Health Science	83	20.2
Engineering	74	18.0

**Location**

Abu Dhabi	210	51.2
Dubai	170	41.4
Sharjah	30	07.6
Total	410	100.0

Author generated from the collected data

The respondents were asked about their familiarity with the banks to recognize their knowledge of banking policies and understanding of banking services. The majority of the respondents were aware of commercial banks (47.8%) followed by Islamic banks (22.2%) and the respondents who were familiar with both banks' financial policies were 30% (See the below table 2).

**Table 2.**

Bank Type	Frequency	Percent
Commercial bank	196	47.8
Islamic bank	91	22.2
both of them	123	30.0
Total	410	100.0

Author generated from the collected data

The students were only allowed to complete the survey after knowing their intention of starting the business and seeking the intention to seek the financial policies for start-up business or intermediate financial need for their business.

Would you seek financial facilities from the banks for your business needs?

**Table 3.**

	Frequency	Percent
Yes	410	100.0
No	0	0

Author generated from the collected data

### Skewness and Kurtosis Analysis:

Skewness and Kurtosis analysis was used to check the normality of the study. According to George and Mallery (2010) the data set can be accepted where it falls between the value of Skewness value between  $\pm 3.0$  and Kurtosis value between  $\pm 3.0$  is acceptable for measuring the variables. The analysis identifies the normality of the data set, and the tools of analysis that can be used to extract the information.

**Table 4.**

	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Awareness (AW)	1.67	5.00	3.5732	.89381	-.298	.121	-.951	.240
Bank Facilities in terms of Convenience & Confidence (BF)	1.67	5.00	3.8927	.70970	-1.469	.121	2.372	.240
Bank Reputation (BR)	1.80	5.00	3.7820	.81332	-.466	.121	-.402	.240
Religious Obligations (RO)	1.00	5.00	3.6992	1.03931	-.921	.121	-.154	.240
Cost of Financing (CF)	1.67	5.00	3.7748	.75780	-1.425	.121	1.963	.240
Attitude (AT)	2.00	5.00	3.7142	.53144	-.772	.121	.721	.240

Surprisingly, the analysis of the Skewness and Kurtosis data set are within the value between  $\pm 3.0$  and Kurtosis value between  $\pm 3.0$  is acceptable for measuring the variables. Therefore, the data set is considered as probability data and the probability data analysis, such as multi- regression test, will be used.

### Reliability test analysis:

The data is further tested to check the items' interdependency and reliability through *Cronbach's alpha* tool. The **Cronbach's alpha** is a measure of internal consistency, that is, how closely related a set of items are as a group. According to the *Cronbach alpha* test, the result of the test for acceptance should be at least 0.7 and above. The higher the value the greater the reliability and interdependency. Remarkably, all the set of data results were more than the minimum threshold value of 0.7, therefore, the data set is reliable for the intended study and the result can be further tested for validity. See the below table 5.

**Table 5.** (Reliability Analysis)

Variable	N	Cronbach's Alpha
Awareness (AW)	3	0.729
Bank Facilities (BF)	6	0.973
Bank Reputation (BR)	5	0.946
Religious Obligations (RO)	3	0.994
Cost of Financing (CF)	3	0.762
Attitude (AT)		0.873

Source: Author generated from data analysis

All twenty items of the questionnaire were confirmed to validate the data by means of multivariate statistical technique of factor analysis, data reduction, data summarization, the Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) and Bartlett for analysing the test results (Tobias & Carlson, 1969). In examining this specific data set, Kaiser (1974) recommended that at least KMO significance of 0.5 was vital for steering factor analysis with such data. The result of the KMO analysis shows that the all the five variables data set were higher than recommended data number. Therefore, the study instrumental data are valid and fit for the study sample. See Table 6 below.

**Table 6.** (Factor Analysis)

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.764
Bartlett's Test of Sphericity	Approx. Chi-Square	12453.122
	Df	190
	Sig.	.000

Source: Author generated from data analysis

## Correlations analysis

To further check the strength of the associate factors and interdependability, the Pearson bivariate correlation examination was implemented. The test shows the variable and its relationship and strength with the co-variables. The examination supports the author to recognise the variable that has high and low relationship and the reliance with the dependent variables. This analysis infers the association strength between two factors. Thus, the outcomes will help to recognize which factor is exceedingly independent and associated with the attitude (Pallant, 2001).

