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## SME Financing: A UAE Entrepreneur Perspective

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### Abstract

*This research is an investigation into the motivating factors driving choice of bank for SME entrepreneurs in the United Arab Emirates (UAE). The study aims to highlight the challenges and suggest solutions in addressing the credit gap between the cash flow needs of SME entrepreneurs and the finance policies of UAE banks. The data collected was generated from a sample of SME owner-managers in three emirates: Abu Dhabi, Dubai and Sharjah. A structured research questionnaire was distributed and the convenience sampling method resulted in 380 completed responses. These were analyzed using appropriate statistical tools. The results of the study will enable banks to better understand and analyze the key determinants that impact the SME entrepreneurs' attitude in bank selection and the products and services this particular group values. Research findings are also envisaged to be of particular interest to scholars and practitioners of Islamic Banking specifically, inspiring further studies across the MENA region.*

**Keywords:** SME; Entrepreneur; Bank, Finance; UAE

### Introduction

Small & Medium Enterprises (SMEs) are the backbone of business and industry. They are considered to be important engines of innovation and economic growth and they play a vital role in the financial progress, employment opportunities, poverty reduction and industrial development of a country. As maintained by Muhammad et al. (2019), the role of SMEs in the economic growth of a country is indisputable. According to a World Bank Group - WBG (2019) report, SMEs play a major role in most economies, particularly in the developing countries. Formal SMEs contribute up to 60% of total employment and up to 40% of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included. Moreover, according to the WBG report (2019), in emerging markets, most formal jobs are generated by SMEs, which also create 4 out of 5 new positions. Furthermore, this report indicates that there are 365-445 million Micro and Small & Medium Enterprises) MSMEs in emerging markets: 25-30 million are formal SMEs; 55-70 million are formal micro enterprises; and 285-345 million are informal enterprises.

The role of SMEs in the development and growth of the national economy of the United Arab Emirates (UAE) is equally vital. According to the Dubai SME annual report (2018), SMEs contribute significantly to the national economy and represent 95% of all

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establishments in the UAE and are responsible for 42% of the total workforce and contribute around 40% of the total 'value added' in the Emirate.

However, obtaining finance to support SME entrepreneurs, particularly in the underdeveloped or developing countries can be extremely difficult. The WGB annual report (2019) reveals that SMEs experience a variety of challenges in securing loans: financial performance, weak relationship with bank, and inadequate experience or knowledge in banking policies and procedures. This limited access to finance is a key constraint and severely hampers SME growth and progress. They may be left to rely on internal funds, or cash from friends and family to launch and initially run their enterprises. About half of SMEs do not have access to formal credit. Overall, approximately 70% of all micro, small and medium-sized enterprises (MSMEs) in emerging markets lack access to credit. While the gap varies considerably from region to region, it is particularly wide in Africa and Asia. The current credit gap for formal SMEs is estimated to be US\$1.2 trillion; the total credit gap for both formal and informal SMEs is as high as US\$2.6 trillion. Therefore, improving SME access to finance and finding solutions to unlock sources of capital is crucial to enable this potentially dynamic sector to grow, contribute to the economy and provide jobs. In this regard, the WGB has a growing interest in developing more innovative forms of SME financing, including: an extension of early stage innovation financing delivery mechanisms, franchising models, digital finance solutions such as crowd funding, P2P financing and Big Data Solutions (WGB annual report, 2019)

Ndiaye (2018) argues that it is not only access to finance, but the type of that finance accessed that is of crucial importance to SME performance, particularly for developing economies. From a survey of 10,000 firms in 80 countries Beck et al. (2006) determined that the size of a firm is a major determinant of financing obstacles, with smaller firms facing larger constraints. Similarly, Chih et al. (2018) state that due to the small scale and poor financial information transparency, insufficient collateral, uncertainty of cash flows and structure of SMEs, financial institutions do not prioritize loans to SMEs. Hence SMEs either fail to access loans or suffer from expensive borrowing arrangements. Compared with large enterprises, SMEs generally suffer stricter credit limitations, which affect their survival and development.

Furthermore, Lopez-Gracia and Sogorb-Mira (2008) explained that SMEs are different to large firms in terms of their operations. They not only perform and operate differently from larger firms but also utilize different financing mechanisms. SMEs are financed differently from larger firms because both economic and non-economic motives influence their financial reasoning (Gallo et al. 2004). Hence, lending institutions such as commercial banks use diverse financing policies to attract their SME customers.

## **SMEs in the UAE**

The UAE market is fully equipped with a diversified, skilled workforce with entrepreneurial capabilities. A great number of well-trained national and expatriate entrepreneurs are working in this market. However, it is noted that they lack access to financial facilities, in particular from the banks, to explore and augment their business opportunities. According to the UAE Banks Federation (UBF) Annual Report (2017), a Banks & SME Finance – Seminar held in March 2017 was organized as a part of ongoing efforts by UBF and Emirati Entrepreneurs Association (EEA) to support Emirati entrepreneurs and address key issues and challenges facing them. This gathering of entrepreneurs & banks focused on the 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 (UAE Banks Federation, 2018).

