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Islamic financial decision-making among SMEs in the Sultanate of Oman: An adaption of the theory of planned behaviour

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ABSTRACT

Adapting the theory of planned behaviour to the area of Islamic financial decisions among SMEs, we argue that nonfinancial factors such as SME owner-manager attitudes, subjective norms, perceived behavioural control and behavioural intentions largely affect the financial decisions of SMEs. A hierarchical multiple regression with a sample size of 385 SMEs supports this study's behavioural approach to understanding financing decisions. While the factors mentioned above acted as stimuli for SME decision-making, religiosity was shown to negatively affect behavioural intention to adopt Islamic financial instruments (IFI). Implications of financial decisions, specifically around Islamic finance and ideas for future research, are discussed.

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1. Introduction

Smaller firms are financed differently from larger firms (Moritz et al., 2016) because both economic and noneconomic motives influence their financial reasoning (Gallo et al. 2004). Furthermore, 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 utilise different financing mechanisms. However, despite their distinctive approach to financing policy (Gallo et al., 2004), most research into SME financing employs traditional capital structure theories – principally trade-off theory or pecking order theory – as a framework for analysis (Serrasqueiro et al., 2011).

While capital structure theories grounded in the finance paradigm have increased our understanding of capital structure decision-making (Matthews et al., 1994), from a managerial choice perspective that includes nonfinancial and behavioural factors (Barton and Gordon, 1988; Matthews et al., 1994), they fail to address the complexities around capital structure decision-making in privately owned firms. Additionally, research shows that traditional capital structure approaches either fail to account for the importance of small businesses' preferences and norms (Pearson et al., 2008) or ignore managerial preferences. Thus, capital structure decision theories neither explain actual financing decisions adequately nor deliver financial theories or empirical studies that

incontrovertibly explain critical factors that affect owners or managers' financing decisions (Myers, 1984; Norton, 1991). As Zellweger, Frey, and Halter conclude: "We need to accept that financing in most privately held companies cannot be fully explained with traditional financial theory based on the paradigm of pure rationality" (2005, p. 20).

By using a noneconomic rationale and incorporating insight from social psychology to research Islamic financial decisions, our study answers calls in the literature to expand financial choice models to research financial decisions in privately held firms (Barton and Gordon, 1987, 1988; Beattie et al., 2006; Matthews et al., 1994) and to investigate how behavioural factors affect financial structure decision-making processes (Romano et al., 2001).

Borrowing from behavioural psychology to develop a conceptual model for understanding Islamic financial decision-making, our study conducted a face-to-face survey in the Sultanate of Oman among SME owner-managers because, as Matthews et al. (1994) note, cognitive psychology research supports taking the individual approach to understanding capital structure decisions in privately held firms. To gain better understanding of factors that influence small business owners' funding decisions, we framed our study around 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 privately held firm financing decisions (Brettel et al., 2009; Kelley and Bultjens, 2003). Brettel et al. (2009) also supports TPB's empirical validity in the finance context, specifically SMEs' financing decision behaviour. While TPB

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has been widely used to evaluate a range of individual behaviours in the finance and investment context (Koropp et al., 2014; Sudarsono, 2015), its suitability for use in evaluating decisions in an organisational context is arguable because of the nature of the dynamic and complex “multiphase, multiperson, multidepartmental and multiobjective” decision processes in organisations (Johnston & Lewin, 1996, p 1). Consequently, the predictive capacity inherent in TPB may well have relevance to evaluating decision-making within the small business field (Southey, 2011), especially as financial decisions are at least partially the outcome of owners’ personal preferences (Brettel et al., 2009). Adopting this focus, therefore, allows us to establish the role of managerial beliefs, attitudes, and experience in influencing capital structure decisions.

This study contributes to the SME’s finance literature in important ways. First, we broaden the understanding of SMEs’ financial decision-making by recognising unique SME owner-manager influences on financing decisions. Second, because most studies on SME finance focus on conventional financing, we obtain a more comprehensive perspective by analysing Islamic financing. Thirdly, we examine the factors that influence attitude formation towards Islamic finance from the perspective of SMEs’ owner-managers because all previous research omitted that perspective and because we adopt TPB as the basis of our investigation. Fourth, by testing the full TPB model, as described by Ajzen (2011), we provide the foundation for further research that aims to incorporate new developments into the model, thereby increasing our understanding of SMEs’ intended behaviour around Islamic finance. Modifying the TPB model through the addition of variables like religiosity and awareness behind TPB constructs may help to maximise the predictive efficacy of the model (Moon and Kim, 2001). Lastly, we contribute to the wider research around SMEs, particularly on SME financing, by showing that noneconomic variables, especially psychological factors, can influence financing behaviour decisions.

2. Literature review and theoretical development

Many early capital structure studies assume that managers behave rationally, for instance, by selecting financial sources according to cost minimisation (Myers and Majluf, 1984) or by using tax benefit and cost of debt to balance their firm’s debt level (Modigliani and Miller, 1963). Furthermore, Barton and Gordon (1987, 1988) indicate not only that the traditional finance theory of capital markets asserts that financial decisions are affected by fundamental variables such as stock price, profitability and volatility but also that managerial choice and nonrational elements of decision-making are important aspects that need to be considered to understand capital structure decision-making. SME behaviour, 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., 1998).

