Exploring the sources of Islamic and conventional finance for small and medium enterprises in Saudi Arabia

جامعة عفت
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Exploring the Sources of Islamic and Conventional Finance For Small and Medium Enterprises in Saudi Arabia

A Thesis Submitted in Partial Fulfillment of the

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By

Nahla O.Attar

Supervised By

Dr. Jamaldeen Faleel

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Thesis Committee

Thesis Supervisor

Name:-Dr. Jamaldeen Fazlul

Signature:-J. M.-----------------------------

Department Chair

Name:-Dr. Tahar Tayachi

Signature:-----------------------------------

Co-supervisor/member

Name:--------------------------------------

Signature:----------------------------------

Dean of the College

Name:-Dr. Haneen Chami

Signature:-----------------------------------

External Member

Name:--------------------------------------

Title:--

Signature:----------------------------------

Dean of Graduate Studies & Research

Name:-------------------------------------

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Member

Name:--------------------------------------

Title:--

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ABSTRACT

Traditionally entrepreneurs and SME owners requires funding for their ventures. SME financing is one the fast growing sector in finance industry. Since the most of the SMEs owners are innovators or new to the business they do lack of funds for their projects. Due to the lack of fund a shortage of paid-up capitals and credits make Small and Medium Enterprise vulnerable to fluctuation in the supply and demand market economy. This study aims to compare between the Islamic and traditional financing sources for Small and Medium Entrepreneurs in Saudi Arabia to make them aware of the possible alternatives available in both conventional and Islamic financing, their characteristics and advantage and disadvantages of using the both the methods. The research question what is the contribution of Islamic financial products such as “Murabaha ,Musharka, Mudaraba, Ijarah “of small and medium enterprises. The research was using both primary and secondary data. Primary data was collected using a survey, distributed 100 SMEs owners. The results were analysed using the percentages, tables and SPPS software. T-test was to check the hypothesis and Cronbach's Alpha was to check the reliability of the percentage tables. The finding of the study shows that most of SMEs owners prefer Islamic sources of funds and they prefer Ijarah and Murabaha their favorite products.

Keywords: Islamic financing, small and medium enterprises, entrepreneur, Saudi Arabia

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CHAPTER 1: INTRODUCTION

1.1. Overview

Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries. Formal SMEs contribute up to 45 percent of total employment and up to 33 percent of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included. According to estimates, 600 million jobs will be needed in the next 15 years to absorb the growing global workforce, mainly in Asia and Sub-Saharan Africa. In emerging markets, most formal jobs are with SMEs, which also create 4 out of 5 new positions. However, access to finance is a key constraint to SME growth; without it, many SMEs languish and stagnate (Simon Bell).

The development of Small and Medium enterprises has contributed to the development of Arab and Islamic countries economic growth, reducing the unemployment, alleviating the poverty. One of the major reasons of growth of SMEs, its sources finance, especially after the growth of Islamic finance industries in these countries.

In 1963, Dr. Ahmed El Najjar initiated the first Islamic banking which was established in Egypt. This Islamic bank was based on interest free lending and deposits system by sharing profit and loss of the deposits of Savings accounts. In 1974, the Islamic Development Bank (IDB) was established by OIC, Organization of Islamic Countries which was considered as the second boost to the interest-free banking system for SMEs.

The practice of Islamic banking has grown exponentially over the past four decades since the inception of first commercially successful Islamic Bank in Dubai in 1975 (Elfakhani, 2009). In 1975, Dubai Islamic Bank became the first modern commercial Islamic bank in the world. The first Islamic bank was in Dubai; it competes in all aspects of commercial banking with the world's largest conventional financial institutions. By incorporating Sharia principles into all its operations, Dubai Islamic Bank became the pioneer in offering the world an alternative based on fairness and transparency. Before emergence of Islamic commercial banking, customers had no choice but to use the conventional banks for all their financial requirements.

Apart from this, the Islamic Finance House in Luxembourg was considered as the attempt to introduce the Islamic banking system in the western world which was established in 1978 (El-Galfy and Khiyar, 2012).

Islamic finance industry as an ethical and social responsible financing, helps the SMEs to grow by making equity financing in the Muslims countries. So, important know how the Islamic finance industry can impact on the development SMEs.

1.2 Problem Statement

SMEs and its funding sources has been studied by many scholars from various parts of the world based on conventional finance. But there few studies has investigated the financing of SME's by Islamic financing sources. Specifically, SME financing sources in Saudi Arabia is not clear in academic research as there are no researchers have investigated sources of Islamic and conventional financing. This thesis investigates the available sources of Islamic and conventional financing for small and medium enterprises (SMEs) in Saudi Arabia. This descriptive study investigates the sources of financing for SMEs in Saudi Arabia focusing both Conventional and Islamic mode of financing.

1.3 Research aims and objectives

The following aims and objectives to be achieved through the research.

1. To investigate the SME owners awareness about the existence of Islamic financing alternative for SME financing.
2. To investigate the preferred Islamic financial contract or product by SME owners when they are looking for sharia complaint financing.
3. To compare both Islamic and conventional banks in terms of obtaining the loans for SMEs
4. To identify the selection criteria used by SME owners when selecting the Islamic mode of financing.

1.4 Research question

The following research questions are expected to be answered by the research.

1. How many percentage of SME owners prefer Islamic financing over the conventional financing sources.
2. Which Islamic contract/products are preferred by SME's owners?
3. Does ease of getting loan have any impact on financing decision?
4. What are the factors SME owner's looking at when selecting Islamic modes of finance for their ventures?
5. What are the sources of finance used by SMEs in Saudi Arabia?

1.5 Outline of the Study

This study comprises of five chapters. First chapter consists of an introduction that defines overview of the study, problem statement and research aims and objectives. The second chapter consists of the literature review that discussed previous research in this regards and researchers remarks about diversification its impact of banks' risk and returns. The third chapter explains research methodology used for this study which includes data and sampling technique used for this study. The fourth chapter represents the result of this study and last chapter consists of conclusion, discussion and future research.

CHAPTER 2: LITERATURE REVIEW

Since the early 1980s, the industrialized countries have restructured their economies that have been combined with a recession in the manufacturing department and enhancement in the service sector. Hence small enterprises can easily survive in this atmosphere and occupying a great public profile. Small and medium-sized enterprises (SMEs) have gained the reputation as an engine for the economic development in developing and developed countries because SME sectors provide employment opportunities, promote innovation and flexibility and generate export revenues. The main reason of its so much assistance to the countries' economy is its capability to quickly respond to any changes (Abdulsaleh & Worthington, 2013).

Ali (2015), Studied the challenges of Islamic trade finance in promoting SEMs in IDB member countries the case of challenges and limitations facing the use of Islamic finance to promote Small and Medium Enterprises (SMEs) in IDB member countries. He found "The despite of the recent growth of the Islamic institutions and the development of new Islamic financing products, still there is no favorable environment for Islamic finance to play vital role in the development of SMEs in the IDB member countries."

Al-Jamal, M. A., al-Megharbel, & Inanoglu, (2001), explored in their study the Beyond Credit: A Taxonomy of SMEs and Financing Methods for Arab Countries and they are found "that conventional micro-finance for traditional SMEs especially if group lending strategies are employed can play a short-term role in poverty alleviation and employment creation. However, SMEs that enhance economic growth, export orientation, and attractiveness to inflows of foreign savings do not lend themselves to conventional financial methods. It is argued that creation of an enabling legal and regulatory environment for lease and venture capital financing may encourage the growth of the latter type of SMEs."

Oni, E. O., & Daniya, A. A. (2012), examined the role of Small and Medium Scale Enterprises to the development of Nigeria's economy Government over the years has formulated a number of policies aimed at developing Small and Medium Scale Enterprises and he's found "the most policies actually failed due to poor implementation, others however, succeeded. Efforts have been made in the past to identify the role of Small and Medium Scale Enterprises to the development of Nigeria's economy, its problems and prospects which created a vacuum on the role of government and other financial institutions in the development of Small and Medium Scale Enterprises".

Mansori, S., Chin, S. K., & Safari, M. (2015) published an article regarding Islamic microfinance and the fundamental roles of financial intermediaries demanded by Shariah. the Islamic thoughts and motives behind many initiatives have taken place to alleviate poverty in Muslim countries and then, it discusses the mechanisms proposed by Islam to improve the life of poor, prevent them to become poor, and also to improve the general economic relations among members of society. He found "mudarabah, Musharakah, murabahah, Ijarah, and qard al-hasan are discussed as different types of Shariah compliant contracts that can be used as the base of micro financing business model".

Al Saleh & Alsaleh (2012), examined The small and medium enterprises sector in Saudi Arabia form the highest percentage of all the businesses with a large number of employees but their contribution to the economy and the growth of it is low. And he is found "There are fast disappearing from the market and their ability to compete and grow is limited. There are many challenges SMEs face, but the main obstacle is the lack of strategy; the right plan to continue and develop. The research paper explore appropriate financial strategies for SMEs in Saudi Arabia to enable them to stay in business and grow”.