The UAE government is fully aware of the importance of SMEs and seeks to develop the UAE as one of the most high-tech and innovative SME markets in the world. The UAE vision 2021 signifies its importance and provides a clear image of the UAE as a natural platform and one of the best places in the world to do business (Dubai SME, 2013).

The National Agenda, specified in the UAE vision 2021, sets as its target for the UAE to be among the best in the world in entrepreneurship. It stresses upon the need for playing a key role in unlocking the potential of nationals and enabling them to be a driving force in the UAE’s economic development through small and medium enterprises (SMEs) in the private sector. Moreover, the National Agenda strives to instill an entrepreneurial culture in schools and universities to foster generations endowed with leadership, creativity, responsibility and ambition. This will allow the UAE to be among the best in the world in ease of doing business, innovation, entrepreneurship and R&D indicators. Likewise, it declares that the UAE will 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. Additionally, it states that 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 (UAE Vision 2021, 2018).

**Figure 1.**



Source: Authors develop from the UAE Vision 2021

Figure 1 highlights the strong inclination of the UAE government towards the enhanced role of commercial banks in developing SME sector of the market. It is demonstrated through the UAE vision 2021 that the UAE government fully understands the importance of SMEs and is intended towards providing better opportunities for investment in trade and finance to improve and diversify the economic resources of the country.

Abu Dhabi’s Economic Vision 2030 has been developed to expand the SME sector in which objective 2 clearly states that ‘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. It is believed to 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).

Objective 3 of the Abu Dhabi Economic Vision 2030 relates to enhancing 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" (Abu Dhabi Government, 2019).

### **SME Bank Friendliness Index**

To address the SME financing gaps in the market, SME Bank Friendliness Index was launched in 2012 with the aim of identifying UAE banks that had the highest orientation towards supporting and developing SMEs in the UAE. Based on extensive surveys of both the SMEs at different stages of growth, and in different sectors of the economy, an index was developed based on SME experiences with their banks on all levels of interaction. The research findings and subsequent index which ranked the banks provided valuable insights on how banks in the UAE can better structure their offerings and orient their services to meet the financing needs of SMEs. At the same time, the findings revealed the capability gaps that SMEs had when applying for credit and capital. To help SMEs improve their capabilities in the area of financial management, a Be-Bankable Initiative was launched.

### **Be-Bankable Initiative in the UAE**

The *Be-Bankable* initiative aims to guide SME owners to understand issues that influence their ability access to bank finance and decide the quality of their accounting, financial reporting and auditing standards. The initiative is mainly to provide informational resources executed through a guide book and website launched in 2014. The content rich guides provides SMEs with knowledge of what is required in making a good loan application with all the right credentials, audited statement of accounts and budget planning. The ultimate aim of the *Be Bankable* initiative is to enable the SME owner to prepare the business to be ready for the funding application.

As the local economy grows, there is increasing demand for increasingly sophisticated financial services, from commercial banking to investment, insurance and large-scale corporate and project finance. However, according to a recently published report by the National Bank of Fujairah, (2019), "A critical factor in the UAE's SMEs getting off the ground and being able to scale up their businesses is access to finance, which is proving to be one of the biggest challenges they currently face."

The above discussion highlights the significance of the case discussed in this research study. With the greater input of government initiatives towards Emiratis' involvement in the SME sector and the enhanced role of the banking sector, particularly Islamic banks, the economic



outlook of the country appears bright. Therefore, it is timely that this research is focused on SME entrepreneurs seeking financing facilities from financial institutions, in particular, the innovative and competitive financing facilities offered by commercial as well as Islamic banks.

## Literature Review

SME projects play a major role in the economic growth and development of a country by creating employment opportunities, eradicate poverty and as a source of technological innovation to create new products. Undoubtedly, their contribution in economic growth is indisputable. Nonetheless, according to various studies, access to financing remains one of the most significant constraints to the subsistence, development and growth of SMEs. In most cases, SMEs are either reluctant to seek financial assistance from the lending institutions or unable to access the funds due to various limitations such as collateral requirements, high cost of financing, long processing timelines and complicated documentation processes.

According to National Bank of Fujairah Business Research Report (2019), “A report issued in July last year from Dubai Chamber of Commerce and Industry with the UAE Ministry of Economy, Council of Small and Medium-sized Enterprises and the global consultancy Roland Berger, revealed that 65 percent of 250 SMEs polled found setting up a company bank account a struggle. Securing finance was the second biggest concern for those polled, at 61 percent of start-ups.”