Together, this evidence suggests that financial choices are not homogeneous and vary among small business owner-managers (Moritz et al., 2016) because small firms are highly dependent on a single decision-maker, typically the owner-manager (Gibcus et al., 2004). We also know that SME owners self-select to run businesses that best match their own areas of expertise (Wiklund et al., 2004), so financing behaviour in small firms may be the result of owner-managers’ personal attitudes. These attitudes are embedded into SMEs (Michaelas et al., 1998). Hence, SME’s financing decisions are highly complex because they rest on myriad social, behavioural and financial factors (Romano et al., 2001). Thus, we argue that

small businesses are likely to engage in a financial logic based on not only rational economic motivation but also nonfinancial and behavioural factors that have received relatively little attention from finance researchers (Michaelas et al., 1998).

Consequently, to better understand SME’s financial decision-making, we need to explore nonfinancial and behavioural factors (Baker and Ricciardi, 2014; Matthews et al., 1994) such as the owner-managers’ attitudes, subjective norms, and perceived behavioural control that influence financing decisions, specifically Islamic financing decisions. Furthermore, financial literature has ignored how religiosity may affect the financing decisions of SME owner-managers (Baker and Ricciardi, 2014). Finally, in a country where Islamic finance is in its infancy, ways in which awareness about Islamic financing may affect financing decisions among small business owners need to be understood.

2.1. TPB and small business financing

The theory of reasoned action (TRA) (Ajzen and Fishbein, 1980; Fishbein and Ajzen, 1975), of which TPB is an extension, has received considerable support in empirical studies of consumer behaviour and social psychology (Albarracín et al., 2001). TRA’s ability, however, to predict behaviour and behavioural intentions when individuals cannot voluntarily control their behaviour is limited (Ajzen, 1991; Taylor and Todd, 1995). By adding the influence of perceived behavioural control on behavioural intentions and behaviour, TPB proposed to remedy the model’s limitations (Ajzen, 1985, 1991).

We use Ajzen’s (1991) TPB to study Islamic financial decision-making behaviour in SMEs. This theory explains and predicts human behaviour that is not fully under volitional control (Ajzen, 2002b) where behavioural decisions and the proximate behaviour are seen as determined primarily by the decision-maker’s behavioural intentions. Behavioural intentions, in turn, arise from three determining factors: attitudes, perceived norms, and perceived behavioural control. Attitudes refer to either favourable or unfavourable evaluations of the likely consequences or attributes of a behaviour. Norms refer to the decision-maker’s beliefs about the expectations of significant others (e.g., family or friends) regarding whether to perform, or not perform, a behaviour. Behavioural control refers to the perceived ease or difficulty of performing a behaviour based on the decision-maker’s belief about the presence of behaviour-limiting factors.

In SMEs a single decision-maker, typically an owner-manager, usually makes the financial decisions (López Salazar et al. 2012); his/her values and beliefs are also significant drivers in strategy-making tasks (Heck, 2004). Our model, elaborated on in the next section, is displayed in Fig. 1. It extends previous research on SMEs’ Islamic financing (Abdesamed and Wahab, 2015; Gait and Worthington, 2008; Gait, 2009) by analysing the impact of attitudes, subjective norms, perceived behavioural control, religiosity and awareness factors on Islamic financial decisions among SMEs. Thereafter, we develop the respective hypotheses in detail.

2.2. Attitudes

Although very important, research on the finance gap often neglects the attitudes of small business owners (Landström and Winborg, 1995). The small business owner’s decision to use a particular source of finance is not shaped purely by access to the sources on offer. It is shaped as much by the entrepreneur’s wishes and desires (Read, 2002) as by any constraints imposed by finance suppliers (Hughes and Storey, 1994).

To illustrate the importance of SME owner-managers’ attitudes on the influence on capital structure decisions, Borgia and Newman (2012) empirically test whether positive or negative attitudes influenced firms’ willingness to borrow externally.

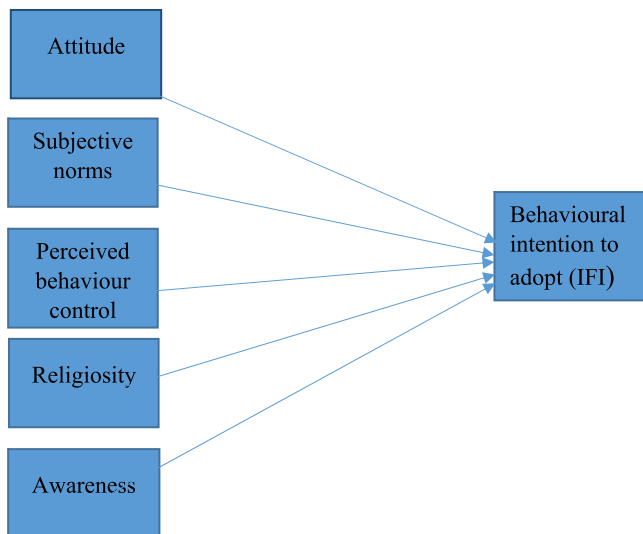


Fig. 1. Hypothesis model of Islamic financial decision-making among SME owner-managers.

