

Perception of Small and Medium Enterprises about Islamic Banks in Oman: Evidence from Survey Data

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ABSTRACT

Islamic banking system is one of the fastest growing sectors of the global finance industry. It has an enormous potential to satisfy the financing needs of SMEs that wish to share business risks with financiers because Islamic banks allow customers and investors to involve with interest-free financial transactions on a risk-sharing based Shariah-compliance products. From this perspective, this paper aims to identify factors that influence SMEs in Oman to choose a particular bank. In addition, the paper examines the determinants that attract SMEs in Oman to choose (or not to choose) Islamic banks. To achieve these objectives, the paper collects data from 106 SMEs from the Muscat governorate in Oman. Applying structural equation modeling (SEM), the paper finds that Islamic banks' attractive package including favorable terms and conditions, easy access to financing facilities, availability of sufficient branches and ATMs facilities, and the existence of electronic banking system influence customers to establish business ties with Islamic banks. The paper further shows that SMEs in Oman are optimistic about the thriving future of Islamic banks in the country. The paper offers important policy prescriptions for regulatory authority, practitioners, and customers of Islamic banks.

Keywords: Small and Medium Enterprises, Islamic banking, Customer perception, Financing constraint, Oman

JEL Classification: G21, G28

INTRODUCTION

Small and Medium Enterprises (SMEs) are the engine of economic growth in both developed and developing economies. Studies have found a positive correlation between SMEs development and economic growth. For instance, Woźniak, et al. (2019) in the context of Poland's SMEs find a positive correlation between the growth of SMEs and the GDP. Similarly, Beck, Demirguc-Kunt, Levine (2005) show a strong positive correlation between per capita GDP and SMEs growth. North & Small bone (2000) apply a multidimensional innovation index demonstrate that SMEs with cutting-edge businesses significantly influence rural economies in terms of creating jobs and outside income. Likewise, Fiseha & Oyelana (2015) illustrate that SMEs play a pivotal role in uplifting the GDP growth of South African countries. Tahir, Razak, & Rentah (2018) document that SMEs account for 99.2% of all business establishments in Malaysia and generates 32% of the country's GDP.

Certain factors help SMEs thrive and grow. Studies explicitly identify access to finance as an important determinant for SMEs success. Moscalu et al. (2020) find that financial limitations hinder the expansion of SMEs and the effect is greater for perceived than for real financial limitations. They further illustrate that easing financial restrictions is essential in the pathway leading from banking market integration to growth. Analyzing Spanish SME data, Madrid-Guijarro et al. (2016) show that financial constraints restrict innovation among Spanish SMEs operating in challenging conditions. Similarly, Lu et al. (2022) examine the effects of regional banks and digital financial inclusion on the financing challenges faced by Chinese SMEs and show that the expansion of local bank branches and the degree of the adoption of technology ease the financing constraints for SMEs in China. These studies suggest that SMEs financing constraint is one of

the greatest challenges for their growth and prosperity.

Like SMEs financing constraint in other countries, Omani SMEs face the same financial constraints that can significantly restraint their growth. Considering the need for an uninterrupted financing source for SMEs, the Central Bank of Oman (CBO) introduced a reform on December 31, 2014, that requires all banks operating in Oman to lend at least 5% of their lending portfolio to SMEs. In addition, the availability of funding for the young SME sector in Oman will be developed. Therefore, the reforms will ease the flow, reduce the high credit costs of the sector, allow creating small businesses to diversify the economy, and reduce the reliance on hydrocarbon sector.

Contrary to the expectation, only two percent of bank finance goes to SMEs in Oman. It means that there is no fine-tuning between the supply and demand of funds for entrepreneurs. This can be attributed to the fact that the conventional debt-based bank finance may not adequately satisfy entrepreneurs' financing needs because debt is a fixed-rate lending and involved with interest. Hence, Islamic banking can be the sustainable alternative to conventional finance as Islamic banks design entrepreneur-friendly financing instruments including *Mudaraba* (joint-partnership) and *Musharaka* (trust-based contract).