According to Aliero et al. (2018), ‘the top ten factors of importance influencing respondents bank selection were safety of funds, secured ATMS and their availability, reputation of bank, personal attention, pleasing manners of the staff, confidentiality, closeness to work, timely service and friendly staff willing to work. However, the availability of technology based services is found to be a major reason for clients switching behavior of bank clients.’ They refer to a 2003 study that compared the bank selection decisions of the small business market across UK and Egypt. The results generated show various similarities and provide evidence to suggest that brand plays a major role in the bank selection decisions of the small businesses in both UK and Egypt. The study reinforces the opinion that technical quality (quality of service itself) is more important than functional quality (quality of the service provider) in bank selection decisions. More specifically both Egyptian and UK small business customers consider financial items (fees, interest rates and credit availability) as the most important factors in bank selection decisions (Aliero et al, 2018).

The financial institutions have highlighted several constraints encountered by SMEs which limit the provision of finance products to SMEs. The constraints faced by SMEs are associated with the lack of clear financial plans, the accounting documentation, higher rates of interest, and the lack of collateral requirements (MIC, 2007). Likewise, Ndiaye et al. (2018) signify that the lack of lender information keeps banks away from lending to SMEs which results in an inadequate functioning of the SME lending market and consequently constrains their growth.

From the study of Brownbridge (2002), it is recognized that loan terms are an important element when it comes to lending issues. The loan term affects the revenue of lending institutions (banks), the repayment schedule of credit applicants, the financial cost of customers, and also the sustainability of the use of the finance products. Similarly, Kaufmann and Wilhelm (2006) identified that many SMEs do not attempt to acquire finance from

commercial banks due to the high interest rates charged. Other studies report the same findings (Diagne & Zeller, 2002; Foltz 2004).

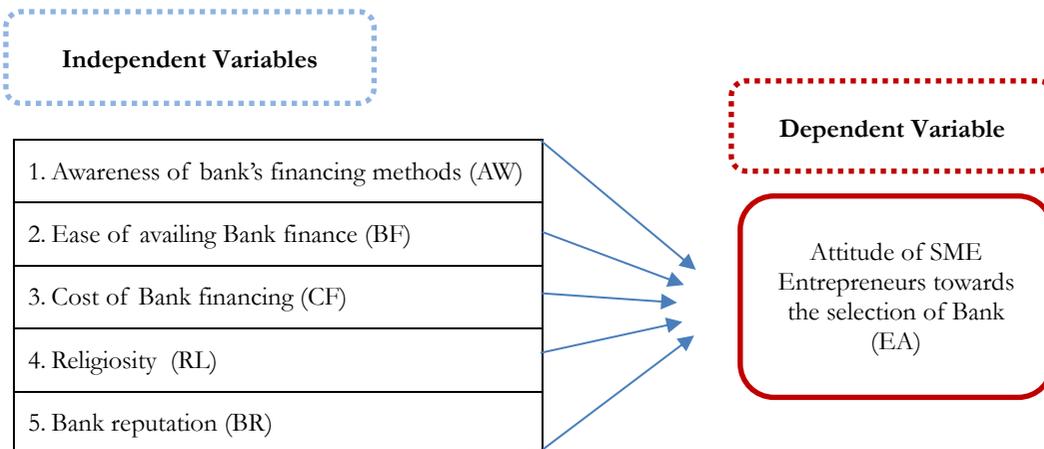
Additionally, a number of studies highlight that one of the major factors that influences the access to finance from the lending institutions is religion, particularly in the Muslim majority countries. A study conducted by Gait and Worthington (2009) found religion as the primary motivation towards potential use of Islamic finance among business firms. Similar findings are recognized by Haque, (2010). Haque (2010) acknowledged *Shariah*-compliance or the factor of religion as an important factor which drives Muslim owner-managers towards Islamic finance. Furthermore, other factors include the bank's reputation, image, profitability and cost benefits, considered by SME owner-managers before selection of formal financial products and services.

Al Balushi et al. (2018) also ascertain that SME behavior regarding financing decisions is unique due to the specific properties these firms possess. For example, SMEs engage in conservative financing strategies: they try to retain the generational influence; managerial succession impacts their financial plans (López-Gracia and Sánchez-Andújar, 2007) and they often avoid external equity in order not to lose control over their business, a strategy which could affect their business growth opportunities (Michaelas et al., 1999). Therefore, for an operative supply-side financial support, it is indispensable to examine the determinants of SME managerial perspectives and their performance in terms of growth and sustainability.

From the extensive literature review, the following five factors are identified as major influencing factors that affect the SME entrepreneurs' bank selection intention to avail financing facilities.