The below table 7 displays that all independent factors were greatly correlated with Islamic banking positive attitude, as they are at the 0.01 level. All of the below variables show a robust inter-relationship between each other. The outcome of the correlation shows the determinants i.e. Bank Awareness (BA), Bank Facilities (BF), Bank Reputation (BR), Religious Obligations (RO), Cost of Financing (CF) have positive relationship with the dependent variable of i.e. Attitude (AT).

**Table 7.** (Pearson Correlations analysis)

	Awareness	Facilities	Convenience & Confidence	Religious Obligations	Cost	Attitude
<b>Bank Awareness (BA)</b>	1					
<b>Bank Facilities (BF)</b>	.037 (.457)	1				
<b>Bank Reputation (BR)</b>	.147** (.003)	.242** (.000)	1			
<b>Religious Obligations (RO)</b>	.104* (.034)	.206** (.000)	.089 (.072)	1		
<b>Cost of Financing (CF)</b>	.245** (.000)	.345** (.000)	.421** (.000)	.028 (.577)	1	
<b>Attitude (AT)</b>	.465** (.000)	.503** (.000)	.571** (.000)	.504** (.000)	.566** (.000)	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\*. Correlation is significant at the 0.05 level (2-tailed).

Source: Author generated from data analysis

## Multi Regression and ANOVA Analysis

To further check the relationship of independent variables on dependent variable, multiple regression analysis was tested. The test is widely used and sophisticated to understand the impact of each independent determinant on the dependent variable. The test is the extension of co-relation and helps to identify the predictive variable and its importance in terms of consumer behaviour or attitude (Pallant, 2001). The result are outlined as table 8. The result will help to test the hypothesis and determine the relationship of the variables between the independent variables on the dependent variable. The results are outlined in Table 8.



**Table 8.** (Summary between Determinants (AW, BF, BR, RO, CF) with selection Intention) (AT)

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.889 <sup>a</sup>	.791	.789	.24440	.791	305.974	5	404	.000

a. Predictors: (Constant), Cost of financing, *Religious Obligations*, Bank Awareness, Bank Facilities, Bank Reputation

Source: Author generated from data analysis

To summarize, the testing of the hypotheses between the determinants of Cost of Financing, Religious Obligations, Bank Awareness, Bank Facilities, Bank Reputation – and the attitude of the future entrepreneur shows that the value of the R squares indicated that there were approximately 79.1% of variance in the positive attitude towards the Islamic banking product and service, in terms of the determinant variables of Cost of Financing, Religious Obligations, Bank Awareness, Bank Facilities, and Bank Reputation. The findings show that these determinants have significant contributions in understanding the upcoming entrepreneur's intention towards the Islamic banking as a source of finance. These results display that entrepreneurs are more likely to express a positive attitude towards Islamic banking when these determinants are met with the intention.

In order to check the validity of the model, ANOVA test is piloted to check the fit of the variable. The outcome of the test result should be less than .05 to validate the model that is fit for the study. Significantly, the result of the ANOVA test .000 shows that determinants that were used for the intent study are appropriate for the study and the test can be further checked with the Beta co-efficiency to check that each variable impacts on the dependent variable. In investigating the outcomes of the ANOVA test on the Predictors (Cost of Financing, Religious Obligations, Bank Awareness, Bank Facilities, and Bank Reputation) against the dependent variable; attitude (AT), results indicate that the F-test was significant ( $F=305.974$ ,  $p<0.05$ ) signifying that this regression model was positively valid. This validity indicated a significant relationship between this set of predictors and the dependent variable.

**Table 9.** (ANOVA – Determinant and Attitude)

ANOVA <sup>b</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	91.383	5	18.277	305.974	.000 <sup>a</sup>
	Residual	24.132	404	.060		
	Total	115.515	409			

a. Predictors: (Constant), Cost of Financing, Religious Obligations, Bank Awareness, Bank Facilities, Bank Reputation

b. Dependent Variable: Attitude

Source: Author generated from data analysis

### Analyses of Coefficients on Determinants

A continuance of the ANOVA test, coefficient test was conducted to check the contribution of each of the determinants of the model using Standardized  $\beta$  Coefficients. In construing the results for this test, the higher the value in this test specifies the factor has a larger effect on the independent variable. The values of the  $\beta$  Coefficients are shown in Table 10.

