



## The Acceptability of Participatory Banking Products by SMES: A Conceptual Framework

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### ABSTRACT

Designed to contribute to the development of the real economy, the Islamic banking sector has grown significantly in the world during the last 40 years due to its ethical, religious and solidarity dimensions. It is set up to boost the banking system, to meet the needs of unmet customers and to give new hope to Small and Medium Enterprises (SMEs) facing difficulties in accessing conventional bank financing. Islamic banks can contribute to the development of these companies and satisfy their financial needs. This article discusses the different factors influencing the decision of SME managers to adopt financing by participatory banks products. In this sense, the conceptual model presented is intended to study the level of acceptability of the participatory banks products by the SMEs starting from the application of the decomposed theory of planned behavior and the task-technology fit model.

**Keywords:** Small and Medium Enterprise, Participatory Banking Products, Acceptability

**JEL Classifications:** D22, G20, O16

### 1. INTRODUCTION

Islamic finance is booming worldwide with more than \$1800 billion at the end of 2016 (IFSB) and is concentrated mainly in Iran, Malaysia and the Gulf countries. It has distinguished itself from the conventional system by its resistance to the global financial crisis of 2008 (Trabelsi, 2011). The Islamic banking sector continues to dominate the Islamic financial industry with a percentage of 78.9%.

In fact, from its foundations and offered products, the Islamic bank appears to be an important financing tool and a credible alternative to meet the needs of small and medium enterprises (SMEs) in terms of funds (Huda, 2012). SMEs, which contribute to the socio-economic development of a country, are experiencing difficulties in the access to conventional financing. This is due to the information asymmetry and the lack of guarantees leading to credit rationing towards these enterprises. In this sense, participatory banks (Islamic Banks) can contribute to the

deployment of SMEs by offering them financial products that suit their operating and investment needs.

The question arises as to what extent SMEs are encouraged to adopt participatory banking products in order to satisfy their specific needs and what factors might motivate them to use this method of funding.

In this sense, our article highlights the variables impacting the acceptability of participatory banking products by SMEs. In other words, we will analyze the factors influencing the choice of participatory banks' products by the leaders of SMEs using the decomposed theory of the planned behavior and the task-technology fit model.

Our research study on the intention of participatory banking products' adoption by SMEs is crucial in the Moroccan context. First and foremost, it concerns SMEs for developing their knowledge of the new so-called participatory banking method

and exploring new ways of financing their activities while benefiting from adapted consulting services and professional follow-up. Secondly, it concerns participatory banks with the aim of understanding the real needs and expectations of SMEs and offering them customized products and services (participatory financial engineering). And finally, it can serve the state as part of the adjustment and arrangement of fiscal and regulatory measures to create a balance between the two financing systems and take into account the actual requirements of SMEs.

## 2. FACTORS INFLUENCING THE DECISION TO ADOPT PARTICIPATORY BANKING PRODUCTS BY SMES

First, Islamic finance is defined as an independent financial system based on Shariah norms and a set of arrangements to conduct a banking activity banning usury (Ahmed, 2010). The prohibition of illegal activities and Riba, the reduction of uncertainty and the elimination of speculation provide a consistent basis for business growth, regardless of fluctuations in macroeconomic variables (Yahya et al., 2012).

For the Islamic banking sector to continue its development and expansion worldwide, it is essential that potential customers perceive positively and accept the use of the products of the participatory banks which support their financial needs (Echchabi and Aziz, 2012). It was then that research on perceptions of these banks was a major contribution to improve the Islamic banking practice in order to best meet the needs and expectations of clients. The majority of these empirical studies on the intention to adopt Islamic banking products and services have been conducted in countries where Islamic finance has already been in place for years, for example, Malaysia, the Gulf countries, Pakistan, Jordan, Indonesia and the United Kingdom.

These studies have addressed specific aspects of Islamic financial activity from choice behavior theories, for example, real estate finance products (Abduh and Abdul Razak, 2012; Amin et al., 2014; Taib et al., 2008), Islamic E-banking (Amin, 2007), and the adoption of Islamic banking in general (Mariadas and Murthy, 2017; Yahya et al., 2017; Reni and Ahmad, 2016; Echchabi and Azzouzi, 2015; Echchabi and Aziz, 2012; Dusuki and Abdullah, 2007).