1. Awareness of bank's financing methods
2. Ease of availing Bank finance
3. Cost of Financing
4. Religiosity
5. Bank Reputation

**Figure 2.** Research Framework



Source: Author generated



## **Definition of Variables**

### **Awareness of bank's financing methods**

Awareness is the knowledge and understanding of an individual about something, e.g. place, person, product and services etc. It stimulates an individual to take some decision based on his/her positive or negative attitude towards the subject matter. The chances of a positive attitude of a person increases or decreases proportionately with the level of awareness (Ahmad & Bashir, 2014; Basha, Shamsudin, Saida & Kadir, 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 (Rasheed et al, 2018). This section measures whether entrepreneurs are aware of the banks financing offerings, speed of service, interest rate fluctuation and other miscellaneous charges.

### **Ease of availing Bank finance**

This variable relates to evaluating the flexibility of banks requirements regarding the negotiating terms and other difficulties faced by entrepreneurs that are perceived as ease of doing business with the banks. It is noted 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.

### **Cost of Financing**

This variable corresponds to the respondent's response towards measuring and considering the various costs such as interest rate, documentation charges and assessment fees etc. directly related to obtaining finance for its business financial needs.

### **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.

### **Religiosity**

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 analysis of research literature that religiosity has a great impact on the customer's attitude towards the selection of products or services, particularly, in a religiously-motivated society.

## **Hypotheses Development**

Based on the discussion above, the following 5 research hypotheses (null hypotheses) are developed to analyze the influence of independent variables on the dependent variable.

1. Awareness of a bank's financing methods has no significant effect on the entrepreneur's bank selection intention.
2. Ease of availing bank finance has no significant effect on the entrepreneur's bank selection intention.

3. Cost of financing has an insignificant effect on the entrepreneur's bank selection intention.
4. There is a no positive relationship between SME entrepreneur's religious beliefs on the bank selection intention.
5. A bank's good reputation has no significant effect on the entrepreneur's bank selection intention.

## **Research Methodology**

The primary reason for this study is to identify five key variables discussed in the literature review and their impact on the attitude of SME entrepreneurs towards commercial banks as a preferred choice for their business finance. These variables are important determinants that are anticipated to influence the entrepreneurs' motivation towards the selection of a bank pursuing for financial assistance. Despite their importance, occasional research has been carried out to understanding of these factors globally, and in particular, focusing on the UAE context. The primary reason for selecting the UAE entrepreneurs, therefore, is due to the growing numbers of SMEs and the exceedingly high government interest concern towards the development and growth of entrepreneurship activities in the country as highlighted in the literature review.

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: awareness of bank's financing policies, flexibility in terms of ease of financing, bank's reputation and professional competency, religiosity and the cost of bank finance. The third section relates to the dependent variable i.e. Attitude of SME entrepreneurs towards selection of Bank as financier.

## **Sampling Procedure and Data Collection**

The research explores the generation X and millennial entrepreneurs who are considered willing to take risks and are interested in investing their time, money, energy and ideas to transfer a concept into a business solution. The study collected data via a structured questionnaire survey that was distributed to around 450 entrepreneurs who have established a business in the UAE. The author received 380 responses for SME entrepreneurs having their business enterprises in three emirates of the UAE i.e. Abu Dhabi, Dubai and Sharjah. The remaining 70 respondents did not respond to the survey. The sample of 380 responses then were finalized based on Krejcie and Morgan's (1970) sampling distribution approach. According to Krejcie and Morgan, when the end-users are more than 100,000, the sample set of 384 is valid to generalize the findings. This data set distribution is widely accepted and practiced. Therefore, the data set of 380 was considered adequate for this research and finalized for data analysis.

A prior consensus agreement was signed to get the approval of the respondents for their participation. A full set of questionnaires were only distributed to SME entrepreneurs who answered the preliminary screening question which evidenced their prior basic knowledge of banks (both convention and Islamic banks) or those who had dealt with both banks before. The preliminary questions included, for example: have you ever taken a loan for your business; do you know what the difference is between Islamic and commercial banking requirements?



## Measurement Instrument

The questionnaire consisted of three sections: section 1 records respondent demographic information; section 2 measures the five study variables (awareness of bank financing, ease of bank financing, bank reputation, religion, cost of bank financing) and section 3 measures the entrepreneur's attitude. All the independent and dependent variables were measured using a 5-point Likert scale (1=strongly agree to 5=strongly disagree). Likert scale is widely used tool to understand the customers' attitude concerning the level of satisfaction on a five-point *Likert* scale. *Likert* scale is a measure of attitudes ranging from very positive to very negative designed to allow respondents to indicate how strongly they agree or disagree with carefully constructed statements relating to an attitudinal object (Mohan, 2013).

## Data Analysis and Findings

To validate the sample, data was collected from 380 entrepreneurs using convenient sampling methods. The respondents were asked about their involvement in the business development, business finance and their preferences of commercial banks including Islamic banks and reasons for their choices. Out of four hundred and fifty (450) targeted respondents, 380 responded successfully and appropriately which is 80% of the target population size whereas the remaining returned responses were either partially filled or the respondent showed no interest in completing the data. Thus, the incomplete questionnaires were left unattended. Also some of the questionnaires were rejected where responses were either totally negative or positive towards all the questions.