But the reality is at odd with this expectation. Whereas Islamic banks in other GCC countries started their operation much earlier, it was only in 2013 when the first Islamic bank, Bank Nizwa, started operation in Oman. Subsequently, few more Islamic banks followed the suit of Bank Nizwa. However, their size and operations remain smaller compared to conventional banks. For example, global Islamic banking sector assets accounts for only 0.7 percent in Oman (as of 2021), compared to 30.6 percent in KSA, 10 percent UAE, 6.6 percent in Qatar, 6.3 percent in Kuwait, and 3.3 percent in Bahrain. It means that Oman has the lowest global presence in terms of Islamic banking asset compared to their GCC counterparts. Similar scenario is observed if we assess the penetration of Islamic banking sector assets in the national financial system. For example, Islamic banking system occupies 15.3 percent shares of the national financial system in Oman compared to 77.2 percent in KSA, 51.9 percent in Kuwait, 28.1 percent in Qatar, 23.9 percent in UAE, and 21.2 percent in Bahrain. This generates a host of interesting questions: what prevents SMEs in Oman borrowing from Islamic banks? Which features of Islamic banks may be attractive to Omani SMEs which might influence them to borrow from Islamic banks? What is the perception of SMEs about the future of Islamic banks? This study aims to answer these questions.

This research is important for several important reasons. First, SME sector is going to be the key driving force for countries to be competitive in the postindustrial stage. The Sultane of Oman does not like to fall behind the race. The country is putting every attempt toward reducing the dependence on oil and gas to stabilize the economy and to achieve sustainable economic development. Hence, increasing the share of non-hydrocarbon sector to the GDP can serve the diversification move for Oman. Second, oil resources are finite and are prone to deplete anytime in the future. In addition, innovation and technological changes which may enhance efficiency and use of clean energy including solar and wind power can render the use of fossil fuel redundant. This raises a concern for oil producing and exporting countries to reduce their reliance on oil and oil-related products. A flourishing SME sector tends to reduce such concern. Third, young innovative firms play a key role in modern knowledge-based economies. Unfortunately, these firms often suffer from financing constraint, which limit their growth and threaten their survival in many developed and developing countries including Oman. Islamic banks can play a pivotal role in catering to the financing needs of SMEs. This research is an attempt to provide policymakers with important information by exploring the factors that motivate or demotivate customers to engage with Islamic banks for transactions. Finally, academic research on entrepreneurial finance in the context of developing nations in general and Oman in particular is still in infancy. Although a substantial effort has been dedicated for investigating the role of banking sector in removing constraint for SMEs worldwide, much less is known from GCC countries in general and Oman in particular. This research, thus, has a lot of potential to benefit the academic and scientific community by producing and disseminating new knowledge and information.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Literature Review

There are some studies in the GCC context which show factors that affect customers preference for banks. For instance, Alemu (2012) collecting data from Bahrain, Jordan, and the United Arab Emirates confirm that besides religious considerations, better service quality and information disclosure are also playing critical roles in the rising consumer demand for Islamic banking. Alsoud and Abdallah (2013) show that adherence to Sharia rules is the key factor for Kuwaiti consumers, although they want more than simply compliance. Muhammad et al. (2020) opine that attitude and awareness have a direct effect on intention, image, awareness, amongst Emirati customers. Even though Emiratis favor Islamic banks, Al-Tamimi (2009) claim that customers are dissatisfied with the services they provide. Islamic banks' success was influenced by their costs and number of branches (Hassan and Al-Tamimi, 2010). According to Shome and Rajaguru's (2018), the degree to which a bank adheres to Islamic values and its employees' behavior affect consumers' decisions.