Hence, we hypothesise that more favourable attitudes toward Islamic finance will affect the behavioural intention to adopt IFI.

Hypothesis 1. An owner-manager's favourable attitude towards Islamic financing will be positively associated with his or her behavioural intention to adopt IFI.

2.3. Subjective norms

Research shows that social norms significantly impact entrepreneurial decision-making (Chang et al., 2009). Anderson et al., (2005), for instance, show that family is an important source of encouragement and support to entrepreneurs. Greve and Salaff (2003) argue that entrepreneurs use close contacts like family members to help them during all stages of their business decisions. According to Miller (2015), head of Small Business, Bank of America, "we know small business owners are inherent self-starters making significant personal sacrifices on behalf of their businesses, but what's fascinating is this dimension of family, friends and community that they see as core to their success" (p. 1).

Fishbein and Ajzen (1975) suggest subjective norms are a direct determinant of behavioural intention, as under significant social influence and social pressure individuals would perform an unfavoured behaviour if they believed one or more important referents think they should do so, and if they are sufficiently motivated to comply with the referents (Venkatesh and Davis, 2000). Thus, if family or friends favour Islamic finance, these norms should affect financial choices via behavioural intention. Hence, we hypothesise the following:

Hypothesis 2. Perceived subjective norms toward Islamic financing will be positively associated with the owner-manager's behavioural intention to adopt IFI.

2.4. Perceived behavioural control (PBC)

PBC indicates people's view of their ability to perform a given behaviour. According to East (1993), if people believe that they

have control over an action they will be more confident of achieving that action's outcome/s. Our study defines PBC as the decision-maker's perception of the degree of control he or she has regarding adopting IFI as a form of financing. Ajzen (2002b) claims that a high level of perceived behavioural control should generally correspond to greater behavioural intention and increased efforts and perseverance to realise the intended behaviour.

PBC was found to be one of the most influential factors that play an important role in enhancing performance in entrepreneurship and in determining financial decisions. Research reveals that PBC accounts for considerable variance in intention and behaviour, and that there is a positive relationship between PBC and intention (Taylor and Todd, 1995), highlighting the importance of psychological traits such as PBC in explaining financial decision-making (Farrell et al., 2016). However, investigation into the association between PBC and financial behaviour is limited (Farrell et al., 2016). Accordingly, we hypothesise the following:

Hypothesis 3. Higher owner-manager's perceived behavioural control will be positively associated with the intention to adopt IFI.

2.5. Behavioural intentions and Islamic financial decisions

Behavioural intention is defined as the subjective probability that an individual will perform a certain behaviour (Fishbein and Ajzen, 1975). Because it is depicted as a function of three basic determinants – attitudes, subjective norm, and perceived control – factors that influence each of these determinants should result in a change in the behavioural intention, according to the theory (Ajzen, 1991). TPB provides support for a positive correlation between each of these determinants and the behavioural intention. In other words, the more favourable the attitude and subjective norm and the greater the perceived control, the stronger the person's intention to perform the behaviour (i.e., adopting IFI).

Further, despite the success of previous TPB research, scope remains for improving the prediction of both intentions and behaviour, with Ajzen (1991) describing the model as open to further elaboration: "the theory of planned behaviour, in principle, [is] open to the inclusion of additional predictors if it can be shown that they capture a significant proportion of the variance in intention or behaviour after the theory's current variables have been taken into account (p. 199)". Thus, the present study tests the impact of two additional variables – religiosity and awareness – as predictors of adopting IFI among Omani SME owner-managers. If Ajzen's (1991) assertion is correct, then we would expect to find an increase in the variance explained.

2.6. Religiosity

As an influential social institution, religion often significantly influences people's attitudes, values and behaviours at both the individual and societal level. Hence, it is important to study this cultural factor (Mokhlis, 2009). Much research shows that religion is the principal motivation for SMEs to, potentially, use Islamic banking (Gait, 2009). While some studies agree that religiosity, along with profit, plays a significant role in an individual's choices, it is not necessarily the sole or main motivating factor (Alam et al., 2012).

Nevertheless, other studies indicate that religion is either not an influencing factor when choosing between Islamic and conventional banks or is not the main reason for adopting Islamic finance (Dusuki and Abdullah, 2007). Edris (1997) finds this to be true in Kuwait, a predominantly Muslim country; similarly, Abdesamed and Wahab (2015) find religion is not an influencing factor on SMEs' preferences for adopting Islamic banking over conventional bank loans.

Shakona (2013) provides further evidence that religiosity may be an additional primary external and internal factor exerting influence on behaviour; religiosity has also been shown to be a consistently strong predictor of future behaviour (Amin et al., 2014). Amin et al.'s (2014) study on acceptance of Islamic home financing demonstrates that measures of religiosity improve predictions regarding TPB constructs.