## Demographic information of the respondents

This section consists of general information about the respondents including gender, age, academic degree, years of experience and finally religious background. The majority of the respondents were males (68.95%), followed by females (31.05%). The majority of the respondent age group was between 31 and 40 (33.3%), followed by the age group of 20 to 30 (30.6%). This shows that most of the entrepreneurs are young. Furthermore, most of the respondents were either graduates (32.8%), or post graduates (36.7%). Therefore, the majority of SME entrepreneurs (69.5%) consists of academic degree holders. Remaining 30.5% respondents were having basic level education.

The collected data from the respondents was further analyzed using SPSS software program. The reason for selecting this software is the nature of the data set. SPSS is the most frequently used software to understand the attitude and perception of respondents through the analysis of Cronbach alpha; ANOVA test and EFA test to check the reliability and validity of the data. In addition, Multiple Regression Analysis is used to identify the impact of independent determinants on the entrepreneur attitude. These combined tools are extremely effective in analyzing the data to illuminate the factors influencing attitude. (See table 1).

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

Demographic	Frequency	Percent
Male	262	68.95
Female	118	31.05
<b>Education</b>		
Undergraduate	70	18.3
Graduate	125	32.8
Postgraduate	139	36.7
Any Other	46	12.2
<b>Age</b>		
Less than 20	27	7.2
20 to 30	116	30.6
31 to 40	127	33.3
41 to 50	59	15.6
Above 50	51	13.3
<b>Business status</b>		
Family Business	144	37.8
Sole Proprietorship	145	38.3
Partnership	91	23.9

Source: Author generated from data analysis

### Reliability, factor and correlation test analysis

The questionnaires were tested for the relative closeness and thus for internal consistency. *Cronbach's alpha* measure of internal consistency (Cronbach, 1951) was used to measure the construct in order to test if the alpha value was greater than 0.6 or 0.7 (Nunnally, 1978). The purpose of this test is to identify how close the questionnaire fit to the intent study. Any questionnaires of below 0.6 were removed from the intent study. Overwhelmingly, the results of the each determinant are above the validated range. This indicates that the questionnaire data is valid and reliable. See the below table 2.



**Table 2.** Reliability Analysis

S. No.	Determinants	No. of Items	Cronbach's Alpha
1	Awareness of bank's SME financing policies (AW)	2	.602
2	Banks' financing facilities (FIN)	4	.734
3	Cost of Financing (COST)	4	.796
4	Religious Factor (REL)	4	.708
5	Reputation & Professional Competency of the bank (REP)	2	.687
6	Preference attitude (PA)	4	.606

AW, FIN, COST, REL and REP

Source: Author generated from data analysis

**Factor Analysis:**

All sixteen questions were further tested to validate the data using multivariate statistical procedure of factor analysis, data reduction, data summarization, the Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) and Bartlett, Tobias & Carlson (1969) for analyzing the test results. In analyzing this particular data set, Kaiser (1974) suggested that a minimum KMO value of 0.5 was authoritative for conducting factor analysis with such data. The results of this reliability test showed the alpha scores of all five variables are well above the set KMO and Bartlett's test. Thus, the result indicate that almost all the variables are above the set values of limit i.e. 0.7. Therefore, the inference from these results indicate that the testing instrument designed for this study validates to use for the study sample. (See table 3)

**Table 3.** KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.711
Bartlett's Test of Sphericity	Approx. Chi-Square	952.770
	Df	120
	Sig.	.000

Source: Author generated from data analysis

The Cronbach alpha study (see above) shows the determined variables are reliable and valid and do not overlap. Thus, the chosen items are matches to the intent study. To predict the model, co-efficiency and its variation Multi Regression Analysis test is carried out.

**Pearson Correlation Analysis:**

Pearson correlation analysis is an appropriate technique used to identify the relationship among the determinants of a study. It shows the strength of each variable and its interdependence between the variables (Pearson *et al*, 2013). It is therefore, to identify the strength and the interdependency a Pearson correlation study was used for this study.

The correlation interdependency of this study; Awareness (AW), bank financing facilities (BF), Cost of finance (CF), Religion intent (RL) and Bank reputation (BR) were used as the independent variables and entrepreneur’s attitude (EA) as the independent variable. Almost all the independent variables showed a strong inter-dependency and relationship among other variables. To understand the strength of dependency and impact of each variables, regression analysis was used. On this note, the correlation analysis of -1 or 1 shows the variables significant relationship between the determinants. Furthermore, 0 shows that the determinant has no relationship. The outcome of the analysis shows that cost of finance (CF) and religion intent (RL) had a negative co-relationship with the entrepreneur attitude, whereas, AW, BF, and BR had a positive relationship with the independent variable of positive attitude.