Customer satisfaction in Saudi banking services is significantly impacted by accessibility, communication, competence, tangibility, empathy, and dependability (Aljasser and Sasidhar, 2016). Additionally, Alnaser (2018) claimed that Saudi Arabians place a far greater emphasis on attitude when it comes to customer satisfaction. In Bahrain, banks are typically chosen by customers based on their rate of return and adherence to Islamic principles (Molmossawi and Metawa, 1998). Al-Ajmi et al. (2009) find that Islamic religious compliance and social duty are the two most significant criteria that affect customers' choice over a bank. Similarly, Soliman (2013) states that Islamic banks in Qatar offer better customer service than traditional banks.

In the case of Oman, Yasmin et al. (2021) find that SMEs are familiar with Islamic banking principles and are knowledgeable about Islamic financial products. Al Balushi et al. (2019) opine that even though Islamic finance is new to Oman, SMEs know what Islamic banking is and how it works. Al Balushi (2019) suggests that Islamic banking should design financing plans tailored to the specific needs of SMEs, which will attract them to adopt the newly introduced phenomenon of Islamic finance, and which may, in turn, foster broader dissemination of Islamic financing. But Omani customers' perceptions of Islamic banks are further discussed in Belwal and Al Maqbali (2019). Despite the supposed usefulness of Islamic banking being notable, Omani citizens have very little awareness about it (Mohammed et al., 2022). Convenience, bank reputé, privacy, and bank image were key factors in selecting Islamic banking, but religion was the last thing to consider. However, no current study examines the SMEs perception about the Islamic banks in Oman. Our research thus, fills this important gap of the literature.

Conceptual framework and hypothesis development

Based on the literature discussed above, we can draw the following conceptual framework and develop the hypotheses.

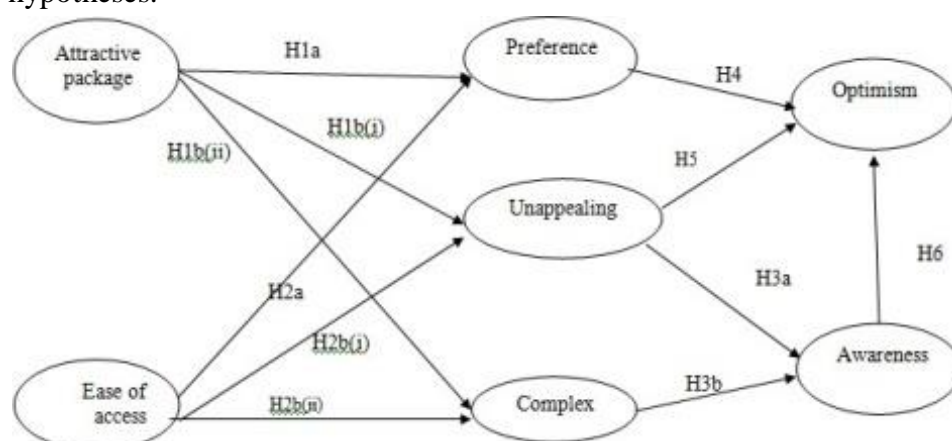


Figure 1: Conceptual framework

Bank's attractive package and customers' preference

Attractive package includes low interest rate, easy access to loan, processing time, processing fee, favorable terms and conditions, and the availability of electronic banking facilities. Prior studies find a positive relation between bank's attractive package and customers' preference. For instance, Turnbull and Gibbs (1989) provide insight that cost of service or loan processing fee is relevant in choosing bank. Hence, we draw the following hypothesis

H1a: Bank's attractive package positively affects customers' preference.

Bank's attractive package and unappealing features

The unappealing feature of banks include customer's skepticism about Islamic banking system, perception that Islamic banking is not pure Islamic in practice, higher rate of profit charges, fewer ATMs and branches, and unfavorable terms and conditions. An adverse correlation between a bank's attractive package and unappealing feature has been shown in previous studies. Rosenblatt et al. (1988) mention that superior branching networks are preferable to clients. Similarly, Muthama (2015) documents that the availability of ATM services and the ability to respond to and resolve client queries has a substantial impact on customer loyalty. So having less ATM or branches make Islamic banks unappealing to customers. Based on the above evidence, we can form the following hypothesis

H1b (i): Bank's attractive package negatively affects unappealing features.