As this paper explores (a) whether religiosity is an important factor in influencing the intention to adopt IFI among owner-managers and (b) whether religiosity offers improved prediction over TPB constructs of SMEs' adopting IFI, we hypothesise the following:

Hypothesis 4a. There is a positive relationship between SMEs' owner-managers' religiosity and their intention to adopt IFI.

Hypothesis 4b. Religiosity adds a unique variance in predicting SMEs' intention to adopt IFI above and beyond that predicted by TPB.

2.7. Awareness

Awareness refers to consciousness or knowledge. The data people select for processing and the type and amount of information they receive influence their awareness. Individuals interpret information differently and their knowledge, feelings, and attitudes towards others influence their interpretation of information (Wanyana, 2011).

Awareness is critical because one cannot develop an attitude towards something about which one has no knowledge. Thus, this paper examines SME owner-managers' awareness about Islamic financing in terms of: its existence, differences with conventional financing, Sharia law, and the profit-and-loss-sharing model, because awareness determines their adoption intention.

Empirical studies have firmly established that consumers' awareness significantly influences their attitude and intention to use Islamic banking (Thambiah et al., 2011). The better the knowledge, awareness and understanding of Islamic finance, the greater the intention to use Islamic banks (Kewuyemi, 2015; Wahyuni, 2012). Further, according to Wahyuni (2012), the knowledge variable must be considered in building a model of the behaviour around selection or use of products, including Islamic banks.

As this paper explores (a) whether awareness is an important factor in influencing the intention to adopt IFI among owner-managers and (b) whether awareness offers improved prediction over TPB constructs of SMEs' adopting IFI, we postulate the following:

Hypothesis 5a. Awareness of Islamic banking has a positive relationship with an individual's intention to adopt IFI.

Hypothesis 5b. Islamic banking awareness adds unique variance in predicting SMEs' intention to adopt IFI above and beyond that predicted by TPB.

3. Method

3.1. Sample and procedure

We gathered the primary data for our study via a face-to-face interview survey – a method commonly used in the SME and finance context (Berger and Black, 2011) – in Muscat, Oman's capital between December 2016 and February 2017. Face-to-face surveying enables the researcher to reduce any potential respondent confusion over the questions asked, and produces high quality data

(Szolnoki and Hoffmann, 2013). The market for Islamic finance in Oman is new – the first evidence of Islamic banking emerged only in 2012 – and Islamic finance institutions for SMEs are a relatively new development. Choosing Muscat, where the majority of Oman's SMEs are located, therefore, offered an interesting context in which to analyse SME financial decision-making.

The sample was drawn from the Oman Chamber of Commerce and Industry (OCCI) database, as all companies operating in Oman must be registered under the OCCI; this database, therefore, guarantees almost full and unbiased coverage of the Sultanate's business landscape. Thus, all SMEs registered on the OCCI database were regarded as the population size (P).

We randomly selected 385 firms, since "The random sample is the best because it's most representative of the entire population. It's least likely to result in bias" (Alreck and Settle, 2004, p. 71). To ensure that 385 represented a sufficient sample size, we used the following assumptions (Waters, 1994): (i) proportion (π) equals to 0.5. This is the safest possible assumption; (ii) a confidence level of 95% which corresponds to a Z-value of 1.96; and (iii) an error or precision (E) of 0.05. Given the above assumptions, the sample size N is estimated by

$$N = \pi(1 - \pi)Z^2/E^2 = (0.5)(0.5)(1.96)^2/(.05)^2 = 384.16$$

We contacted SME owner-managers by phone call and asked if they would be willing to participate in the study. If they agreed to take part, we set up an interview date, time and place. Some of those we approached were either unwilling to participate or did not respond to our phone call. When that happened we then attempted to contact the next SME owner-manager on the same list in order to avoid missing any potential respondents.

3.2. Measurements of variables

A questionnaire using a Likert point scale was employed to collect the data for the research model's constructs, as Fishbein and Ajzen (2010) suggest doing when constructing TPB questionnaires. All the research model's latent variables were measured by adapting versions of previously validated scales related to TRA and TPB. That adaptation left the wording of the individual scales largely unchanged; however, we adapted the scales to the specific context of Islamic finance and SMEs finance.

Our dependent variable was the intention to adopt IFI. Intention reflects an individual's likelihood of performing a particular behaviour in the future (Ajzen, 1991). We measured the strength of the SME owner-managers' intention towards adopting Islamic finance for their business using three 7-point items commonly used in studies assessing behavioural intentions (Madden et al., 1992).

Attitude is commonly assessed with items related to the overall favourableness or unfavourableness of the behaviour in question, which is captured by dimensions such as good–bad, beneficial–harmful, or likeable–dislikeable (Ajzen, 2001). We used four items, measured with 7-point bipolar adjective scales, adapted from Kraft et al. (2005).