**Table 10.** (Coefficients – Predictors (W, BF, BR, RO, CF) and Attitude (AT))

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.137	.094		1.455	.146
	Bank Awareness	.181	.014	.305	12.878	.000
	Bank Facilities	.182	.019	.244	9.751	.000
	Bank Reputation	.211	.017	.323	12.775	.000
	Religious Obligations	.197	.012	.386	16.447	.000
	Cost of Financing	.183	.019	.261	9.727	.000

Dependent Variable: Attitude

Source: Author generated from data analysis

Conjecturing from the outcomes of this test, the factors which contributed meaningfully towards the dependent variable of the attitude intention of the respondents were the five determinant variables of: Awareness ( $\beta = 0.181$ ,  $p=0.000$ ); Bank Facilities ( $\beta = 0.182$ ,  $p=0.000$ ), Bank Reputation ( $\beta = 0.211$ ,  $p=0.000$ ); Shariah Ruling ( $\beta = 0.197$ ,  $p=0.000$ ); and Cost of Financing ( $\beta = 0.183$ ,  $p=0.000$ ).

### Results of Hypothesis One

From the above analysis of table 10, the hypothesis on Awareness **is accepted**, and consequently, the results of this study support the findings of the existing research. In this case, this result shows that the Emirati students have a positive attitude towards the selection of Islamic banking products and services with the proper information provided to them.



Therefore, awareness plays an important role in determining Islamic banks as a preferred choice for the prospective customers in the UAE. Hence, Islamic banks must focus on the future entrepreneurs and provide the required knowledge and information to the students to create a positive attitude.

### **Results of Hypothesis Two**

From the above analysis of table 10, the hypothesis on Bank Facilities **is accepted**, and consequently, the results of this study support the findings of the existing research. In this case, this result shows that the Emirati students have a positive attitude towards the selection of Islamic banking products and services with better facilities provided to them. Therefore, facilities play significant role in determining Islamic banks as a preferred choice for the prospective customers in the UAE. Hence, Islamic banks must focus on the future entrepreneurs and provide the required facilities to the students to create a positive attitude.

### **Results of Hypothesis Three**

From the above analysis of table 10, the hypothesis on Bank Reputation **is accepted**, and consequently, the results of this study support the findings of the existing research. In this case, this result shows that the Emirati students have a positive attitude towards the selection of Islamic banking products and services with the bank that has a good reputation in the market. Therefore, 'reputation' plays an important role in determining Islamic banks as a preferred choice for the prospective customers in the UAE. Hence, Islamic banks must focus to create a strong progressive reputation as compared to their competitors.

### **Results of Hypothesis Four**

From the above analysis of table 10, the hypothesis on the adoption of Religious Obligations **by Islamic banks is accepted**, and consequently, the results of this study support the findings of the existing research. In this case, this result shows that the Emirati students have a positive attitude towards the selection of Islamic banks they follow the Religious Obligations in providing financial facilities to its customers. Therefore, the application of 'Religious Obligations' plays an important role in determining Islamic banks as a preferred choice for the prospective customers in the UAE. Hence, Islamic banking must focus on the upcoming entrepreneurs and develop all their products and services in compliance with Shariah principles.

### **Results of Hypothesis Five**

From the above analysis of table 10, the hypothesis on 'Cost of Financing' **is accepted**, and consequently, the results of this study support the findings of the existing research. In this case, this result shows that the Emirati students have a positive attitude towards the selection of Islamic banking products and services considering the cost of financing that Islamic banks charge on their financing facilities. Therefore, the cost of financing plays an important role in determining Islamic banks as a preferred choice for the prospective customers in the UAE. Hence, Islamic banking must focus on the upcoming entrepreneurs and charge appropriate and competitive costs for their financing.

## Conclusion and Recommendations

The chances of a positive attitude increases or decreases with the level of awareness (Ahmad & Bashir, 2014), (Basha, Shamsudin, Saida & Kader, 2020). According to Sarbo, (2016), the first step of an individual in the product adoption process is awareness followed by knowledge, persuasion, decision and confirmation. On the same note it is also highlighted by Tawfiqi et al. (2018) that entrepreneurs' awareness level of Islamic banks has a role in entrepreneurial success. The flexibility of Islamic bank requirements for the services provided to the entrepreneur is an important factor in achieving the success of the entrepreneur. The entrepreneurs' development, influenced by Islamic banks, reflects on the entrepreneurial success. The Islamic banks support entrepreneur through the nonfinancial services also, therefore, greatly affects the success of the entrepreneurs.