Bank's attractive package and perceive complexity

Banks' complex feature comprises of higher transaction and processing cost, complex transactions, longer processing time, and non-cooperative employees. Previous studies have found a negative correlation between bank's attractive packages and complex feature. For example, Haron et al. (1994) state that the speed of transactions, the friendliness of bank workers and rapid and efficient services, which are opposite of complex features, reduce complexities. Based on the above evidence, we can develop the following hypothesis

H1b(ii): Bank's attractive package negatively affects customers' perceived complexity

Bank's ease of access and customers' preference

Ease of access includes acquaintances, staff's cordial behavior, and convenient locations. A positive correlation between ease of access and client preference has been shown in earlier investigations. Muthama (2015) finds that bank's location has impact on customer loyalty. Furthermore, Moghavvemi, Lee, and Lee (2018) reveal that staff competencies are important factor in choosing a bank. Based on the above evidence, we can draw the following hypothesis

H2a: Bank's ease of access affects customers' preference

Bank's ease of access and unappealing features

Bank's Ease of access will reduce unappealing features of Islamic banks. According to earlier research, the ease of access of banks and their unappealing features are negatively correlated. For instance, Mahal et al. (2021) argue that the number of branches and ATMs affect customer decision of selecting a bank. Rahaman et al. (2015) also mention the same fact. But having less ATMs and branches is positively related to unappealing features of banks. Based on the above evidence, we can form the following hypothesis

H2b(i): Bank's ease of access negatively affects unappealing feelings of customers

Bank's Ease of Access and customers perceived complexity

Previous studies have discovered a negative association between a bank's ease of access and customers' perceived complexity about Islamic banks. Mansour (2019) mentions that customer care is responsible for customer choice which negatively affects perceived complexity of Islamic banks. Hedayatnia and Eshghi (2011) identify that the ease of the bank's location and services result in reduced perceived complexity. Based on the above evidence, we can develop the following hypothesis

H2b(ii): Bank's ease of access negatively affects customers perceived complexity about Islamic banks.

Bank's unappealing features and customers' awareness about Islamic banks

Unappealing features of Islamic banks may hamper customers' awareness about them. Awareness includes being aware of a variety of Islamic banks' products, being aware of their *Mudarabah* and *Musharaka* scheme, their financing system, and their latest offers. Previous investigations found a connection between customers' awareness and a bank's unappealing aspects. Albaity and Rahman (2019) find that banks' appealing feature is positively related to customers awareness toward Islamic banks. Based on the above evidence, we can form the following hypothesis

H3a: Bank's unappealing feature negatively affects customers' awareness about Islamic banks

Bank's perceived complexity and customer's awareness

Bank's complex feature has awareness components within it. The complex feature of banks was found to have a negative correlation with customer's awareness in earlier research. For instance, Mahmood, and Khan (2014)'s research shows the significance of advertising or awareness which affects customer satisfaction. If complex feature affects awareness, it will reduce customer satisfaction (Saba and Habib, 2019). So, complex feature of Islamic banking products negatively effects customers awareness. Based on the above evidence, we can form the following hypothesis

H3b: Bank's perceived complexity reduces customer's awareness

Customers' preference of banks and optimism

Customers prefer a bank if it charges lower rate, uses shorter processing time, requires fewer documents, has availability of ATM and branches, and shortens loan processing time. Prior studies identify a positive relation between customers preference about Islamic banks and their optimism about the future of this type of banks. Muthama (2015) shows that minimal opening and operating balance, which is basically requiring fewer documents and shorter processing time resulting in customers optimism. Rorio (2015) finds that loyalty is significantly influenced by bank personnel to always act courteously. Based on the above evidence, we can draw the following hypothesis

H4: Customers' preference of a bank positively affects their optimism about that bank