In this sense, the research model proposed is based on the decomposed theory of planned behavior (TCPD) which is an improved behavior analysis model based on Rogers' theory of diffusion of innovation (1995), Ajzen's theory of planned behavior (1991), the acceptance model of Davis (1989) combined with the task-technology fit model (Goodhue and Thompson, 1995). It is based on the decomposition of attitudinal, normative, and control beliefs into multidimensional constructs in order to design the factors explaining behavioral intention (Taylor and Todd, 1995, Beiginia et al., 2011). Based on this theory, our model identifies the intrinsic and extrinsic factors influencing the choice of participatory banking products and makes it possible to analyze the level of acceptability of this method of financing by the customers (Echchabi and Azouzi, 2015).

## 3. ADAPTATION OF THE TDCP MODEL TO THE RESEARCH PROBLEM

Based on studies and research conducted as part of the analysis of the intention to use the products and services of Islamic banks in various countries, we detected several variables and factors that allow potential customers to opt for Islamic finance. In this sense, we have opted for an adapted model of decomposed theory of planned behavior in order to examine the degree of acceptability of participatory banking products by SMEs.

Indeed, it has been observed that the majority of research on the intention to adopt Islamic bank financing has been established towards individual potential clients and neglected the businesses niche which is also considered concerned by Islamic banking products to meet their funding needs (Figure 1).

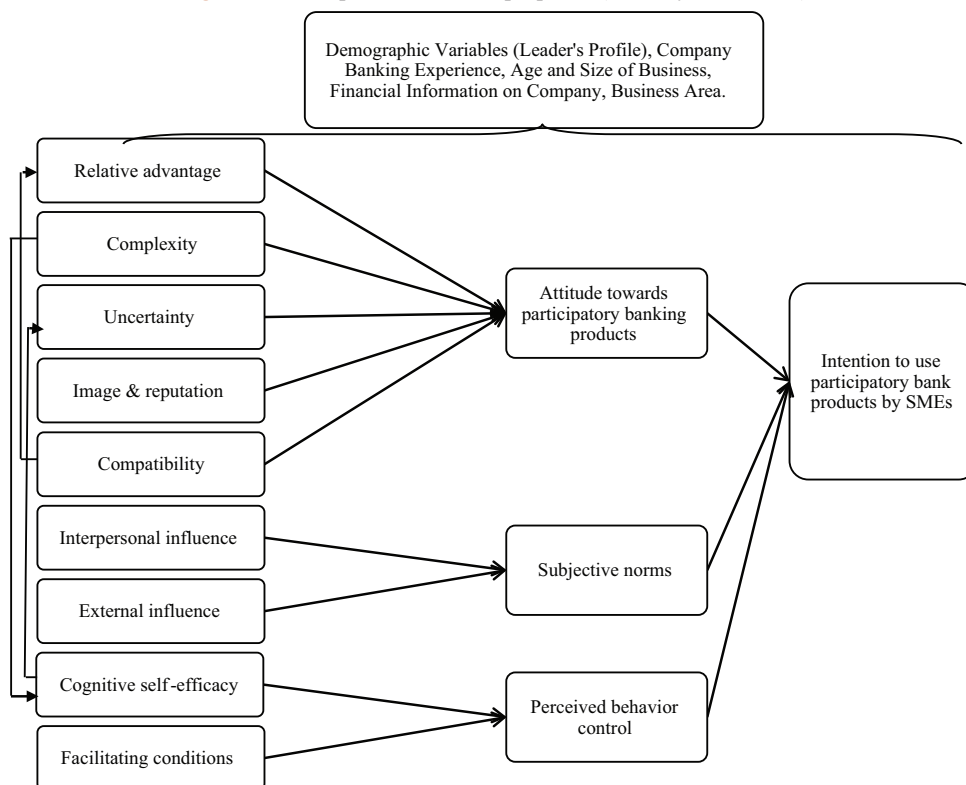
And according to previous studies conducted in this context, the attitude has a positive and significant impact on the intention to use Islamic products by individuals (Amin et al., 2013, Lada et al., 2009, Taib et al., 2008). It is measured from several factors namely:

### 3.1. Relative Advantage

It specifies the benefits and costs of adopting a product. According to Gerard and Cunningham (2003), this variable can be evaluated on the basis of the degree of economic profitability, social prestige, low initial cost, immediacy of reward, and economy of effort and time. In the field of participatory banking, the majority of authors measured the relative advantage on the basis of Islamic finance pricing which refers to the price at which Islamic banks sell their products. According to Amin (2013), the cost of products is the most influential factor on the attitude of individual customers. This finding has been shared by other authors as well; Rahman, 2005; Dusuki and Abdullah, 2006; Ahmad and Haron, 2002; Hamid and Masood, 2011; Yahya et al., 2017; Echchabi and Aziz, 2012; Gait and Worthington, 2008; Amin et al., 2011.