Hashim (2005), has highlighted the absence of capital and credit facilities, shortage of raw materials, administrative and specialized skill, advertising limitations and learning as the challenges for SME’s growth.

A few elements were additionally influencing SMEs which incorporate absence of credit accessible at a sensible cost and absence of working capital, poor foundation and rivalry from bigger remote firms (Cook, 2001). Also, Rodriguez (2002) presumed that there are three principle requirements confronted by SMEs, specifically, limitation in strategy and administrative structure; imperative in administrative limit and in conclusion, limitations in access to money related markets.

Meanwhile Wesselink(1995) has recognizes six areas of business checking, as far financing of SMEs is concerned. Among them are loan performance observing and business performance checking. Loan performance observing includes building up contract to safeguard the interest of lenders. While business performance monitoring includes helping customers address challenges inside the business environment.

Approaches in support of SMEs can be by and large sorted by targets, for example, the formation of occupations or the decrease of unemployment, social or value destinations, for example, the redistribution of income, market failure or productivity contentions which relate basically to contemplations of static effectiveness and element proficiency contentions specifically the advancement of imaginative exercises. It is clear that there are wide ranges where these arrangements cover with those in different regions of worry, specifically with rivalry strategy (Harvie and Lee, 2005).

Basically, Islamic banking has advanced and it likewise assumes a huge part in the improvement of the SMEs. It has developed to be one of the quickest developing administrations that have been recognized by both the Muslims and non-Muslims (Iqbal and Molyneux, 2005). The operation of Islamic banks gets from Syari'ah and in this way contrasts in its soul and inspiration contrasted with the conventional banking. Subsequently, Islamic banks offer comparative sort of services to their clients as the traditional banks yet they should stick to the Islamic standards which include the prohibition of interest (usury), gharar (uncertainty), maisir (alcohol), gambling and elements that are against Islamic law.

Despite the fact that there are numerous items which is offered in the market, yet the most prevalent Islamic methods of financing used to encourage the loans to SMEs are Murabahah, Ijarah, Bai' Bithaman Ajil and Mudarabah (Osman, & Ali,2008). In addition, Karim (2002), who researched the practice of PLS in Bank Muamalat Indonesia, BMI, viewed that mudarabah and musharakah financing are reasonable methods of financing for small and medium enterprise.

Accordingly, to Jabnoun and Khalifa (2005), examined the values pertaining to religious aspects tend to be the most significant facet among the Islamic banking customers in the UAE. In other words, religious factor tends to be perceived as one of the important attributes to be considered pertaining to Islamic banking patronage.

2.1. Review of Small and Medium Enterprise

In all over the world, Small and Medium Size Enterprises (SME) emerged as the most common employers. (In 2007, Ayyagari, Beck and Demirgüç-Kunt) have studied that in out of 76, 48 nations have successfully utilized SMEs and used more than 50% of the formal framework. These figures are general, but the definition of SME is between countries and within sectors. The bases of SME definition are quantitative measures and qualitative measure. Quantitative measure is related with staffing levels and turnover assets. Further studies describes that SMEs are not small or medium businesses but rather a distinct and separate group of organizations when it is compared with large businesses (El-Galfy & Khiyar, 2012). SMEs require different knowledge and information on alternative finance sources so that it becomes applicable according to the situation.

With the passage of time small and medium-scale enterprises SMEs (Kuntchev et. al., 2012), provid a great platform to build up the economy of the country and now it has been playing a significant role for youth of Saudi Arabia. New organizations are building up and small organizations are strengthening creating the employment opportunity to the youth that's why SMEs are very important for the people of Saudi Arabia. For example, the Arab Development Agency reported that in Arab region the SMEs has been increased to 130,000 in 1995 and 2.397 million workers have got the jobs over this time. In that time, the exports and imports of SMEs reached to $17.9 billion and $26.9 billion respectively and the overall outcome reached to $60 billion.

The difficulty of accessing capital from external sources, in particular for SMEs at the start-up and development stages (Ayyagari &Beck, 2007), has been recognized by many scholars and supported by research findings (Beck et al., 2006; Bruns and Fletcher, 2008; Klonowski, 2012 ;Mason and Kwok, 2010; Wu et al., 2008) Bank finance is often provided for short-term purposes and there are limited financial institution products for long-term investment financing that enable entrepreneurs to plan their business activities and operations. Short-term finance, such as the overdraft facility, makes it difficult for SMEs to plan their firm's operations, and develop capacity and competitive products.

2.2. Review of Financing Small and Medium Enterprise:

Islamic banking is the most substantive and growing aspect in the Islamic finance fabric. As through the years it becomes one of the key elements in the Islamic finance. Islamic banks differ from conventional banks due to the principle each type of banks follows. Conventional banks follow the rules and regulation of their financial industry, however, Islamic banks need to additionally apply the rules and regulation of sharia (Faleel, 2012).

List of the major differences in both the Islamic and conventional bank practices is the following:

1-Conventional banks work as mediator between lenders and borrowers but Islamic banks in most transactions and services they become a part in the transaction and share profit and loses with their customers.

2-Conventional banks have no constraints on the type of transaction and industry they are willing to serve. However, Islamic banks must only engage in halal transaction or industry (permissible sharia).

3-Conventional banks obtain their profit by the interest they charged upon their customers. However, Islamic banks work on the basis of interest free transaction as it is prohibited by sharia. (Onakoya, 2013)

An Islamic bank is essentially a partner with its depositors, on the one side, and also a partner with entrepreneurs, on the other side, when employing depositors' funds in productive direct investment as compared to a conventional bank which is basically a borrower and lender of funds. Difference between the two banking systems also lies in terms of governance structure.

Islamic banks must obey a different set of rules – those of the Holy Qur'an – and meet the expectations of Muslim community by providing Islamicaly-acceptable financing modes (Maiwada & Daneji &Bazza (2014).

2.3. Review of Financing Small and Medium Enterprise in Saudi Arabia

In Saudi Arabia, the presence of Islamic banks is relatively new compared to conventional banks. The first Islamic bank in Saudi Arabia in Al Rajhi bank was established 1970's and is one of the oldest and largest banks in Saudi Arabia. All the services are offered according to Islamic requirements, including funds for "zakat," which is money utilized for charitable donations. The bank won a numerous awards for its Middle East operations. Currently, there are 12 Commercial Banks and 4 Islamic Rural Banks operating across Saudi Arabia. Although Islamic Bank have gained overall acceptance for commercial and personal service, it has been suggested that they have a pivotal role to play in servicing SMEs, in particular, where SMEs lack collateral, financial information and a track record. Therefore, the presence and growth of Islamic banks provides an opportunity for the development of SMEs due to the focus of Islamic bank on equity and share of risk. Thus, Islamic banks serve as an alternative source of capital to that of Convictional Bank. (Dickson, 2015)

In Saudi Arabia, the Islamic banks such as Bank Al- Rajhi Banking and The National Commercial Bank, has created funds for entrepreneurs. This scheme is created in order to provide financial assistance for the entrepreneurs in developing their businesses. The importance of business can never be over-emphasized as it has always plays a role in the economic and social life of people especially in this present world. Millions of people today engage in some kind of business activities or in other words become entrepreneurs. Thus, entrepreneurs would be one of the potential customers of Islamic banks as they need financing to expand their businesses and thus they have to cater to these needs within the principles of Islamic law. (Khan, 2010).

Furthermore, the Saudi Mechanical Development Fund characterizes SMEs regarding yearly deals as firms whose yearly deals don't surpass SR 20 million for financing purposes. Moreover, the World Bank had dispersed a poll to business banks to decide their grouping for the small and medium enterprise. The consequence of the survey had shown that there is likewise distinction in banks' order for SMEs. It has inferred that small and mediums firms with yearly deals between SR 100 thousand to SR 5 million and representatives from 2 to 49. Medium size endeavors are firms with yearly deals from SR 5 million to 50 million and specialists from 50 to 200. (AlKhathlan, & Malik, 2010).

CHAPTER 3: METHODOLOGY

Chapter three take this research further towards results findings through the research method. The information gathered through this research will be further gauged in this chapter by following methodological procedures which will connect different parts of overall study. Therefore the methodology will be based on a systematic process so that further information can be collected and analyzed further hypothesis have been formulated based on research objectives.

3.1 Hypothesis

A hypothesis is a tentative conclusion that should be tested or proven to be true (Sekaran, 2003). Based on the research problem, and a framework that has been stated previously, the research hypothesis can be formulated as follows:

Hypothesis 1

H0: lack of awareness have any impact on entrepreneur decision while choosing mode of financing Islamic or conventional.

H1: lack of awareness doesn't have any impact on entrepreneur decision while choosing mode of financing Islamic or conventional.

Hypothesis 2

H1: SME owners compare interest or profit rate while they make decision for financing from bank

H0: SME owners doesn't compare interest or profit rate while they make decision for financing from bank.

<u>Hypothesis 3</u>

H0: Ease of getting loan have impact on financing decision.

H1: Ease of getting loan doesn't have any impact on financing decision.