**Table 4.** Pearson Correlations Analysis

Variables	A	B	C	D	E	DV
AW	1					
FIN	.157* .036	1				
COST	-.237** .001	.088 .241	1			
REL	.257** .000	.304** .000	-.249** .001	1		
REP	.096 .199	.214** .004	.107 .153	.108 .149	1	
PA	.310** .000	.066 .375	.072 .334	.186* .012	.171* .022	1

Source: Author generated from data analysis

**Multi-Regression and ANOVA Analysis**

To further check the prediction of variables on independent and on dependent variables, multiple regression analysis was tested. The test is a more sophisticated extension of correlation and was used to explore the predictive ability of a set of independent variables on one dependent variable (Pallant, 2001). To identify and validate the interactive effect of one variable on another multiple regression analysis was used. The result are outlined in table 4.

For this study, multiple regression analysis (standard regression) was used to test the hypotheses. This particular test was adopted in order to test the hypothesis and determine the extent of the interactive effects of the independent variables on the dependent variable. The results are outlined in Table 5.

**Table 5.** 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	.393 <sup>a</sup>	.155	.131	.82500	.155	6.375	5	174	.000



Predictors: (Constant); AW, FIN, COST, REL and REP

Source: Author generated from data analysis

Table 5 (above) summarizes the influence of the determinants such as: AW, BF, CF, RL and BR – and their impact regarding the attitude of SME entrepreneurs towards the bank policies and practices. The value of the R squares indicated that there were approximately 15.5% of variance in the positive attitude towards the Islamic banking, in terms of the determinant variables of AW, BF, CF, RL and BR. The results exhibited that these determinants have noteworthy significant contributions in understanding the positive attitude towards the Islamic banking product and services. These outcomes exhibited that positive attitude towards the factor will leads to positive attitude. This result shows that entrepreneurs are more likely to obtain finance when they have a positive attitude.

To further test the strength of the model, ANOVA test was conducted to check the fit of the variable. The test is used to check the element fit within the model. The model should record less than 0.05 to validate it. Remarkably, the level of significance of the determinants towards entrepreneur attitude intentions was found to be less than 0.5 (actual level was 0.00), which indicated the validity of this model for further testing. In investigating the results of the ANOVA test on the Predictors (AW, BF, CF, RL and BR) against the positive attitude towards the bank (EA), results indicated that the F-test was significant (F=6.375, p<0.05) signalling that this regression model was indeed valid. This validity indicated a significant relationship between this set of predictors and the dependent variable.

**Table 6.** ANOVA<sup>b</sup>

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	21.696	5	4.339	6.375	.000 <sup>a</sup>
	Residual	118.428	174	.681		
	Total	140.124	179			

Predictors: (Constant); AW, FIN, COST, REL and REP

Dependent Variable: PA

**Analyses of Coefficients on Determinants**

Continuance of the ANOVA test, coefficient test was conducted to check the influence of each of the determinants of the model using Standardized  $\beta$  Coefficients. In inferring the results for this test, the larger the value in this test indicates that the determinant has a larger effect on the independent variable (Positive Attitude – PA). The values of the  $\beta$  Coefficients are shown in Table 7.

**Table 7.** Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.878	.665		1.322	.188
AW	.275	.066	.311	4.191	.000
FIN	-.072	.075	-.072	-.954	.341
COST	.276	.116	.180	2.386	.018
REL	.174	.084	.160	2.061	.041
REP	.133	.080	.120	1.668	.097

a. Dependent Variable: PA

Source: Author generated from data analysis

Following on from the results of this test, the determinants that contributed significantly towards the dependent variable of the positive attitude intention of the respondents were shown to be the three determinant variables of: Awareness ( $\beta = 0.275$ ,  $p=0.000$ ); Cost ( $\beta = 0.276$ ,  $p=0.018$ ) and Religion ( $\beta = 0.174$ ,  $p=0.041$ ). Furthermore, the determinants of Financial facilities ( $\beta = -0.072$ ,  $p=0.341$ ) and Rep ( $\beta = 0.133$ ,  $p=0.0970$ ) was seen as not significantly contributing to the dependent variable of the purchase intentions towards purchasing organic foods.

## Results and Discussion

**Results of Hypothesis One:** Awareness of banks' SME financing methods has a significant effect on the entrepreneur's bank selection intention.

From the above analysis, the hypothesis on the customers' awareness and its financial intent **is rejected**, and therefore, the results of this study supports the findings of the extant research. In this case, the results show that the awareness of financing facilities provided by UAE banks is most likely to develop a positive attitude in the UAE based SME entrepreneurs. Consequently, the study shows that the 'awareness of bank financing polices' is an influencing factor towards the preference of bank financing facilities.

**Results of Hypothesis Two:** 'Ease of availing Bank finance' has no significant effect on the entrepreneur's bank selection intention.