Elliot et al. (1996) explained that the lower the cost of participatory banking products compared to those of conventional banks, the more favorable and positive the attitude of customers towards participatory banks. In the same vein, product costs are a key element in companies' decision to opt for Islamic banking (Jaffar and Musa, 2014; Rustam et al., 2011). Conversely, according to the study conducted in Indonesia by Reni and Ahmad (2016), the cost of the products is not significant and does not impact the attitude of potential customers with regard to the participatory bank.

In fact, Islamic banks are institutions that are based on the principle of profit and loss sharing, which is a relative advantage over SMEs. In the Moudaraba, the bank shares the profits generally generated by a proportion of 70:30 and assumes all the loss in case of project failure. Also, in the Mousharaka, the SMEs are jointly financing with the bank (and its investors-depositors) a project of a strong probable profitability. The Islamic Financial Institution distributes the profits on a 60:40 basis and the losses according to the contributions of each party. These two practices could encourage SMEs to adopt Islamic banking if the rate of profit is high and appropriate. In addition, Jalaluddin and Metwally (1999) found

**Figure 1:** Conceptual framework proposed (made by the authors)

that the expected rate of return is one of the main factors driving small businesses in Australia to use Islamic banking.

As part of our study, we will measure this variable from the following sub-divisions: The Islamic banking pricing (Participatory banking products' cost), the principle of profits and losses sharing, the expected rate of return.

### 3.2. Complexity

According to Rogers (1995), complexity is the degree to which an innovation is perceived to be relatively difficult to understand and to use. Since participatory banking products are still a form of bank innovation, the adoption of this form of financing will only be feasible when the application of Islamic banking products and services is readily assimilated and agreed by the clients. Yahya et al. (2017) have confirmed that there is a negative relationship between complexity and attitude towards Islamic banking products. By cons, Echchabi and Aziz (2012) reversed these remarks in the Moroccan context.

In our study, this complexity is measured by the flexibility of terms and conditions of access to participatory bank financing (Hamid and Masood, 2011) and by the nature of the Islamic banking agreements.

Conventional financing is characterized by rigid conditions and terms limiting access to bank offers to a large number of SMEs. In this sense, the participatory banking system is obliged to reduce the clauses and formalities (amount of loans granted, guarantees requested, certified summary statements, duration of financing, monthly payments...) in order to encourage SMEs to use their

products. Indeed, the complexity of the conditions to access to Islamic banking is negatively related to the attitude of potential clients (Hamid and Masood, 2011).

Our study postulates that the attitude and perceived behavioral control of the SME's manager are based on their previous experiences with the conventional financing, and influenced by the degree of the complexity of the contracts and the conditions required by the participatory bank.

In fact, Islamic financing agreements (cost-plus products or profit-and-loss sharing modes) appears to be complicated and difficult to understand as compared to conventional contracts due to the long process and the multitude of operations and parties (Iqbal and Mirakhor, 2011). However, Islamic banking practices seem to be customized in order to meet the requirements of SMEs specially the partnership modes that are useful to ameliorate the affordability of these enterprises to finance and bank lending (Elasrag, 2016).

### 3.3. Uncertainty

In the business world, there is a strong uncertainty in the management and direction of enterprises. It can influence their decision-making process (Duncan, 1972), their investment choices or their organizational structure (Lawrence and Lorsch, 1967). In Management Sciences, the definition of uncertainty is related to the notion of risk (herring, 1983), the lack and the unreliability of information (daft and Lengel, 1986; Galbraith, 1973; Atkinson et al., 2006).

Uncertainty in Islam is linked to speculative activities such as Maysir, which is one of the main prohibitions of Islamic finance.

It refers to Gharar and the excessive risk that makes the contract invalid. The uncertainty becomes exaggerated when attached to the good, its price, the term of payment, the delivery clauses, the quantity, etc. (Al-Suwailem, 2006).

According to the study by Echchabi and Azouzi (2015), uncertainty negatively and significantly influences the attitude of potential customers towards Islamic products. It is related to interest rate fluctuations and the degree of perceived risk.