3.2 Research Philosophy

The philosophical paradigm followed in this study is the Post positivist paradigm, also called the scientific method or empirical science. Researchers following this approach usually support a deterministic philosophy which causes determined outcomes. Hence, Post positivist studies are based on identifying and evaluating causes that influence certain outcomes (Creswell, 2012). In addition, researchers in the Post positivist paradigm usually begin with a theory, then collect data that are either going to support or disprove the theory (Creswell, 2012). In this research, factors (or causes) that influenced to determine what source(s) would be suitable for their kind of business for SMEs in Saudi Arabia focusing both Conventional and Islamic mode of financing.

3.3 Research Process

Dr. Robert V. William (2013) has stated that the techniques used in methodology is used to collect information in order to understand, analyzed and presented in findings. The research process will also include research type to identify further steps.

The selection of research type is linked to the nature of research. for example every researcher selects type of research based on requirements and the industry that is focused. Dana Lynn Driscoll (2011) states that researchers decide type of research in accordance to selection of objectives and required results from them. This has been further explained by her by stating that engineers select designs to acquire results and hence select type of research accordingly similarly researchers associated with sociology depend on statistics to achieve results. Some researchers focus on segments and look forward to adopt surveys and questionnaires to reach findings and conclusions. In this study the research type will be selection of questionnaires.

3.4 Research types and selection

There are two types of researches that are mainly adopted in methodology known as primary and secondary research. Every research type has its benefits and applicability on the study, according to Kynda R. Curtis (2014) the secondary research is beneficial in term of least time consuming as the data is already available by other researchers. Therefore in this context this type of research becomes cost effective. Primary research indicates the implication in its own manner, yet not applicable for all type of studies. In general this type of research is used when detailed analysis i.e. needed or in-depth information is required to discover unique aspect of the research topic. In this research primary data has been collected using questionnaire and secondary data has been collected literature review and publically available data.

3.5 Data Collection and Sampling

3.5.1 Data Collection Instruments

Data collection involves specifically the process of collecting information. Various ways are used to collect data for both quantitative and qualitative research hence, it is vitally important to choose the data collection method that best suits the purpose of the study. Data collected should be able to answer the research question and allow the research to prove or disprove the pre-stated hypothesis (In Morlini et al., 2015).

As a researcher, the major role is selecting or adapting a method that as near perfect as possible for the particular study and then be able to discuss the odds and evens of the chosen method as well as giving a clear rationale of the reason to choose that data collection method (Creswell, 2008). Four tasks are always carried out during the process of data collection including the selection of subjects, consistent data collection, maintenance of research controls-methodological controls, admission/elimination of bias, etc. and finally solving of conflicts/problems arising and have the possibility of threatening the study throughout the research project duration.

In quantitative research, the hypothesis are tested, which are derived from theory hence able to estimate the size of a phenomenon of interest. Depending on the research question raised in a study, variables or participants may be subjected to different treatments randomly. Data is also collected on participant and situational characteristics to enable the statistical control of their influence on the dependent or outcome variable (Creswell, 2008).

a. Interviews

According to Ott (1977), in interviews, enumerators obtain information through inquiry and records it. In quantitative research, structured interviews are performed using survey forms, but qualitative research involves open interviews where notes are taken while talking with respondents. These notes are subsequently structured to allow for further analysis.

b. Observation

In quantitative research, it is crucial to structure the observation to give the research a defined purpose of observation. The initial step taken in structured observation measurement is carefully defining what is to be observed (Creswell, 2008). Observational measurement, in this case, is usually the use of structured and unstructured observation in measuring study variables.

c. Questionnaires

Questionnaires can effectively be used to collect data on simple and well-defined issues although they are required to be designed and planned carefully, then piloted expertly to ensure they provide the required data, data that can be put to analysis and most importantly unbiased response. Pilot studies should be the ones providing a basis for developing questionnaires (Creswell, 2008).

Questionnaires feature two types of questions: closed and open-ended questions. To construct a reliable and valid quantitative or qualitative questionnaire for collecting high-quality data is a sophisticated and subtle art (Ott, 1977). Poorly constructed questionnaires always result in poor quality data. There are the ideal steps used in coming with reliable questionnaire data that include first defining the area of investigation, secondly formulating the questions, thirdly choosing a sample and maximising the response rate, fourthly piloting and testing for validity and reliability and finally recognising sources of error.

This research has used questionnaire to collect primary data to achieve the objectives and test the hypothesis.

3.5.2 Sample size of the study

According to Pickard, A. (2012) the quantitative method is the most appropriate method to use in descriptive research, which is suitable for this research. The questionnaires were used to collect data from SME owners in order to examine both Islamic and conventional sources of finance to evaluate SMEs in Saudi Arabia. This will help SMEs owners to identify the right sources of funding for their product. The reason for using questionnaires is that they are generally used to collect non-availability of the sample.

The participants were selected using purposive sampling method. The questionnaire were distributed to 100 SME owners based on Jeddah, Riyad and Dammam, Saudi Arabia. During August 2016 to November 2016, 45 participants responded to the questioner. In planning the survey exertion was made to ask as straightforward as could reasonably be expected inquiries, considering the foundation of the respondents. The survey was isolated into a few areas which incorporate demographic profiles, sources and kind of financing, and observations on the Islamic financing.

3.5.3 Questionnaire Construction

The survey was prepared to collect primary data, it started with part 1, with six demography questions, then part two inquiries about the SME owners preference and usage of Islamic or conventional modes of financing. Third part Awareness about the existence of Islamic financing options for SME's. Fourth part Selection of bank (Conventional vs. Islamic banks). Fifth part about Comparative analysis of Islamic and conventional banks in terms of obtaining the loans for SMEs. Part six about Factors choosing Islamic financing SME's. The last part about Islamic contracts and products preference. A Google form was used to create the online survey, it is one of the feature provided by Google drive it is an easy way to form online survey, helps in forming different types of questions from multiple choice till linear scale, and the result of the respondents answer is automatically shown in chart and can be exported to excel sheet. The link of the survey was shared through E-mail and what's app to SME owners.

CHAPTER 4: Findings and Analysis

This chapter discuss the data collected through the survey and analyzed using statistical techniques. First respondent's profiles were analyzed, then results of questionnaire has been analyzed using the tables and percentages. Finally, T-test has been used to answer the hypothesis.

4.1 Demography of sample

Table 4.1 Brief the profile of the respondents. According to demographic profile 69% respondents are female and the remaining being Males (31%). Among the respondents, the majority (64%) are in the age range of 21 - 30 Years and age group 31- 40 is represented by (31%). In terms of their level of education, majority of them were only high school leavers. Based on their age and their academic qualification, it is only expected that the majority earn incomes between the ranges of SR5, 001- SR10, 000. 49% of the respondents had 0 – 1 years' experience, 22% of the respondents had 2 – 4 years' experience, 29% of the respondents had an experience of more than 4 years and above. Based on the experience in the business, it can be concluded that most of the respondents were still new in the business world. The findings also shows that 22% of the respondents have a capital of less than SR 5000; 18% of the respondents have a capital between SR10, 000 to SR20, 000, 18% of the respondents have a capital between SR5000- SR10,000 , 16% of the respondents have a capital between SR20,000 to SR25,000 ,and the other 27% of the respondents have a capital of 25,000 and above.

Table 4.1: The Respondents' Profile

Gender	Frequency	Percentage
Female	31	69%
Male	14	31%

Age	Frequency	Percentage
21 - 30 Years	29	64%
31 - 40 Years	14	31%
Below 20	1	2%
Above 40	1	2%

Experience/Years in business	Frequency	Percentage
0 - 1 Year	22	49%
2 - 4 Year	10	22%
More Than 4	13	29%

Household Income per Month	Frequency	Percentage
Less Than SAR 5,000	9	20%
5,001 - 10,000	16	36%
10,000 - 20,000	13	29%

More Than 20,000	7	16%

Funds/capital size:	Frequency	Percentage
Below RS5000	10	22%
RS10,000 - RS20,000	8	18%
RS20,000 - RS25,000	7	16%
RS5,000 - RS10,000	8	18%
More Than RS25,000	12	27%

4.2.Source of financing of SMEs

One of the research questions is what types of financing sources are used by Saudi SME owners when starting a new business or already own a SME. The type of financing sources were gathered from questionnaire as in the table 4.2

Table 4.2 Source of financing

Type of Source	Percentage
Bank Loan from Conventional banks	20%
Loan from Financial Intermediaries & Development Initiation (e.g. Islamic Development Bank , Bank Al-Jazeera- National Commercial Bank , Al-Rajhi Bank , Babrizgjameel)	20%
Borrow/borrowed money from Family (family loan)/ Equity partnership	24%

Own personal fund (Savings and Income)	36%

Table 4.2 shows the result that majority of the respondents rely upon their own sources of income and savings to start the business, instead of acquiring it from any financial institutions. The results shows 36% of the respondents preferred or used their own sources, 20% of the respondents mentioned that borrowed loan the conventional banks, while the other 24% acquired the fund through borrowing money from family, friends/relatives and also through equity partnership. However 20% of the respondents borrowed loan from Islamic financial intermediaries such as Islamic Development Bank, Bank Al-Jazeera- National Commercial Bank, Al-Rajhi Bank, Babrizgjameel.