In the TPB context, a global measure for the behavioural norm is generally obtained by asking respondents to indicate the extent to which important others would approve of the performance of a certain behaviour (Ajzen, 1991). Following this rationale, two items with 5-point scales adapted from Ajzen and Madden (1986) we used to assess perceived social norms towards Islamic finance. Here, owner-managers indicated the extent to which they thought social pressure (a) supports or (b) agrees with their intention to adopt Islamic finance

We used four items with 5-point scales adapted from previous research (Kraft et al., 2005) to measure the degree of control that

Table 1
Measurement constructs and reliabilities.

| | Items | Factor 1 | Factor 2 | Factor 3 | Factor 4 | Factor 5 | Factor 6 | Communality | |
|---------------------------------------|---|----------|----------|----------|----------|----------|----------|--|--|
| Attitude | A1. Using Islamic banking and financial services is 7 = Good 1 = Bad | .862 | | | | | | .815 | |
| | A2. Using Islamic banking and financial services is 7 = Beneficial 1 = Harmful | .921 | | | | | | .868 | |
| | A3. Using Islamic banking and financial services is 7 = Useful 1 = Worthless | .880 | | | | | | .852 | |
| | A4. Using Islamic banking and financial services is 7 = The right thing to do 1 = The wrong thing to do | .873 | | | | | | .809 | |
| Subjective norm | SN1. Most people who are important to me support me taking Islamic banking. | | .737 | | | | | .712 | |
| | SN2. Most of my friends/colleagues who have taken Islamic banking agreed that Islamic finance is better than conventional. | | .763 | | | | | .753 | |
| Perceived behavioural control | PBC1. For me to adopt Islamic financing in business would be appropriate. | | | .591 | | | | .673 | |
| | PBC2. If I wish to I could adopt Islamic financing in business. | | | .750 | | | | .724 | |
| | PBC3. I do have better control over adopting Islamic financing in business. | | | .837 | | | | .792 | |
| | PBC4. It is mostly up to me whether or not I adopt Islamic financing in business. | | | .673 | | | | .578 | |
| Awareness | AW1. In practice Islamic banking is different from conventional banking. | | | | .551 | | | .618 | |
| | AW2. Islamic banking is based on Sharia (Islamic Laws). | | | | .694 | | | .607 | |
| | AW3. Islamic banking is a banking system for people of all faiths/religions. | | | | .626 | | | .636 | |
| | AW4. If I put my money in Islamic banks, I am content that my money will not be invested in unethical ventures like alcohol, gambling etc. | | | | .727 | | | .713 | |
| | AW5. Islamic banking is strictly based on a risk-sharing model (profit and loss). | | | | .734 | | | .708 | |
| | AW6. Islamic banks are more regulated forms of banking as they are governed by regulatory bodies as well as by Sharia boards. | | | | .687 | | | .704 | |
| Religiosity | R1. I try to follow Islamic injunctions in all matters of my life. | | | | | .697 | | .729 | |
| | R2. I always try to avoid minor and major sins as told by my religion. | | | | | .830 | | .811 | |
| | R3. I have firm belief in all basic ideological dimensions of Islam. | | | | | .847 | | .823 | |
| | R4. I know the basic and necessary knowledge of my religion. | | | | | .818 | | .782 | |
| | R5. I feel sorrow and dissatisfaction when I do something against my faith. | | | | | .774 | | .730 | |
| Islamic financial instrument adoption | IFIA1. I intend to adopt Islamic banking services in the future. | | | | | | .838 | .849 | |
| | IFIA2. I predict that I will frequently use Islamic banking services in the future. | | | | | | .838 | .875 | |
| | IFIA3. I will strongly recommend others to use Islamic banking services. | | | | | | .782 | .790 | |
| | Eigenvalue | 4.238 | 1.028 | 1.342 | 2.001 | 8.279 | 1.067 | | |
| | Variance explained | 17.658 | 4.285 | 5.591 | 8.337 | 34.494 | 4.432 | | |
| | KMO measure of sampling adequacy | | | | | | | .859 | |
| | Bartlett's test of sphericity | | | | | | | Chi-square 6767.887 (df, 276; p = 0.000) | |
| | Cronbach's alpha (α) | .933 | .800 | .825 | .864 | .908 | .912 | | |

SME owner-managers believe themselves to have over financial decision-making around adopting Islamic finance in their business.

Broadly speaking, religiosity is a wide-ranging sociological term which encompasses various aspects of religious activity, dedication and belief. We used five items with 5-point scales adapted from previous research (Obeid and Kaabachi, 2016) to measure religiosity. Awareness signifies a person's understanding and knowledge about something. Thus, we used six items with 5-point scales adapted from previous research (Faisal et al., 2012) to measure SME owner-managers' awareness about Islamic banking.

Content and internal validity were assessed in a pilot study with SME owners-managers. Reliability analysis on the final constructs indicated that all measurement scales exceeded the 0.7 threshold for Cronbach's alpha, thereby, demonstrating a satisfactory internal validity (Nunnally, 1978). As Table 1 shows, all items had loading greater than 0.4 as recommended by Costello and Osborne (2005) and were retained in the model. One item – the subjective

norm construct – was removed from the model because of a cross-loading above 0.5 (Costello and Osborne, 2005; Pallant, 2007). Consequently, the final constructs demonstrate acceptable internal consistency and reliability. Next, we present our results.