Cox and Rich (1964) defined perceived risk as the nature and the level of uncertainty of a client in using a specific product or service (Yahaya et al., 2014). Individuals and businesses face different types and levels of risk (Mirakhor, 2000). In general, a perceived low risk project is more accepted by banking institutions than a high risk one. In this sense, the degree of perceived risk is a factor influencing the decision to adopt Islamic products. The depositors in conventional banks assume less risks due to the pre-agreed return, while in Islamic banks, they undertake higher risks because the return is unspecified and depends on the business income.

According to the study by Yahaya et al. (2016), it has been shown that the perceived risk has a significantly negative impact on the acceptability of the participatory banking products in Niger. In fact, the influence of this variable on the consumer decision has been studied by many researchers in several contexts (Al-Fahim, 2012; Zhao et al., 2010; Gerrard and Cunningham, 2003).

In the case of asset transfer-based products such as Ijara, the risks associated with the leased asset are borne by the bank until the end of the contract period. This could reduce the level of risk perceived by the SME which requires materials, equipment through leasing contracts. In addition, profit-sharing products give SMEs the opportunity to share risks with participating financial institutions and their depositors. These risks are generally related to the high variability in the performance of projects financed under a commercial partnership-type contract and the moral risk incentives of SME-borrowers associated with the possibility of sharing losses with banks. However, this type of contract can reduce the credit risk by decreasing the asymmetry of information and the problem of adverse selection.

In addition, the concept of trust is frequently used with the term "confidentiality." To perceive the Islamic banking practice as a secure and reliable activity by the potential clients would generate a positive intention to adopt the financing by the participatory bank (Yahya et al., 2017). At the level of Islamic products (Mousharaka and Moudaraba), the bank is considered as an associate with the SME in the financed project. So, it must have access to internal documents of the company, however, the SME is generally reluctant to share information with other parties (Echchabi and Nafiu, 2012).

As part of the permanent Mousharaka, the different parties (investors, bank, entrepreneurs) remain involved in the investment project in a definitive way. This technique is appropriate for financing projects of a longer term where funds are committed over a long period. In addition, the diminishing Mousharaka is the most suitable form for small and medium-sized enterprises

that do not have guarantees and wish to hold the entire project after a fixed period.

Furthermore, the Moudaraba financing method is a beneficial option for SMEs too as it allows the entrepreneur to have the necessary funds for setting up and managing his investment project. In this case, he shares the resulting profits with the participatory bank while the probable losses associated with the project are borne by the bank.

In addition, the intermediation of the participatory bank in SME projects is an important and a credible signal on the company's situation and the reputation of the entrepreneur. Since the profitability of the participatory bank in the framework of its contracts is related to the quality of the financed project, the evaluation and the selection of the projects remain unavoidable and essential activities for the bank. In this sense, SMEs provide a favorable reputational capital, thus enabling them to enter the financial market (Al-Suwailem, 2008).

In the same context, this association of the SME with the participatory bank engenders the participation of the latter in the management of the project and in the decision-making concerning the project. Therefore, the notion of power is strongly present in the relationship between the participatory bank and the SME in the context of Islamic banking products.

Moreover, the nature of the Islamic banking contracts gives the participatory bank the rights to monitor the activities and transactions carried out by the company, and therefore unlimited access to the company's private information. This can be summarized in the notion of control which makes it possible to remedy the phenomenon of information asymmetry.

Since most SMEs operate as individual or family businesses, our study aims to analyze to what extent the SME could accept the interference of the participatory bank in the management of their projects and activities. Thus, it allows to measure the influence of the variables of risk, trust, power and control on the attitude of the managers of SMEs vis-à-vis the use of participatory banking products.

### 3.4. Image and Reputation

Many studies have confirmed that the reputation of the Islamic bank is one of the predominant factors in the intention to adopt Islamic bank products and services in several geographical contexts (Erol and El-Bdour, 1989; Naser et al., 1999; Haron et al., 1994; Dusuki and Abdullah, 2007; Rustam et al., 2011; Hamid and Masood, 2011; Echchabi and Nafiu, 2012; Jaffar and Musa, 2014; Tara et al. 2014).

Previous studies show that the social responsibility factor is significant in the selection of the bank by customers (Al-Ajmi et al., 2009; Dusuki and Abdullah, 2007).

This variable allows to analyze whether the choice of the products of the participatory bank by the SME is based on the nature of the bank itself whether it is a window or an independent entity, and

to what extent the participatory bank contributes to equity and social responsibility.