4.3 Awareness about the existence of Islamic financing options for SME's

One of the aim of this thesis is to investigate the SME owner's awareness about the existence of Islamic financing alternative for SME financing.

Table 4.3 Awareness about the existence of Islamic financing options for SME's

Items.	Strongly disagree	Agree	Neutral	Disagree	Strongly agree
1- I know the existence of Islamic financing for Small and Medium Enterprises for SMEs in Saudi Arabia	4%	31%	42%	8%	4%
2- I know and understand the differences between Islamic	9%	33%	16%	22%	20%

and conventional financing (Rank Yourself)					
3- I am aware about the principles and methods used by Islamic financial institutions when lending loans for SMEs	13%	40%	20%	16%	11%
4- I am aware about the principles and methods used by Conventional financial institutions when lending loans for SMEs	11%	38%	27%	18%	7%
Average	9.25%	35.5%	26.25%	16%	10.5%

Table 4.3 shows the descriptive results of all variables and on the question pertaining to their Awareness shows that the descriptive result of all variables about the existence of Islamic financing for SMEs, majority of the respondents (44.75%) agreed on the availability of SMEs Islamic financing (see Table 4.3). Only quarter of the population (26.6%) has no knowledge on the existence of Islamic Financing for SMEs. Awareness of available sources of finance plays an important role in deciding the mode of financing. One of the objectives of this research is aimed to investigate the awareness of Islamic mode of financing in Saudi Arabia. This research reveals that majority Saudi based SMEs, owners are aware of the availability of Islamic financing.

Table No. 4. 4 Cronbach’s Alpha

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.804	.801	4

Item Statistics

	Mean	Std. Deviation	N
R1	3.13	.919	45
R2	3.29	1.218	45
R3	2.91	1.164	45
R4	2.82	1.072	45

According to table 4.4 of Cronbach’s Alpha for the factors of awareness is 0.804 which is greater than 0.60, hence the items is the construct are reliable for measuring the awareness.

4.4 Preference for Islamic financing alternatives

One of the research questions the thesis to understand the how many percentage of SME owners prefer Islamic financing over the conventional financing sources. To find the answer for this questions, the interviews were asked “If you have to finance your business considering Bank Financing, what would you prefer?"

Table 4.5 Selection of bank (Conventional vs. Islamic banks)

If you have are planning to finance your business using the bank which bank would you prefer?

Items	Percentage
Sharia Compliance Banks	73.33%
Conventional Commercial Banks	26.67%

According to the sample investigated, the findings show that 73% of the total population is willing to finance using Islamic banking products for their SME's financial requirements. So, majority of the SMEs owners are looking for Islamic bank financing for their projects.

4.5 Comparative analysis of Islamic and conventional banks in terms of obtaining the loans for SMEs

After the responded answered the question 2, about the preference for Islamic or conventional banking, the next step is to compare both conventional and Islamic in terms of borrowing loans.

Table 4.6: Islamic Banking and Conventional Banking

Items	Yes	No	Both are Same
1-Do you think that getting loan from Islamic banks is more convenient than conventional bank?	49%	7%	44%
2- Terms & conditions in obtaining the loan is more complicated than conventional banks	75%	25%	0%
3- Do you think that Islamic banks offer more convenient schedule of repayment than the conventional bank for the loans	15%	65%	20%

Understanding the ease of obtaining loans, repayments and terms and conditions can help the Islamic banker to changing their strategies to attract more SME owners to finance their projects. According to the above research 44% of the respondents consider that in terms of convenient both the banks are same and 49% respondent that the Islamic banks are more convenient than the conventional banks. 75% of the total population agreed that obtaining financing in Islamic banks are more complicated than the conventional banks. Only 25% of the respondents agree that Islamic banks are less complicated in terms of obtaining the finance. When comparing the flexibility in repayment, 15% of the respondents agree that Islamic banks are flexible and majority of the population disagree with this.

4.6 Selection criteria for choosing Islamic financing by SME owners

One the objective of the research is to identifying the selection criteria used by SME owners when selecting the Islamic mode of financing.

Table 4.7: Factors choosing Islamic financing SME's

Items	Level of importance				
	5 Strongly Agree	4 Agree	3 Natural	2 Disagree	1 Strongly disagree
1-It is based on Islamic principles	27%	33%	20%	7%	13%
2-Certainty of capital and return (Sharing Profit and Risk)	20%	51%	18%	0%	11%
3-Quality products and services offered by the Islamic financial institutions	27%	40%	16%	7%	11%
4-Prohibition of involvement of in haram or non-permissible transactions or economic activities such as alcohol, non-halal food, pork production, gaming/number, forecasting, prostitution	36%	36%	13%	9%	7%

5-Avoidance of maisir i.e. speculation or gambling and gharar i.e. Preventable uncertainty or ambiguity in transactions	7%	36%	7%	18%	33%
6-Elimination of riba (literally means increase or addition) i.e. usury or rent on money in all forms and intents	33%	33%	22%	4%	7%
7-Service provision is fast and efficient	20%	40%	29%	4%	7%
8-Recommendation of my family and friends	7%	38%	13%	22%	20%

Furthermore, the results presented in Table 4.6 shows that nearly 60% percent of the SMEs owners would choose Islamic financing as it is based on Islamic principles in particular, 71% of the respondents consider Sharing profit and risk sharing as important factors. Quality products and serves offered by Islamic financial institutions is considered as important factor by 67% of the respondents. 72% of the responded considered prohibition of involvement of non-sharia complaint investment as important factor when deciding the factors of selection. Only 43% of the respondents are concerned about the avoidance of Ghrar and Mysir by Islamic banks. Involvement of Riba being considered as an important factors by respondents. 66% of the responded considered avoidance of Riba by Islamic financial institutions as important factor. Efficient services offered by Islamic banks is considered as important factory by 60% of the respondents. Only 45% of the people take recommendation of their family members as a factors when deciding their selection criteria of Islamic financing.

It is most likely that they based their perception on religious belief rather than on thorough understanding of the financial principle involved. Accordingly, this finding supported Jabnoun and Khalifa (2005) the most significant facet among the Islamic banking customers in the UAE. In other words, religious factor tends to be perceived as one of the important attributes to be considered pertaining to Islamic banking patronage. However, 40% of the respondents do agreed that the Islamic financing have the quality products and services for them to get source of fund.

Nevertheless, it is interesting to note that though the majority of respondents knew about the availability of Islamic finance and its advantages, the discoveries additionally appear that the majority of entrepreneurs have a blended reaction on the inquiries of efficiency and product quality as offered by Islamic bank. (Iqbal and Molyneux, 2005) found that in general conventional banks offer better services such as the ability to perform the guaranteed service constantly and accurately, the willingness to help customers and to provide prompt service, the information and courtesy of employees and their ability to convey trust and certainty and the arrangement of binding, individualized attention to the customer. This may due to the fact that to some customers the conventional banks are always perceived as rendering great quality services in ensuring customer fulfillment, retention and loyalty.

4.7 Islamic contracts and products preference.

One of the research objective is to understand the preferred Islamic financial contract or product by SME owners/investors when they are looking for sharia complaint financing.

Table 4.8: Mode of Islamic financing

Type of Product	Percentage
Salam	16%
Ijarah	22%
Murabaha	20%
Mudaraba	22%
Bay Istisna'a	20%

Further, 16% goes for Salam, 22% goes for Ijarah, 20% for Murabaha while 22% on Mudaraba and 20% goes for Bay Istisna'a (see Table 4.7). This findings showed that financing through Ijarah & Mudaraba is the most popular modes of financing among the SMEs entrepreneurs. The respondents were asked on the question if the Islamic financial institutions should develop or innovating new products as to be competitive as the conventional banks. 60% of the respondents were strongly agreed on the issue, at least these institutions are able to increase good pictures from general society and more market share, and 29% agreed while the rest is neutral 11%.

Table 4.9: Cronbach's Alpha

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.948	.948	5

Item Statistics

	Mean	Std. Deviation	N
R14	2.84	1.566	45
R15	2.98	1.588	45
R16	2.93	1.529	45
R17	2.64	1.598	45
R13	2.67	1.523	45

According to table 4.9 of Cronbach's Alpha for Islamic product is 0.948 which is greater than 0.60, hence the items is the construct are reliable for measuring the awareness.

4.8 Hypothesis

In this section, hypothesis of the research is tested using T-test and analysis were made based on the results. The following hypothesis were tested:

Hypothesis 1

This hypothesis was were intended to determine the impact of awareness on SME owners on selection of financing (Islamic or conventional finance selection). Table No. 4.8 examines the hypothesis.

H0: lack of awareness have impact on SME owner decision while choosing mode of financing Islamic or conventional.

H1: lack of awareness doesn't have any impact on SME owner decision while choosing mode of financing Islamic or conventional.