4. Results

4.1. Descriptive results

The profile of the respondents and characteristics of the respondents' businesses are summarised in Table 2. Most of the respondents (68.8%) were males; females made up 31.2% of the sample. This gender disposition is relatively consistent with Oman's business environment where more men than women own businesses (Riyada, 2018). With regard to their educational level, 36.9% of the participants had achieved a secondary certificate, 31.7% had a bachelor's degree, 28.1% held a higher diploma and 8% had only

Table 2
Respondent profile.

| Description | Frequency | Percentage |
|----------------------------|-----------|------------|
| Gender | | |
| Male | 265 | 68.8 |
| Female | 120 | 31.2 |
| Educational level | | |
| Primary | 3 | 0.8 |
| Secondary | 142 | 36.9 |
| Higher diploma | 108 | 28.1 |
| Bachelor's | 122 | 31.7 |
| Master's | 10 | 2.6 |
| Age in years | | |
| Under 20 | 4 | 1.0 |
| 20–30 | 157 | 40.8 |
| 31–40 | 178 | 46.2 |
| 41–50 | 42 | 10.9 |
| Over 50 | 4 | 1.0 |
| Nature of business | | |
| Manufacturing | 76 | 19.7 |
| Service | 135 | 35.1 |
| Trade | 174 | 45.2 |
| Number of employees | | |
| 1–5 | 230 | 59.7 |
| 6–25 | 144 | 37.4 |
| 26–99 | 11 | 2.9 |

primary education. The majority of participants (46.2%) were in the age category 31–40 and 40.8% were in the 20–30 category. With regard to their businesses' sector operation, the majority of the SMEs (45.2%) were in trade, 35.1% were in service industries and 19.7% were in the manufacturing sector. In Oman, the trade sector is the largest of all the sectors and majority of firms there are operated by small businesses (AlKharusi, 2003). The majority (59.7%) of the firms sampled employed 1–5 workers; firms employing 6–25 workers constituted 37.4% of the sample, with 2.9% employing 26–99 workers these figures are also consistent with Omani SME categories where the majority (70%) are micro businesses, 25% are small and 5% are medium-sized (Riyada, 2018).

Table 3 shows a summary of the means, standard deviations and correlation matrix for the independent variables and the dependent variable. All variables had a modest to high mean. As a rule of thumb, a correlation coefficient of 0.7 or more suggests the possibility of multicollinearity. As the table indicates, the correlation coefficient between each pair of variables is less than 0.7. This result was confirmed by the variable inflation factor (VIF) test shown in Table 4, which suggests that multicollinearity was not an issue.

4.2. Hierarchical multiple regression (HMR) analyses

HMR models (Wong and Mullan, 2009) were used to examine (a) the extent of TPB's ability to predict SME owner-managers' intentions to adopt IFI and (b) if the religiosity and awareness constructs add unique variance in predicting SMEs' intentions to adopt IFI above and beyond that predicted by the three TPB constructs. The predicting variables i.e., attitudes towards Islamic banking and finance and subjective norm TRA constructs were added in the first model; perceived behaviour control TPB constructs were added in the second model, as suggested by TPB; religiosity constructs were added in the third model; and, awareness constructs were added to the final model. At each stage, an additional explanatory variable was added to the model and the change in R^2 was noted.

In the first model, the TRA constructs were entered as a whole and they explain 39.2% of the variation in the dependent variables; the model was statistically significant at $F(2382) = 123.39$, $p < .001$, which indicates that TRA performed well and explained the intention to adopt IFI among SME owner-managers. Most of the predictive accuracy was shown by attitudes rather than subjective

norm, which indicates that attitude is an important predictor of Islamic financing decisions.

In the second model, TPB as a whole explains 40.8% of the variation in the dependent variables $F(3,381) = 87.587$, $p < .001$. Attitude ($\beta = .535$, $p < 0.001$), subjective norm ($\beta = .175$, $p < 0.001$), and perceived behavioural control ($\beta = .153$, $p < 0.01$) are statistically significant predictors, and confirm the results of previous research. The introduction of the perceived behavioural control explained an additional 1.6% of variance in SME owners' intention to adopt IFI after controlling for attitudes and subjective norm ($R^2 \Delta = .016$ $F(1,381) = 10.103$, $p < .01$). Thus, these results show not only that TPB can be determined to be a better model than TRA (Alleyn and Broome, 2011; Beck and Ajzen, 1991) but also that SME owner-managers' perception of how much control they have regarding adopting IFI as a form of financing is a significant factor when making financing decisions.

While the third model, which added the religiosity variable into the TPB variables, is as a whole significant at $F(4,380) = 65.684$, $p < .001$, religiosity does not add unique variance in predicting SMEs' intention to adopt IFI above and beyond that predicted by the TPB variables ($R^2 \Delta = .001$ $F(1,380) = .392$, $p > .1$).