### 3.5. Compatibility

Compatibility is defined as the degree to which an innovation is perceived to be appropriate with the values, needs, beliefs of potential users (Rogers, 2003).

In the context of the Islamic banking system, compatibility involves examining suitability of Islamic banking products to the needs of the potential customers, their values, their beliefs and their norms (Obeid and Kaabachi, 2016). In our case, we will measure the compatibility on the basis of the following subdivisions: Diversity of participatory bank products that meet the varied needs and expectations of SMEs; Support of the innovation field of start-ups and SMEs by the participatory bank; Suitability of the products proposed to the principles of Sharia.

Potential customers will tend to choose the Islamic banking mode in case it meets their needs and adapts to their values, as an example, the use of the sharing of losses and profits instead of applying Riba and the prohibition of illegal activities in the banking system. In this sense, the compatibility variable has a significant impact on the intention of adopting Islamic products by potential customers (Yahya et al., 2014). This finding is shared by Echchabi and Aziz (2012), Amin et al. (2011, 2013), Echchabi and Azouzi (2015), Rustam et al. (2011), Gait and Worthington (2008).

In fact, religion is an important and significant factor for the adoption of Islamic banking products. The higher the adherence and convenience of Islamic banks to the principles of Sharia, the greater the possibilities of Islamic banking adoption (Almossawi, 2001).

Many authors have stipulated that the obligation of religion is the most motivating factor affecting the selection of Islamic banks to the detriment of conventional banks (Dusuki and Abdullah, 2006; Ahmad & al., 2010; Al-Ajmi et al., 2009; Metawa and Almossawi, 1998; Gait and Worthington, 2008; Metwally, 1996; Hegazy, 1995; Okumus, 2005; Ahmad and Haron, 2002; Rustam et al., 2011; Echchabi and Aziz, 2012; Jaffar and Musa, 2014; El Ouafy and Chakir, 2015; Reni and Ahmad, 2016). In addition, Rehman (2012) found that the choice of Islamic banking products is impacted by people's age, as older potential clients tend to be more interested in Sharia concerns.

By contrast, Amin et al. (2011) demonstrated that religious motivation is not so significant in the intent to use participatory banking products.

In addition, SMEs are always looking for financing methods that meets their varied needs and in the different phases of maturity in their development cycle. These financial needs may have as an objective the financing of acquisitions, the development of new products, the setting up in new markets, the conquest of new customer segments, the repayment of loans. They differ according to the stage of the life cycle of the company, for example, newly created companies require funds to finance their investment project

and support in the early stages of the project. Consequently, these companies will benefit from adopting products based on the sharing of losses and profits, contrary to those in the maturity or growth phase that require financing for the expansion of their activities, the acquisition of equipment or local...

It is therefore essential to detect the real needs of SMEs and analyze the degree of suitability of needs in relation to the functionalities and characteristics of the products of the participatory banks.

Finally, according to Hoffman and Soyey (2010), clients operating in an area of innovation focus more on distinct product categories and adopt for innovative products, and therefore their choice of bank financing remains influenced by the degree of innovation and adaptation of the banking product in relation to their activity.

The second variable family is the subjective norms that refer to social pressures perceived derived from an individual's references (Ajzen, 1991). In the context of Islamic finance, previous studies show that subjective norms have a significant influence on the intention of individuals to use Islamic products (Amin et al., 2013, Taib et al., 2008). Among the references of an individual, there are members of the Sharia Council, relatives, friends, etc. (Taib et al., 2008).

In the case of SMEs, subjective norms are measured from two variables from the Bhattacharjee study (2000), namely:

### 3.6. Interpersonal Influence

This variable includes the family, the relatives of the manager of the SME. Several research have been conducted for individual clients, for example; Hegazy (1995) concluded that the most important factor in selecting Islamic banks over conventional banks was the advice and recommendations of relatives and friends. The influence of the peer group is significant in the bank decision-making process (Tan and Chua, 1986).

These studies focused on individuals. In our case, we try to analyze the influence of family and friends on the choice of adoption of participatory banking by the leaders of the SME.

### 3.7. External Influence

It involves the stakeholders (suppliers, customers, associates...) of the SME, the media report and the opinions of the experts (Ulamas, etc.). In the study of Ahmad and Haron (2002), it was observed that the rate of use of Islamic banking products by companies in Malaysia is low because of the lack of marketing strategies adopted by the Islamic banks.