Table 4.10: Hypothesis 1 testing

One-Sample Statistics

Question	N	Mean	Std. Deviation	Std. Error Mean
Awareness about the existence of Islamic financing options for SME's	45	1.27	.447	.067

One-Sample Test

	Test Value = 4					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper

One-Sample Statistics

Question	N	Mean	Std. Deviation	Std. Error Mean		
Awareness about the existence of Islamic financing options for SME's	-41.000	44	.000	-2.733	-2.87	-2.60

Based on the above t-test analysis we can accept the zero view which states that lack of awareness doesn’t have any impact on entrepreneur decision while choosing mode of financing Islamic or conventional. Alternative hypothesis is rejected since the p-value (0.000) < ∝ (0.05) which is significant. It can be concluded that lack of awareness doesn’t have any impact on SME owners decision while choosing mode of financing (Islamic or conventional finance) since the p-value (0.000) < ∝ (0.05) which is significant.

<u>Hypothesis 2</u>

This hypothesis was were intended to check how the interest or profit rate can make impact on banking financial decision of the SMEs owners. Table No. 4.9 examines the hypothesis.

H1: SME owners compare interest or profit rate while they make decision for financing from bank

H0: SME owners doesn’t compare interest or profit rate while they make decision for financing from bank.

Table 4.11: Hypothesis 2 testing

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Certainty of capital and return (Sharing Profit and Risk)	45	3.36	1.151	.172

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Certainty of capital and return (Sharing Profit and Risk)	-3.755	44	.001	-.644	-.99	-.30

Based on the above analysis we can reject the alternative hypothesis and accept the zero that the SMEs owners doesn't compare interest or profit rate while they make decision for financing from bank since the p-value (0.001) < ∝ (0.05) which is significant.

<u>Hypothesis 3</u>

This hypothesis was were intended to check how ease of getting loan can have impact on financial decision of the SMEs owners. Table No. 4.10 examines the hypothesis.

H0: Ease of getting loan have impact on financing decision.

H1: Ease of getting loan doesn't have any impact on financing decision.

Table 4.12: Hypothesis 3 testing

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Do you think that getting loan from Islamic banks is more convenient than commercial bank?	45	2.42	.621	.093

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Do you think that getting loan from Islamic banks is more convenient than commercial bank?	-17.039	44	.000	-1.578	-1.76	-1.39

Based on the above analysis it can be concluded that zero view of hypothesis is accepted and alternative is rejected which is getting loan doesn't have any impact on financing since the p-value (0.000) < $\propto$ (0.05) which is significant.

Financing entrepreneurs by using Islamic Finance model still not have been taking attention as the conventional model. As discussed by Ali, S. (2015), the despite of the recent growth of the Islamic institutions and the development of new Islamic financing products, still there is no favorable environment for Islamic finance to play vital role in the development of SMEs in the IDB member countries. In this study found that based on the survey result the entrepreneurs have not a fully knowledge to apply or request from the bank or the Islamic financial institution regarding the Islamic Finance Product.

The Islamic methods of financing used to encourage the loans to SMEs are Murabahah, Ijarah, Bai' Bithaman Ajil and Mudarabah (Yakcop, 1996). In addition, Karim (2002), who researched the practice of PLS in Bank Muamalat Indonesia, BMI, viewed that mudarabah and musharakah financing are reasonable methods of financing for small and medium enterprise. In this study found that most of the entrepreneurs prefer the Islamic product but reason for patronizing an Islamic bank is due to religious factor.

CHAPTER 5: Conclusion and Recommendation

5.1 Introduction

In this chapter aims and objectives of the study has been answered based on the findings, in addition recommendations have been made to the policy maker and regulator and SME owners. Recommendation for further research has been discussed.

5.2 Conclusion

This section aims to answer the all the research questions and make conclusion about the problem statement and objectives of the study. The first aim of the research was to investigate SME owners about the existence of Islamic finance alternative of SMEs financing. Since Saudi Arabia is an Islamic country and contributing major share for Islamic assets, it is important to know whether Saudi SME owners are aware of Islamic finance products available for SME owners. The results of the questionnaire shows that 44.75% of the SMEs owners are aware of existence of Islamic financing alternatives. Only 26.5% SMEs owners are not aware of existence of Islamic financing for SMEs.

The first research question is based on the awareness of existence of Islamic financing sources. First research questions was to find how many percentage of the SME owners prefer Islamic finance over the conventional financing in Saudi Arabia. Based on the results obtained from analysis, it can be concluded that majority of SME owners (73%) prefer Islamic financing for their ventures. So there is a good potential for Islamic finance industry to looking in to the SME sectors to market their products and product development.

The second aim and research questions was to investigate the preferred Islamic finance contract or products and by SMEs owner once the finalizes that they want to go Islamic financing options. According to the survey, the results shown based on the ranking of the products, Ijarah and Mudarba is preferred mostly by the SMEs owners, and secondly Murabaha and Istisna and lastly Salam contracts.

The third aim of the research was to compare the both Islamic and conventional bank in terms of obtaining the loans for SMEs. According to the results, 49% of the SMEs owners believe that getting a Islamic financing is easier than conventional. In terms, of terms and condition for obtaining the loans, 75% of the SMEs owner believe that terms and conditions are complicated than conventional banks. Since Islamic banks are based on sharia compliance, it has to structure their products based on the Islamic contracts, sometimes when, the Islamic developing products it goes through many contract and makes the customer more confused about structure of Islamic precuts. 15% of SME owners who use Islamic financing believe that Flexibility in the repayment of capital and profit. So over all it can be concluded that Islamic financial institutions are more complicated, less flexible and with less terms and conditions for obtaining the loans.

The fourth objective was about Identifying the selection criteria used by SMEs owner when selectin the Islamic mode of financing and related was researches what are the factors that considered by the SMEs owner when they selecting the Islamic financing. The results show that SMEs owners prefer: sharia compliance, certainty of capital and return, Quality products, efficient services, prohibitions of riba, gharar, maysir and investment in non-sharia complaint business and recommendation of family and friends.

The next research questions was find the sources of finance by SMEs owners in Saudi Arabia. Based on the results it can be concluded that, mostly the SMEs owner prefer to use their own personal funds which is obtained either by savings or income from the job, second source of finance is from family and friends third and fourth source of finance from conventional banks, and from Islamic financial institutions which includes Islamic banks, Islamic development bank and Babrizk Jameel(offers Qard Al Hassan loans.

Three hypothesis analysis was done in this this to understand the financing of SMEs and they are concluded as follows;

Hypothesis 1 was were intended to determine the impact of awareness on SME owners on selection of financing (Islamic or conventional finance selection) that lack of awareness doesn't have any impact on entrepreneur decision while choosing mode of financing Islamic or conventional.

Hypothesis 2 was intended to check how the interest or profit rate can make impact on banking financial decision of the SMEs owners that the SMEs owners doesn't compare interest or profit rate while they make decision for financing from bank.

Hypothesis 3 was intended to check how ease of getting loan can have impact on financial decision of the SMEs owners be concluded that loan doesn't have any impact on financing.

5.3 Recommendation

Since majority of the SME owners prefer the Islamic financing alternatives, it is highly recommended for Islamic financial institution to focus more on Islamic financing products, product development and marketing. Further the results shows that Ijarah and Murabaha are most preferred mode of Islamic financing by the SMEs owners. So, Islamic financial institutions need to make strategies market other contracts or make them more attractive.

Around quarter of the SMEs owners are financing their SMEs through their personal fund which means there more towards using their funds first. So the policy makers can divise policies and strategies to improve the financing sources of SMEs owner who are finding difficulties in financing the SMEs.

5.4 Suggestions for future research

Since this research was done with limited time period, in depth study could not be conducted, especially in Islamic financing for SMEs owners. I suggest the future research to focus more on Islamic financing alternative for SMEs.

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Appendix

Survey Questionnaire

Dear Respondents,
This questionnaire is designed to gather information about SME financing in Saudi Arabia
All responses will be used to conduct a study for the partial fulfilment of Master's Thesis in Islamic Financial Management (MIFM). Your anonymity/ secrecy will be strictly maintained as we do not ask for your name here and will ***not*** be used for any other purpose. Besides, this survey should only take about 3 **minutes** of your time. We are grateful for your Cooperation in advance!

N.B Please put a „√" mark to all your responses in the circle provided beside to each Question (if necessary).