Another factor that influences the individual's attitude, as pointed out by Alam et al. (2011) is religion. Religion is an important cultural factor to study because it is one of the most universal and influential social institutions and has a significant influence on people's attitudes, values and behaviours at both the individual and societal levels (Mokhlis, 2009). Kotler (2000) also mentions the influence of religion in buying decision but does not emphasize the degree to which religion could influence the decision of buying as it is a small portion of culture. However, in Islam, religion is not a culture but a way of life relating to a set of behaviours termed as "Islamic".

Abou-Yousef et al. (2015) contends that if consumers were asked to choose between Islamic and non-Islamic brands, they would probably choose Islamic products due to the importance of religion in the Arab World and specifically in Egypt. Similarly, Islamic banks are liable to adhere to *Shariah* principles, goal and its values when providing Islamic personal financing. This adherence of Islamic banks can change one's behavioral intention to use Islamic personal financing. Therefore, if the Islamic banks adhere more closely to *Shariah* principles, then there exist greater possibilities that an individual will use Islamic personal financing (Ali et al. 2015).

Another important aspect of selecting a bank is the 'cost factor'. Ali et al. (2015) disclosed in his worth mentioning study that the pricing of Islamic personal financing has a negative ( $\beta = -0.705$ ) and significant ( $p\text{-value} = 0.005$ ) impact on the intention to use Islamic personal financing. This negative effect supports the previous empirical studies by (Amin et.al, 2008; Rahman, 2005; Abdullah and Dusuki 2006; Amin et.al. 2011). The religious obligation and intention to use Islamic personal financing are negatively ( $\beta = -0.170$ ) associated with each other.

In one of the significant studies on the subject, Aliero et al. (2018) express that the results of the factor analysis for the total samples of their study indicate that the bank selection decision is based primarily on nine selection criteria. Secured feeling was the most important factor in influencing the students in selecting a bank. ATM service was the second prioritized factor followed by financial benefits. The next three criteria, ranked fourth, fifth and sixth, respectively, were service provision, proximity and branch location that can be grouped as moderate factors. By contrast, the students considered non-people influential, attractiveness and people influences which were ranked seventh, eighth and ninth, respectively, did not play significant roles in influencing their decision in selecting the bank. Their findings highlight the importance of 'Bank facilities' in the selection criteria set by the potential customers.

It is evident that all of the reference studies mentioned above support the results of this study.



## Managerial Implications

Better understanding the criteria used by customers in selecting a bank is likely to help UAE banks to identify the appropriate marketing strategies necessary to attract new customers and maintain existing customers. The increasing competitiveness of the UAE banking industry, along with the similar services offered by both Islamic and conventional banks has made it imperative for banks to identify the key determinants of choice. The findings of this study will also help bank management in identifying student selection criteria relevant for UAE banks and thereby limit consumer attrition. The results of this study reveal that all five factors, 'bank awareness', 'bank reputation', 'bank facilities', 'religious obligation' and 'bank financing costs' are considered significantly important to potential entrepreneurs when choosing a bank. Accordingly, UAE Islamic bank management needs to investigate each of these important factors when formulating student marketing strategies. Furthermore, this study will also provide a substantial material to decision makers in terms of availing financing facilities for their businesses, in particular, availing a *Shariah* compliant financing facility.

## Research Limitations

This study is mainly exposed to two limitations. First, data collection from three out of seven states of the UAE limits the ability to generalize the results to a larger population. Second, respondents are confined to Emirati graduates thus limiting the generalization of results to entire student population which includes a significant number of expatriate students studying in these institutions. Furthermore, the study is also limited to Islamic banks' financing options; it could be extended to other Islamic financial institutions such as Islamic financial and investment companies operating in the UAE.

## Future research directions

This study provides various opportunities for future research. Firstly, this study could be replicated at several levels, providing a comprehensive insight into potential customers' behaviour in all Emirates of the UAE. Secondly, the investigation could be extended to include expatriate students to reflect the diversified population in the UAE. Furthermore, the variables could be tested more widely in the GCC region, and globally, to understand how these factors are influencing potential entrepreneurs and the subsequent banking decisions being made. Research of this nature is critical if commercial banks are to harness the innovation and creativity of young entrepreneurs and build a strong economic base together, in a mutually-beneficial partnership.

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