However, in the final model, awareness adds a significant and unique variation in predicting SMEs' intention to adopt IFI above and beyond that predicted by the TPB variables ($R^2 \Delta = .019$ $F(1,379) = 12.671$, $p < .001$). All predictor variables were statistically significant, with attitudes recording a higher Beta value ($\beta = .538$, $p < .0001$) than awareness ($\beta = .201$, $p < .0001$), than subjective norm ($\beta = .137$, $p < 0.01$), than religiosity ($\beta = -.114$, $p < 0.05$), and finally than perceived behavioural control ($\beta = .110$, $p < .05$). Table 4 presents those results.

5. Discussion

Worldwide, financial decision-making poses the main challenge in small business (Koropp et al., 2014). To better understand this phenomenon, we investigated the Islamic financial decision-making process within SMEs from an owner-manager perspective. We argued that Islamic financial decisions in small businesses are affected by nonfinancial and behavioural factors such as attitudes of SME owner-managers, subjective norms, and perceived behavioural control. We showed that these factors have direct significant positive relationships with behaviour intention to adopt IFI among owner-managers, which aligns with both TPB (Ajzen, 1991) and previous studies (Ajzen, 2002a; Amin et al., 2014). Furthermore, consistent with previous studies in accounting and finance areas, Islamic finance and SME contexts (Alleyn and Broome, 2011; Cucinelli et al., 2016), the current study provides strong support for TPB as a model for financing decisions among SMEs.

In line with TPB and previous studies (Amin et al., 2014; Koropp et al., 2014; Warsame and Ireri, 2016), we found SME owner-managers' attitudes towards Islamic banking and finance have the greatest predictive influence on uptake and are positively associated with intentions to adopt IFI. The significance of the positive coefficient provides support for Hypothesis 1, which supports the crucial role managers' attitudes play in influencing their decisions towards the intention to adopt IFI (Amin et al., 2014). These findings support previous studies that identified the crucial importance of SME owner-managers' perceptions and preferences in shaping financial decisions in the SME context (Brettel et al., 2009; Matthews et al., 1994).

The positive and significant coefficient on subjective norms also supports Hypothesis 2 and is consistent with previous research (Koropp et al., 2014). As East (1993) suggests, financial products appear to be influenced mainly by family, friends and relatives' opinions, which indicates the importance of the social norms variable as a factor affecting SMEs' financing behaviour (Brettel et al., 2009).

Table 3
Descriptive statistics and correlation matrix.

| | Mean | SD | 1 | 2 | 3 | 4 | 5 | 6 |
|-------------------------------|-------|------|--------------------|--------------------|--------------------|--------------------|--------------------|---|
| 1-Attitude | 18.47 | 3.64 | 1 | | | | | |
| 2-Subjective norms | 7.55 | 1.72 | .089 | 1 | | | | |
| 3-Perceived behaviour control | 14.95 | 2.87 | .125 [†] | .569 ^{**} | 1 | | | |
| 4-Religiosity | 19.82 | 3.75 | .092 | .402 ^{**} | .447 ^{**} | 1 | | |
| 5-Awareness | 22.94 | 4.19 | .082 | .533 ^{**} | .569 ^{**} | .627 ^{**} | 1 | |
| 6-Intention to adopt IFI | 12.52 | 3.64 | .570 ^{**} | .309 ^{**} | .319 ^{**} | .166 ^{**} | .310 ^{**} | 1 |

Note:

[†]Significance at: $p < 0.05$.^{**}Significance at: $p < 0.01$.**Table 4**
A summary of HMR analyses.

| Model | Variables | R | R ² | R ² Δ | R ² adj. | B | SE | β | t | VIF | Tolerance |
|-------|-------------------------------|------|---------------------|---------------------|---------------------|-------|------|---------------------|-------|-------|-----------|
| 1 | | .626 | .392 ^{***} | .392 ^{***} | .389 | | | | | | |
| | Attitudes | | | | | .483 | .035 | .547 ^{***} | 13.66 | 1.008 | .992 |
| | Subjective norm | | | | | .551 | .085 | .261 ^{***} | 6.51 | 1.008 | .992 |
| 2 | | .639 | .408 ^{***} | .016 ^{**} | .404 | | | | | | |
| | Attitudes | | | | | .473 | .035 | .535 ^{***} | 13.48 | 1.016 | .984 |
| | Subjective norm | | | | | .370 | .101 | .175 ^{***} | 3.65 | 1.479 | .676 |
| | Perceived behavioural control | | | | | .194 | .061 | .153 ^{**} | 3.18 | 1.491 | .671 |
| 3 | | .639 | .409 ^{***} | .001 | .403 | | | | | | |
| | Attitudes | | | | | .474 | .035 | .536 ^{***} | 13.48 | 1.018 | .983 |
| | Subjective norm | | | | | .383 | .104 | .181 ^{***} | 3.70 | 1.541 | .649 |
| | Perceived behavioural control | | | | | .205 | .064 | .162 ^{**} | 3.22 | 1.623 | .616 |
| | Religiosity | | | | | -.027 | .044 | -.028 | -.63 | 1.304 | .767 |
| 4 | | .654 | .428 ^{***} | .019 ^{***} | .420 | | | | | | |
| | Attitudes | | | | | .475 | .035 | .538 ^{***} | 13.73 | 1.018 | .982 |
| | Subjective norm | | | | | .291 | .105 | .137 ^{**} | 2.76 | 1.640 | .610 |
| | Perceived behavioural control | | | | | .140 | .065 | .110 [†] | 2.14 | 1.762 | .568 |
| | Religiosity | | | | | -.110 | .049 | -.114 [†] | -2.26 | 1.688 | .593 |
| | Awareness | | | | | .175 | .049 | .201 ^{***} | 3.56 | 2.115 | .473 |