Part I

Q 1

1-Gender: ☐Male ☐ Female

2-Age: ☐ Below 20 ☐ 21-30 ☐ 31-40 ☐41-50 ☐ Above 50

3-Education level: ☐Primary ☐ Secondary ☐Graduate ☐ Master ☐ Others

4-Household Income per Month: ☐< 5000 RS ☐ 10,000 RS-20,000 RS ☐25,000 RS-35,000RS ☐ Others

5- Experience/Years in business: ☐ 1-5 Years ☐ 6– 10 Years ☐ 11-15 Years ☐16 Years and above

6- Funds/capital size: ☐Below 5000 ☐ 10,000-20,000 ☐ 30,000-40,000 ☐ ☐Above50,000

Part II
Q2
If you have a plan to start new business or already owned SME (Small and medium enterprises) which one option will you prefer or preferred (Choose all that applicable)

☐ Bank Loan from Conventional banks
☐ Loan from Financial Intermediaries & Development Initiation (e.g. Islamic Development Bank , Bank Al-Jazeera- National Commercial Bank , Al-Rajhi Bak , Babrizgjameel)
☐ Borrow/borrowed money from Family (family loan)/ Equity partnership
☐ Own personal fund (Savings and Income)

Part III
Q3
Awareness about the existence of Islamic financing options for SME's

Items		Strongly Agree	Agree	N/A	Disagree	Strongly Disagree
1-	I know the existence of Islamic financing for Small and Medium Enterprises for SMEs in Saudi Arabia					
2-	I know and understand the differences between Islamic and conventional financing					

3-	I am aware about the principles and methods used by Islamic financial institutions when lending loans for SMEs					
3-	I am aware about the principles and methods used by Conventional financial institutions when lending loans for SMEs					

Part IIII

Q4

Selection of bank (Conventional Vs. Islamic banks)

" If you have to finance your business considering Bank Financing, what would you prefer?"

☐ Traditional financing (Interest based) ☐ Islamic financing

Part IIIII

Q5

Comparative analysis of Islamic and conventional banks in terms of obtaining the loans for SMEs

Items		**YES**	**NO**
1-	Do you think that getting loan from Islamic banks is more convenient than commercial bank? Yes, No, both are same		
2-	Terms & conditions in Islamic financing is more complicated than commercial bank Yes, No, Both are same		
3-	Do you think that Islamic bank offers more convent schedule of repayment than commercial bank yes, no , Both are same		

Part IIIIII

Q6

Factors choosing Islamic financing SME's

If you choose Islamic financing, rate the importance of the following criteria, you would have consider or would be considering in the future.

Items		**Level of importance**			
1-	It is based on Islamic principles	4	3	2	1
2-	Certainty of capital and return (Sharing Profit and Risk)	4	3	2	1
3-	Quality products and services offered by the Islamic financial institutions	4	3	2	1
4-	Prohibition of involvement of in haram or non-permissible transactions or economic activities such as alcohol, non-halal food, pork production, gaming/number, forecasting, prostitution	4	3	2	1
5-	Avoidance of maisir i.e. speculation or gambling and gharar i.e. Preventable uncertainty or ambiguity in transactions	4	3	2	1
6-	Elimination of riba (literally means increase or addition) i.e. usury or rent on money in all forms and intents	4	3	2	1
7-	Service provision is fast and efficient	4	3	2	1
8-	Recommendation of my family and friends	4	3	2	1

<u>Part IIIIIII</u>
Q7
Islamic contracts and products preference
Rank your knowledge (i.e. how much you know about below list of Islamic financial product which is used by Islamic financial institutions for SME lending.

Product		**Level of knowledge**			
1-	**Salam**	4	3	2	1
2-	**jarah**	4	3	2	1
3-	**Murabaha**	4	3	2	1
4-	**Mudarabah**	4	3	2	1
5-	**Bay Istisna'a**	4	3	2	1

Thank You

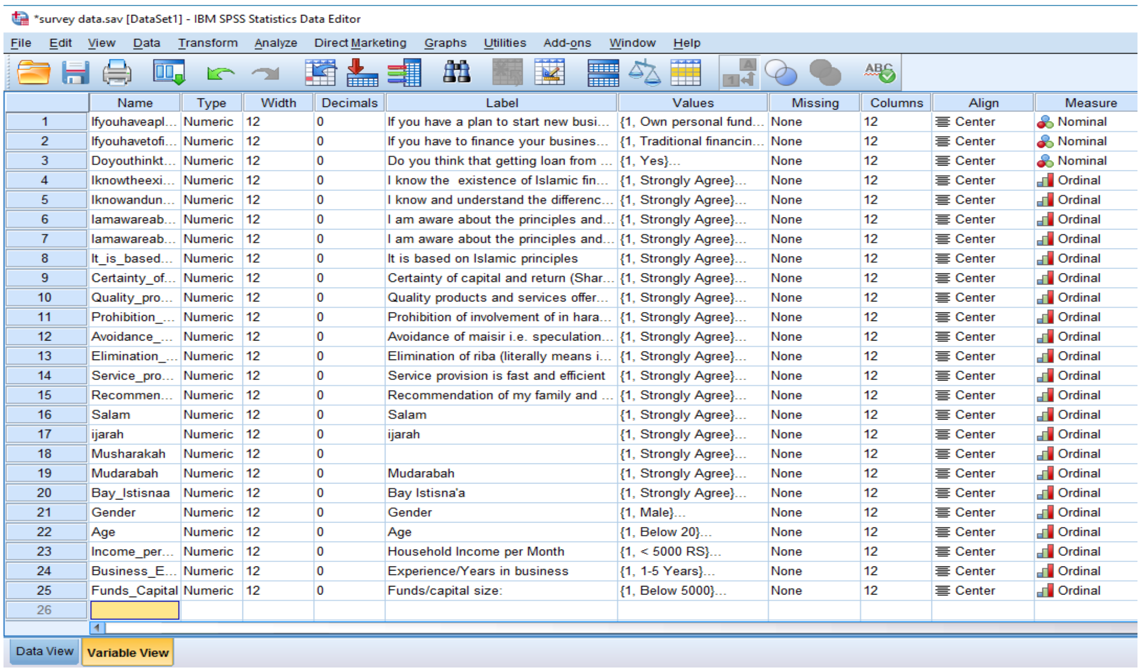
Researcher Name:-

Nahla Osama Attar

MIFM – Effat University
noattar@effat.edu.sa
2016-2017

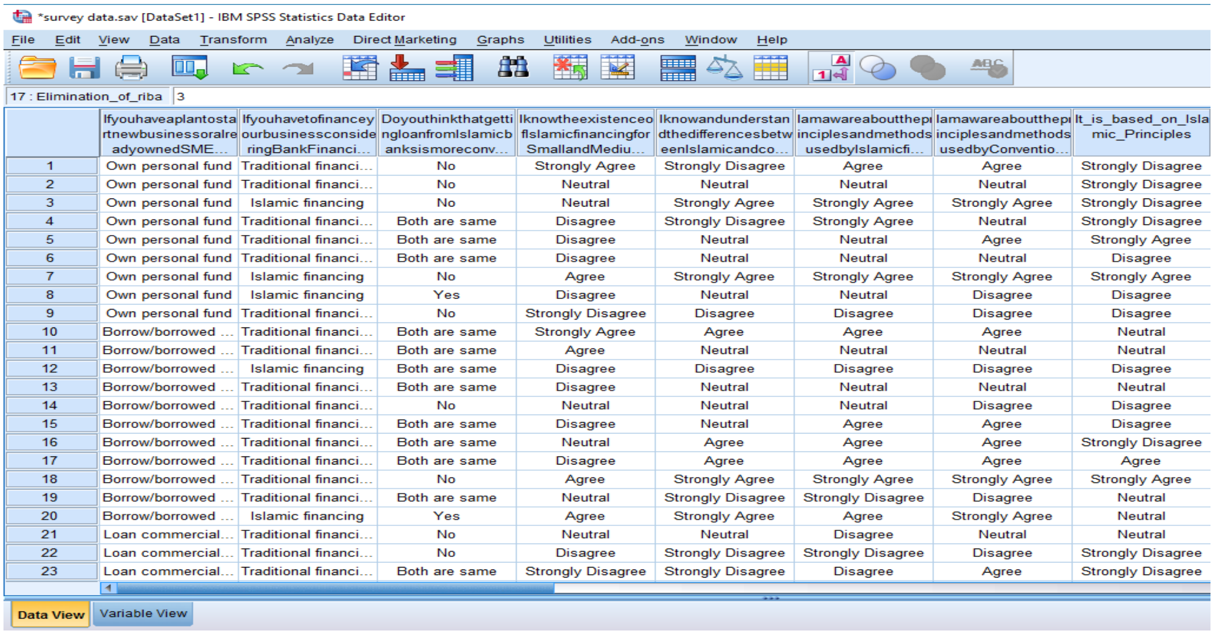
<u>Method to run the SPSS in order to get those result that has been showned above</u>

1st : Define each of the variable from the questionnaire into the *"variable view"*