From the above analysis, it is evident that the hypothesis on bank financing facilities in terms of customer services etc. **is accepted**, which contradicts with the findings of Muhammad et al. (2019) who identify that 'customer services and sales representatives' is a highly influential promotional factor that positively influences the customers' attitude towards the acceptance of Islamic banking products and services. This study shows that SME entrepreneurs in the UAE are insignificantly concerned with the financial facility support from banks while opting for the financial assistance for their businesses. Consequently, the study did not support the factor 'financial facility' as an influencing factor towards the bank financing. This finding is rather unusual and surprising, and could possibly reflect the need for UAE commercial banks to develop a more persuasive relationship with their customers, particularly SME entrepreneurs.



**Results of Hypothesis Three:** Cost of bank's financing has a significant effect on the entrepreneur's bank selection intention.

From the above analyses, the hypothesis on 'cost of financing' **is rejected**, and therefore, the results of this study supports the findings of the extant research. In this case, the result shows that SME entrepreneurs in the UAE are extremely concerned about the cost of financing while dealing with the banks and a low cost factor is most likely to develop a positive attitude towards the bank financial product/services. Consequently, the study supports the cost of financing as a significant influencing factor towards the preference of bank financing.

**Results of Hypothesis Four:** There is a positive relationship between SMEs' entrepreneurs' religiosity and their intention to adopt banking financing.

From the above analyses, the hypothesis on religiosity **is rejected**, and therefore, the results of this study supports the findings with the majority of extant research. In this case, the results show that SME entrepreneurs in the UAE are highly concerned with the factor of religion while selecting financial services. Consequently, the study supports the religious intent as an influencing factor towards the bank financing methods. The UAE is a Muslim majority country where people's lifestyles and norms are closely tied with the Islamic norms. Thus, the result shows that people in the UAE are highly influenced by religious standards. According to Al Balushi (2019), the literature on Islamic banking and finance produces mixed results when it comes to identifying factors that influence a customer's decision to adopt Islamic banking. Nevertheless, most studies do indicate that an Islamic bank's conformity to the *Shari'ah* (Islamic law) or Islamic banking principles is a major factor influencing consumers' choice to adopt Islamic finance (Ullah and Lee, 2012) and that both religious and functional beliefs clearly shape consumer attitudes towards Islamic banks globally (Butt and Aftab, 2013).

**Results of Hypothesis Five:** Bank's good reputation and professional competency has no significant effect on the entrepreneur's bank selection intention.

From the above analyses, the hypothesis on reputation and professional competency **is accepted**, and therefore, the results of this study contradict the findings of the existing research. In this case, this result shows that consumers in the UAE are less concerned with the reputation and professional competency factors while selecting financial services. Consequently, the study supports that the bank reputation and professional competency is not an influencing factor towards the preference of bank financing facilities for SME entrepreneurs of the UAE.

The results of this study conclude that the UAE-based SME entrepreneurs are highly influenced by their religious convictions in terms of availing financing facilities from the banks. Factors such as 'awareness of bank financing methods' and 'cost of financing' also have a significant effect on the attitude of SME entrepreneurs towards bank selection. Whereas, factors such as 'bank reputation' and 'ease of obtaining finance' are found to be insignificant.

## Conclusion

*SME finance* is the *funding* of small and medium-sized enterprises, and represents a major function of the general business in which capital for different types of firms is supplied, acquired, and costed or priced. Finance is a significant element for determining the growth

and survival of SMEs (ACCA, 2009). However, access to finance is the most serious barrier to expansion of businesses and start-ups which have been widely reported by existing SMEs and potential operators (Olomi & Urassa, 2008).

In today's modern commercial world, banking is one of the most valuable and beneficial financial bodies in an economy. It is an instrument that pushes the economy to progress because it creates competitiveness, opportunities, and employment and increases efficiency (Tawfiqi et al. 2018). However, it is quite evident from the analysis of previous research studies that there is an issue of unfavorable lending conditions by the banking sector for SMEs, particularly in the developing and underdeveloped countries.

This paper examined the role of the financial institutions and the attitude of SME entrepreneurs in the selection of a bank as their preferred choice for availing financial assistance. The result shows the following: entrepreneurs' awareness level of banks financing policies has a significant role in the adoption of financial support thus entrepreneurial success, where this kind of information can increase the chance of availing opportunities provided among banks. The study of Muhammad et al. (2019) also supports this result. Their study on the role of promotional activities highlight the significance of using promotional activities by UAE Islamic banks in order to create better awareness amongst their potential customers.

The cost of financing is another significant factor that can create a substantial effect on the attitude of SME entrepreneurs towards seeking financial facilities from a commercial bank. Similarly, since the UAE is a Muslim majority country, which is highly inspired by religious beliefs, therefore the factor 'religiosity' is also one of the major factors in attracting the attention of SME entrepreneurs in the UAE.