Note:

[†]Statistical significance $p < 0.05$.^{**}Statistical significance $p < 0.01$.^{***}Statistical significance $p < 0.001$.

By the same token, there was evidence to support **Hypothesis 3's** supposition that PBC is significantly related to SME owner-managers' intention to adopt IFI; these findings support [Koropp et al.'s \(2014\)](#) and [Amin et al.'s \(2014\)](#) studies. We find that SME owner-managers' control motives influence their financing decisions (re Islamic finance). The majority of the business decisions, specifically the financial decision-making processes ([López Salazar et al., 2012](#)), in a small business are taken by the owner, as he/she has complete control and decision-making power over the business.

Surprisingly, there is lack of support for **Hypothesis 4b**, in that religiosity does not add unique variance in predicting SME owner-managers' intention to adopt Islamic finance above and beyond that predicted by the TPB model, which is in line with previous research ([Ahmad and Haron, 2002](#); [Dusuki and Abdullah, 2007](#)). In fact, there was a statistically significant negative relationship between religiosity and SME owner-managers' intention to adopt Islamic financing, providing lack of support for **Hypothesis 4a**, which is in line with [Osoba \(2003\)](#). These outcomes could be explained in two ways: (1) that adhering to Islamic rules not being a main concern for SMEs in adopting Islamic finance and (2) that religious SME owners may not fully believe that the Islamic finance products on offer truly adhere to Islamic principles and this perception might explain their reluctance to take up these products. This finding is a clear signal to Islamic banks when targeting small business owners that the religious factor is not the primary influence on firms' adopting Islamic finance.

However, awareness adds unique variance in predicting SME owner-managers' intentions to adopt IFI above and beyond that predicted by the three TPB variables' support for **Hypothesis 5b**.

In fact, we find awareness positively associates with intentions to adopt IFI; the significant and positive coefficient provides support for **Hypothesis 5a**. These findings corroborate [Buchari et al. \(2015\)](#) and clearly highlight the importance of awareness in decision-making, especially financial decision-making. Since Islamic finance is new to the Omani banking sector, SMEs' understanding is crucial in order for them to adopt IFI. Insufficient understanding of how Islamic banks operate may make small business owner-managers hesitant about adopting IFI.

6. Conclusion and implications

This study investigated TPB's efficacy in predicting SME owner-managers' intentions to adopt IFI using a sample of 385 participants. The empirical analysis supports TPB and prior research in the field of finance and other domains by confirming that attitudes, subjective norms and perceived behaviour control are significant predictors of SMEs' intention to adopt IFI. Although religiosity showed a significant negative relation and is not a predicting factor of SME owner-managers' intention to adopt IFI, awareness did show a significant positive relation and was an important factor in predicting IFI adoption intention.

Our results emphasise the importance of the noneconomic variables and psychological factors that influence SME owner-managers' financial decision-making processes and are important because little is known about why financial choices vary among small businesses, especially how and why SME owner-managers make financial decisions, especially Islamic finance decisions. This study, therefore, provides additional insights into how SME owner-managers evaluate and select financing options for their firms.

Our research also contributes to the theoretical and empirical work on the uniqueness of small business (Ang, 1991) and will help private and government agencies involved in the funding of SMEs to develop better policies. Policymakers should be aware of how decision-makers' personal characteristics (attitudes, perceived norms, and perceived control) impact on the development of SMEs when devising mechanisms to support them. Consequently, this study should enable Islamic banking to design financing programmes tailored to the specific needs of SMEs' owner-managers which attract them to adopt IFI, and may, in turn, foster broader dissemination of Islamic financing.

7. Limitations and future research

This study's results are based on a sample of SME owner-managers in Oman. However, its findings are not generalisable to other contexts. Validating the findings of this study, therefore, requires further studies in other geographical contexts, and preferably with cross-cultural samples. Finally, a number of gaps in our knowledge around SMEs' Islamic finance decisions remain. For instance, research that explores the effect of demographic factors on SMEs' intention to adopt Islamic finance and, more specifically, investigates whether firm owners' and firms' characteristics and awareness of Islamic finance types (Mudarabah, Musharaka, & Murabaha) affect SMEs Islamic financing decisions, is needed.

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