	Name	Type	Width	Decimals	Label	Values	Missing	Columns	Align	Measure
1	Ifyouhaveapl…	Numeric	12	0	If you have a plan to start new busi…	{1, Own personal fund…	None	12	Center	Nominal
2	Ifyouhavetofi…	Numeric	12	0	If you have to finance your busines…	{1, Traditional financin…	None	12	Center	Nominal
3	Doyouthinkt…	Numeric	12	0	Do you think that getting loan from …	{1, Yes}…	None	12	Center	Nominal
4	Iknowtheexi…	Numeric	12	0	I know the existence of Islamic fin…	{1, Strongly Agree}…	None	12	Center	Ordinal
5	Iknowandun…	Numeric	12	0	I know and understand the differenc…	{1, Strongly Agree}…	None	12	Center	Ordinal
6	Iamawareab…	Numeric	12	0	I am aware about the principles and…	{1, Strongly Agree}…	None	12	Center	Ordinal
7	Iamawareab…	Numeric	12	0	I am aware about the principles and…	{1, Strongly Agree}…	None	12	Center	Ordinal
8	It_is_based…	Numeric	12	0	It is based on Islamic principles	{1, Strongly Agree}…	None	12	Center	Ordinal
9	Certainty_of…	Numeric	12	0	Certainty of capital and return (Shar…	{1, Strongly Agree}…	None	12	Center	Ordinal
10	Quality_pro…	Numeric	12	0	Quality products and services offer…	{1, Strongly Agree}…	None	12	Center	Ordinal
11	Prohibition_…	Numeric	12	0	Prohibition of involvement of in hara…	{1, Strongly Agree}…	None	12	Center	Ordinal
12	Avoidance_…	Numeric	12	0	Avoidance of maisir i.e. speculation…	{1, Strongly Agree}…	None	12	Center	Ordinal
13	Elimination_…	Numeric	12	0	Elimination of riba (literally means i…	{1, Strongly Agree}…	None	12	Center	Ordinal
14	Service_pro…	Numeric	12	0	Service provision is fast and efficient	{1, Strongly Agree}…	None	12	Center	Ordinal
15	Recommen…	Numeric	12	0	Recommendation of my family and …	{1, Strongly Agree}…	None	12	Center	Ordinal
16	Salam	Numeric	12	0	Salam	{1, Strongly Agree}…	None	12	Center	Ordinal
17	ijarah	Numeric	12	0	ijarah	{1, Strongly Agree}…	None	12	Center	Ordinal
18	Musharakah	Numeric	12	0		{1, Strongly Agree}…	None	12	Center	Ordinal
19	Mudarabah	Numeric	12	0	Mudarabah	{1, Strongly Agree}…	None	12	Center	Ordinal
20	Bay_Istisnaa	Numeric	12	0	Bay Istisna'a	{1, Strongly Agree}…	None	12	Center	Ordinal
21	Gender	Numeric	12	0	Gender	{1, Male}…	None	12	Center	Ordinal
22	Age	Numeric	12	0	Age	{1, Below 20}…	None	12	Center	Ordinal
23	Income_per…	Numeric	12	0	Household Income per Month	{1, < 5000 RS}…	None	12	Center	Ordinal
24	Business_E…	Numeric	12	0	Experience/Years in business	{1, 1-5 Years}…	None	12	Center	Ordinal
25	Funds_Capital	Numeric	12	0	Funds/capital size:	{1, Below 5000}…	None	12	Center	Ordinal
26										

2nd : Key-in all the data according to the questionnaire answers by respondents into the *"data view"* section



*survey data.sav [DataSet1] - IBM SPSS Statistics Data Editor

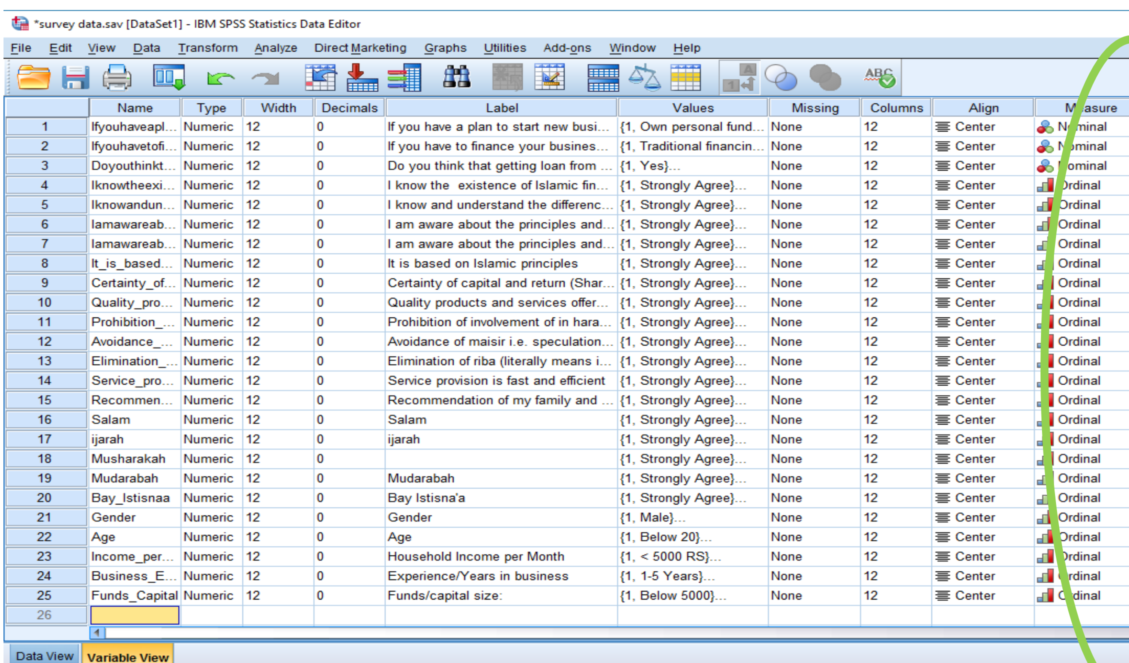
File Edit View Data Transform Analyze Direct Marketing Graphs Utilities Add-ons Window Help

17 : Elimination_of_riba | 3

	Ifyouhaveaplantostartnewbusinessoralreadyowned SME...	Ifyouhavetofinanceyourbusinessconsidering BankFinanci...	Doyouthinkthatgettingloanfromislamicbanksismoreconv...	Iknowtheexistenceoflslamicfinancingfor SmallandMediu...	Iknowandunderstandthedifferencesbetween Islamicandco...	Iamawareabouttheprinciplesandmethods usedbylslamicfi...	Iamawareabouttheprinciplesandmethods usedbyConventio...	It_is_based_on_Islamic_Principles
1	Own personal fund	Traditional financi...	No	Strongly Agree	Strongly Disagree	Agree	Agree	Strongly Disagree
2	Own personal fund	Traditional financi...	No	Neutral	Neutral	Neutral	Neutral	Strongly Disagree
3	Own personal fund	Islamic financing	No	Neutral	Strongly Agree	Strongly Agree	Strongly Agree	Strongly Disagree
4	Own personal fund	Traditional financi...	Both are same	Disagree	Strongly Disagree	Strongly Agree	Neutral	Strongly Disagree
5	Own personal fund	Traditional financi...	Both are same	Disagree	Neutral	Neutral	Agree	Strongly Agree
6	Own personal fund	Traditional financi...	Both are same	Disagree	Neutral	Neutral	Neutral	Disagree
7	Own personal fund	Islamic financing	No	Agree	Strongly Agree	Strongly Agree	Strongly Agree	Strongly Agree
8	Own personal fund	Islamic financing	Yes	Disagree	Neutral	Neutral	Disagree	Disagree
9	Own personal fund	Traditional financi...	No	Strongly Disagree	Disagree	Disagree	Disagree	Disagree
10	Borrow/borrowed ...	Traditional financi...	Both are same	Strongly Agree	Agree	Agree	Agree	Neutral
11	Borrow/borrowed ...	Traditional financi...	Both are same	Agree	Neutral	Neutral	Neutral	Neutral
12	Borrow/borrowed ...	Islamic financing	Both are same	Disagree	Disagree	Disagree	Disagree	Disagree
13	Borrow/borrowed ...	Traditional financi...	Both are same	Disagree	Neutral	Neutral	Neutral	Neutral
14	Borrow/borrowed ...	Traditional financi...	No	Neutral	Neutral	Neutral	Disagree	Disagree
15	Borrow/borrowed ...	Traditional financi...	Both are same	Disagree	Neutral	Agree	Agree	Disagree
16	Borrow/borrowed ...	Traditional financi...	Both are same	Neutral	Agree	Agree	Agree	Strongly Disagree
17	Borrow/borrowed ...	Traditional financi...	Both are same	Disagree	Agree	Agree	Agree	Agree
18	Borrow/borrowed ...	Traditional financi...	No	Agree	Strongly Agree	Strongly Agree	Strongly Agree	Strongly Agree
19	Borrow/borrowed ...	Traditional financi...	Both are same	Neutral	Strongly Disagree	Strongly Disagree	Disagree	Neutral
20	Borrow/borrowed ...	Islamic financing	Yes	Agree	Strongly Agree	Agree	Strongly Agree	Neutral
21	Loan commercial...	Traditional financi...	No	Neutral	Neutral	Disagree	Neutral	Neutral
22	Loan commercial...	Traditional financi...	No	Disagree	Strongly Disagree	Strongly Disagree	Disagree	Strongly Disagree
23	Loan commercial...	Traditional financi...	Both are same	Strongly Disagree	Strongly Disagree	Disagree	Agree	Strongly Disagree

Data View | Variable View

3rd : In order to run the *one sample t-test*, the data should be at the *interval or ratio level of measurement*