However, SME entrepreneurs of the UAE have not shown particular concerns over the reputation and professional competency of banks. Similarly, the flexibility of bank requirements for the financial services provided to the entrepreneur is not a significant factor in seeking the financial assistance from the UAE based commercial banks.

According to Aliero et al. (2018), since a customer's behavioral intention is a strong indication of his 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). Furthermore, with growing competitiveness in the banking industry, and similarity of services offered by banks (Holstius and 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.

On the other hand, Islamic banks have recently emerged as an attractive option for financing to all sectors of business, particularly SMEs. Islamic banks are not merely profit-oriented firms but have an inherent duty to promote Islamic values. Therefore, as Abdesamed & Wahab (2014) conclude, Islamic banks are considered as a good alternative platform to increase access to financial inclusion in addition to providing easy access to finance for SMEs to support economic development and growth. However, in spite of enormous demand for Islamic finance among SMEs, both supply and demand side issues are creating hurdles towards development (Alam, 2015). The stumbling block is that SMEs lack awareness and have poor knowledge of *Shariah* compliant products and services and this is hindering the growth of SMEs (Rasheed et al. 2018).



This study, therefore, provides additional insights into how SME owner-managers evaluate and select financing options for their firms. It also contributes to the theoretical and empirical work on the uniqueness of small business and will help financial institutions involved in the funding of SMEs. Consequently, this study should enable Islamic banks to design financing programs tailored to the specific needs of SMEs' owner-managers which attract them to adopt Islamic banks, and may, in turn, foster broader dissemination of Islamic financing.

The findings contribute to SME finance literature in many ways. Firstly, the understanding of SME financial decision-making by the entrepreneurs is enhanced. Secondly, since most studies on SME finance focus on conventional financing, this study extends the scope to include an additional perspective by analyzing Islamic financing. Finally, we examine the factors that influence attitude formation towards Islamic finance from the perspective of UAE-based SME entrepreneurs a group previously poorly represented in past research studies.

### **Research Limitations**

This study's results are based on a sample of SME owner-managers in only three emirates of the UAE; Abu Dhabi, Dubai and Sharjah. This limited the pool of respondents to a particular region and also resulted in a relatively small sample size thereby limiting the generalizability of the findings. Validating the findings of this study, therefore, requires further studies in other geographical contexts, and preferably with cross-cultural samples for these results to be more generally applied. Finally, a number of gaps in our knowledge around SME Islamic finance decisions remain, for instance, therefore research is needed that explores the effect of demographic factors on SME entrepreneurs' intention to prefer Islamic finance over conventional finance.

### **Recommendations**

At the recent 2019 World Government Summit, held in Dubai, the focus was to discuss policies and practices that would support SMEs in the Middle East and North Africa (MENA) region. It was stated that "There is an urgent need to take steps to facilitate more lending for small and medium enterprises (SMEs) in the Middle East...Around 90 per cent of companies in the region fall under the category of SME, yet only seven per cent of them have access to bank financing." (SMEs in Arab world, 2019). Whilst globally, SMEs are helping to provide employment, sustainable economic development and diversified enterprises, the relative success in the MENA region has been somewhat limited and the lack of financial support is largely to blame. As we have shown in this small study, SMEs are disadvantaged by a lack of knowledge and poor access to financial advice and this is thwarting their efforts. Dubai, in this study, offers a snapshot of what is also true of the neighbouring Arab Gulf countries. Further research into SME support in other regions and how that might help inform the local situation is urgently needed if the MENA region is to create opportunities for sustainable business practices for its many SMEs. In the Gulf region, this is particularly pressing as economists strive to plan for the post-oil economy, knowing that SMEs are pivotal in that economic growth.

This study shows that there is a relationship between the success of SME entrepreneurship and the spread of financing through the commercial banks. The banking sector undoubtedly contributes to the advancement of SME entrepreneurship, as well as other civil society

institutions, to their success. In fact, the UAE based Islamic banks have also been growing at spectacular rates, 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 is expected to provide another source of funding to future developments.

Therefore, the study recommends the following:

1. Promoting a culture of entrepreneurship in educational institutions and to endorse compulsory study materials in the curriculum of the UAE academic institutions to equip students with ample knowledge that contributes to facilitating future entrepreneurs.
2. Encouraging and developing the banking sector particularly Islamic banks to influence its role in supporting entrepreneurship by providing updated market information.
3. Holding training courses and workshops on entrepreneurship to encourage young people to create personal initiatives that will put them at the forefront of entrepreneurship.
4. Strengthening the national financial institutions' ability to reach those who cannot access banking and encourage them to adopt regulatory frameworks to facilitate the provision of safe and secure services to these populations and to increase access to information and financial knowledge.
5. Liaising with financial institutions that are experienced and successful at promoting their support to SMEs so that good practices can be shared and adopted.

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