Indeed, normative beliefs have a significant impact on the acceptability of Islamic banking products, which is demonstrated by the studies of the following authors: Erol et al. (1990), Metawa and Almossawi (1998), Osman & al (2009), Echchabi and Aziz (2012), Amin et al. (2013, 2014), Reni and Ahmad (2016), Lajuni et al. (2017).

The third construction of the model of decomposed planned behavior theory is perceived behavioral control, which refers to

perceived ease or difficulty in performing the behavior. It therefore largely concerns the individual's assessment of his own resources or abilities to control the situation (Ajzen, 1991). In other words, it corresponds to the degree of ease or difficulty that represents the realization of a behavior for the individual. This variable reflects the presence of external factors facilitating or constraining the achievement of a given behavior as well as the individual's perception of his personal effectiveness in order to achieve this behavior (Taylor and Todd, 1995). In the studies related to Islamic banking adoption, Jaffar and Musa (2014) and Amin et al. (2014) showed that control of perceived behavior is the main determinant of adoption intent.

From previous empirical studies, this construction is broken down into:

### 3.8. Cognitive Self-Efficacy

In the model of decomposed planned behavior theory, perceived behavioral control is influenced by self-efficacy that refers to individual capacity (Bandura, 1977). It is the conviction of the individual to possess the necessary resources to adopt the behavior.

In our study, we will analyze this variable in terms of the degree of knowledge of SME managers on the principles and practices of the participatory bank. Indeed, Haron et al. (1994) and Abdullah et al. (2012) have stipulated that potential customers can adopt Islamic banking in case they have full cognitive abilities on the practice of Islamic banks. From previous studies, it has been observed that the level of knowledge about the differences between the conventional and Islamic banking system remains low, which negatively influences their acceptability of Islamic banking products (Hamid and Nordin, 2001).

### 3.9. Facilitating Conditions

They are defined as the extent to which a person believes that an organizational, technical and regulatory infrastructure exists to support the use of the product (Triandis, 1979). In the Moroccan context, Echchabi and Aziz (2012) demonstrated that enabling conditions have a significant influence on perceived behavioral control and consequently on customers' attitude towards Islamic banking products.

In the context of our study, this variable is measured from several sub-variables:

- Government support:  
It refers to government actions and practices that affect the behavior and decisions of individuals and businesses of any form (Amin et al., 2011). Indeed, the adoption of Islamic products is dependent on the degree of government support (Rosly, 2005).

In this sense, our study enables to detect whether the choice to opt for Islamic banking is influenced by the intermediation of the government from the establishment of guarantee funds dedicated to Islamic financing that will facilitate the access of SMEs and by the fiscal framework on financial transactions operated in the framework of the participatory banking system.

- Effectiveness of service delivery:  
Several studies on the intention to use Islamic bank financing have shown that the advice and expertise of the bank's staff and the quality of services put in place influence the adoption of participatory banking products (Echchabi and Nafiu, 2012; Rustam et al., 2011; Osman et al., 2009; Dusuki and Abdullah, 2007; Metawa and Almossawi, 1998).

In other words, the expertise and advice of the participatory bank's staff in specific areas related to the SME's activity can influence their judgment regarding the use of participatory products.

In this sense, our research also analyzes the impact of the quality of the services offered by the participatory bank and the level of staff expertise on the intention of adoption of Islamic products by SMEs.

Not to mention the variables related to the profile of the manager and to the SME itself (banking experience, size, financial information and sector of activity) which are essential criteria for assessing the behavior of SMEs toward the participatory banking products. Metawa and Almossawi (1998), Zainuddin et al. (2004), Okumus (2005) and Amin (2012) studied the influence of socio-demographic variables on the use of Islamic banking products.

## 4. CONCLUSION

The purpose of this article is to identify and to highlight the factors that impact the decision of SMEs to use participatory bank products. To do this, we have based on Taylor and Todd's (1995) decomposed theory of planned behavior, which presents a multidimensional belief structure, and the task-technology fit model (Goodhue and Thompson, 1995).

The proposed research model explains the intentions of adoption of participatory banking products by SMEs taking into account the attitude defined by relative advantage, complexity, uncertainty, compatibility, image and reputation. In addition, the subjective norms determined by interpersonal and external influences that allow to deduce the factors influencing the decision of SMEs vis-à-vis the participatory banks. And finally, perceived behavioral control broken down into cognitive self-efficacy and enabling conditions and that impacts the intention of SMEs to use these products.

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