*survey data.sav [DataSet1] - IBM SPSS Statistics Data Editor

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	Name	Type	Width	Decimals	Label	Values	Missing	Columns	Align	Measure
1	Ifyouhaveapl...	Numeric	12	0	If you have a plan to start new busi...	{1, Own personal fund...	None	12	Center	Nominal
2	Ifyouhavetofi...	Numeric	12	0	If you have to finance your busines...	{1, Traditional financin...	None	12	Center	Nominal
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19	Mudarabah	Numeric	12	0	Mudarabah	{1, Strongly Agree}...	None	12	Center	Ordinal
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21	Gender	Numeric	12	0	Gender	{1, Male}...	None	12	Center	Ordinal
22	Age	Numeric	12	0	Age	{1, Below 20}...	None	12	Center	Ordinal
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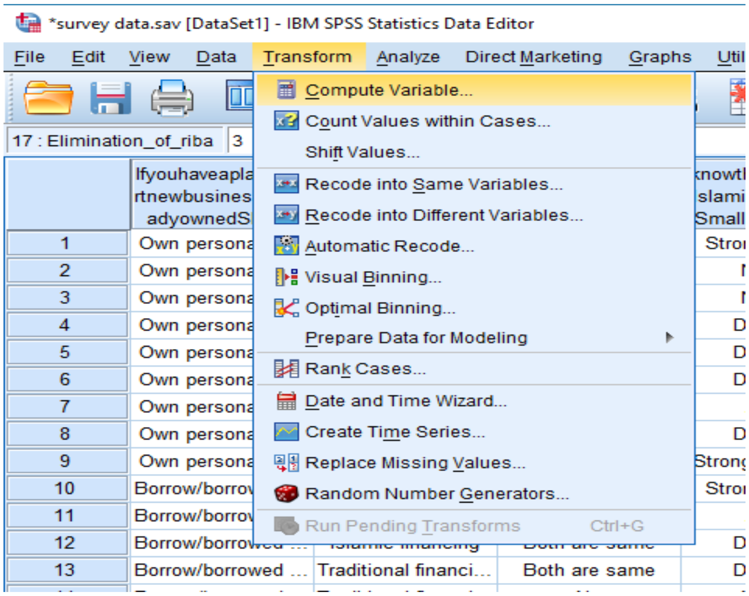
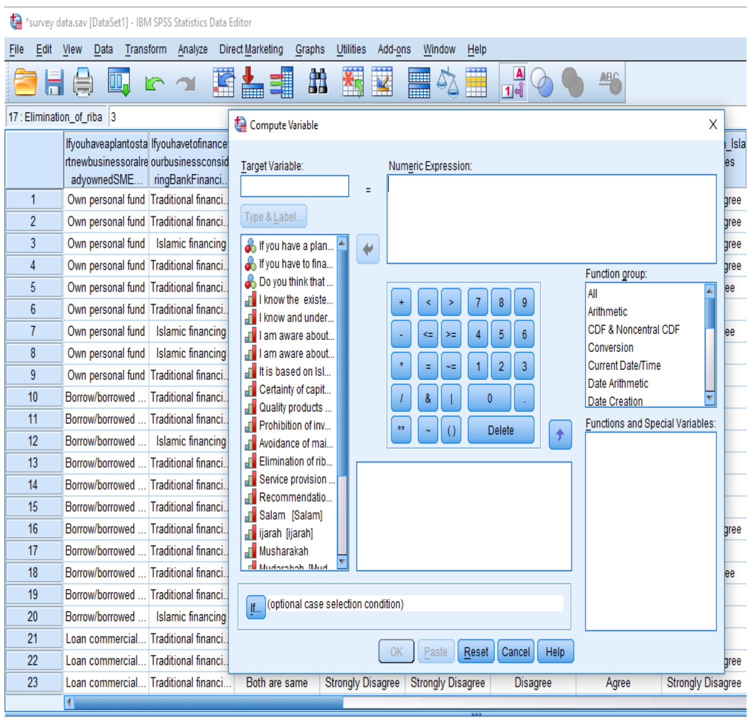
25	Funds_Capital	Numeric	12	0	Funds/capital size:	{1, Below 5000}...	None	12	Center	Ordinal
26										

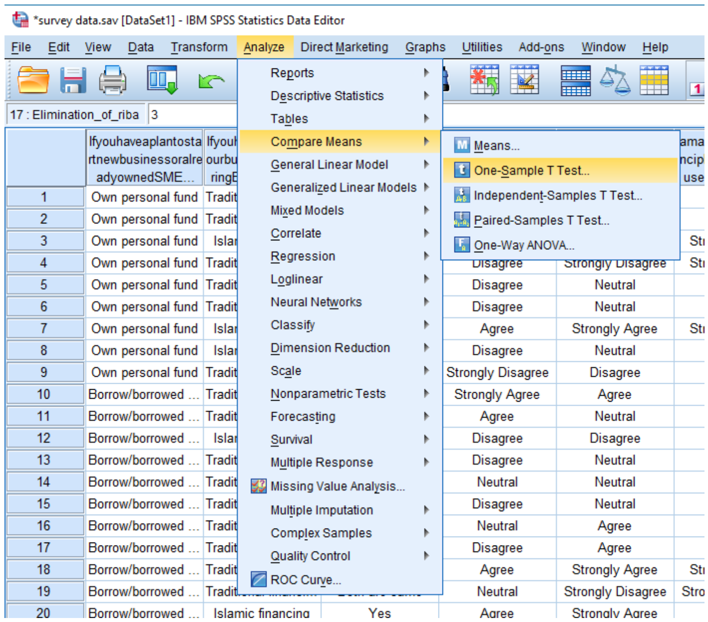
Data View | Variable View

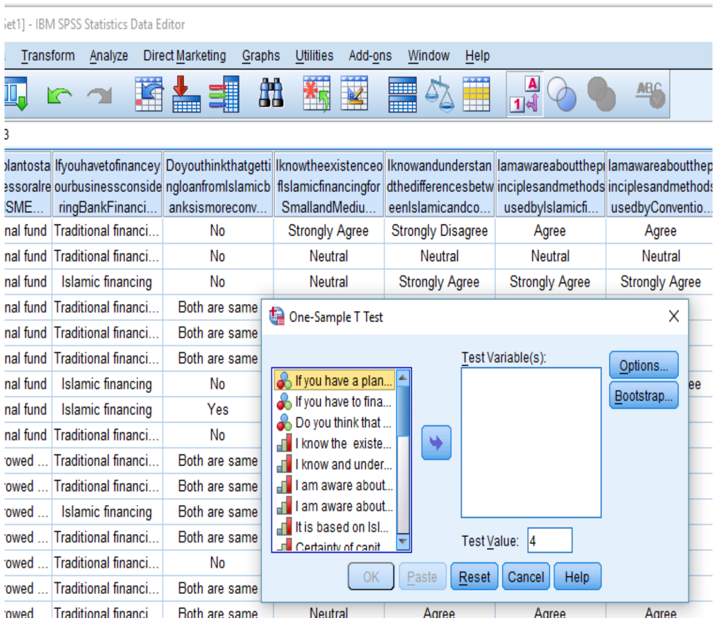
4th : So, we need to use the *"compute variable"* to transform the variable into continous data



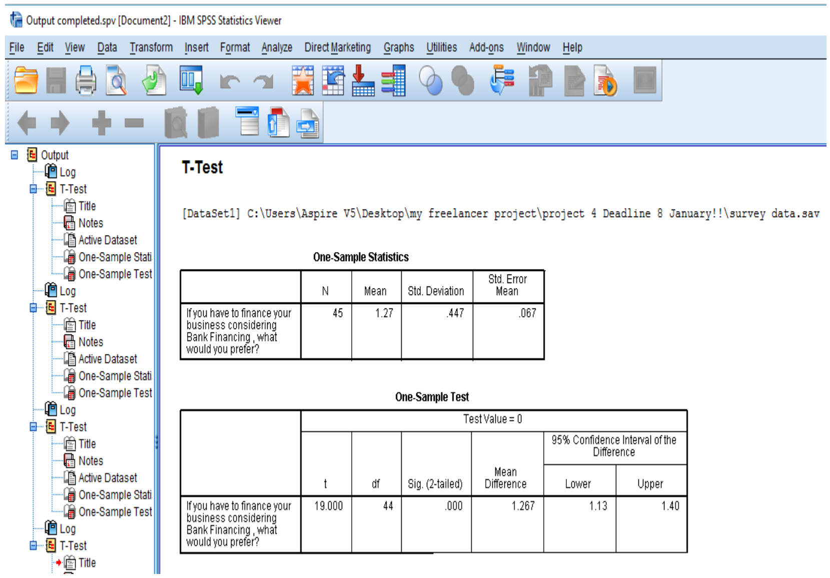


5th : Then, we can *analyze the data* according to the hypothesis that has been made in the thesis





6th : The ouput will be produce



T-Test

[DataSet1] C:\Users\Aspire V5\Desktop\my freelancer project\project 4 Deadline 8 January!!\survey data.sav

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
If you have to finance your business considering Bank Financing , what would you prefer?	45	1.27	.447	.067

One-Sample Test

	Test Value = 0					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
If you have to finance your business considering Bank Financing , what would you prefer?	19.000	44	.000	1.267	1.13	1.40