Bank's unappealing features and customers' optimism

Bank's unappealing features affect customers' optimism. Optimism consists of Islamic banks' flourishing in the future, their ethical approach, customers', who are currently not Islamic banks' customers, intention of switching to Islamic banks, and customers' satisfaction about Islamic banks' products and services. Previous

research demonstrates that the unappealing feature has a detrimental impact on optimism. Skordoulis and Pekka-Economou (2015) argue that the most essential aspect of customer satisfaction is the quality of the offered services. Based on the above evidence, we can form the following hypothesis

H5: Banks' unappealing features negatively affect customer optimism

Customers' awareness and optimism

Customers awareness extends to customers' optimism. Previous study shows that awareness positively affects customer optimism. Mahal et al. (2021) argue about service variety. Rahaman et al. (2015) mention about the varied banking services. If one is aware of these services, it will result in optimism. Hoque et al. (2022) shows that reputation, Islamic principles, and ethical organization affect adopting Islamic banking. Based on the above evidence, we can develop the following hypothesis

H6: Customers' awareness about a particular bank positively affects their optimism about that bank

METHODOLOGY

The questionnaire design

To achieve the objectives of this research, we follow primary data collection method. Hence, a questionnaire was developed following the literature survey and taking into consideration the socio-cultural background in Oman. The questionnaire consists of six broader parts with several close ended questions in each part. The first part consists of a total of nine queries, seeking general information of respondents to assess respondents' demographic characteristics such as nationality, gender, age, ethnicity, education level, location, years of SMEs operation, number of employees and nature of business.

Part two consists of a total of four questions. This part attempts to capture the basic information about the responding SME's financing pattern. For example, respondents select a particular type of banks of their choice. Part three, consisting of a total of 10 questions, is designed with questions that would assess the reason as to why the respondents choose a particular bank. Part four, comprising of 10 questions, is designed for the respondents who choose Islamic bank as the bank of their choice. This part captures the logic as to why entrepreneurs select Islamic banks as their preferred source of external finance. Part five, consisting of a total of nine questions, posts opposite questions to part four and seeks to find the reasons as to why a respondent doesn't choose Islamic banks. It examines why an entrepreneur, if he/she has not yet involved with Islamic finance, is reluctant to seek finance from Islamic banks. The final part, constituting with a total of 9 questions, seeks respondents' perceptions about the future of Islamic banks in Oman. We measure these items using a 5-point Likert scale and anchor from 1 = "strongly disagree" to 5 = "strongly agree" for the entire items.

Sample

The primary data for this research were collected following two methods. Some questionnaires were distributed through online to some SMEs located in different parts of Muscat. Second, some questionnaire surveys were conducted face-to-face using a personnel-administered questionnaire designed to serve the purpose of the research objectives. The survey was carried out for approximately two months. The logic for selecting this region is because of its proximity (applicable only for face-to-face survey) to the surveyor. Hence, a convenience sampling procedure was used. A total of 160 questionnaires were issued of which 110 were returned. Four questionnaires among them have been discarded due to incomplete data. This leaves us 106 complete questionnaires for analysis.

Analytical method

To determine the key factors that impact business owners’ views on receiving loans from Islamic banking products, we utilize structural equation modelling (SEM). The structural equation modelling has been used as an important analytical tool of qualitative data analysis. The widespread use of SEM underlies the fact that “it estimates the multiple and interrelated dependence in a single analysis” (Liu, Yi, & Wang, 2020). Such a technique uses two types of variables, endogenous or dependent variables and exogenous or independent variables.

However, one must assess the validity and reliability of the instruments used in SEM. Hence, we carried out preliminary data analyses. In our preliminary data analysis, we include exploratory factor analysis (EFA) and confirmatory factor analysis (CFA). The reliability of the questionnaire was tested using Cronbach’s alpha. The results show that the coefficients of the items were good. Next, the Harman single factor was performed to test the common method bias. The result of the statistical evidence was considered at the higher side. However, the figure meets the cut-off criterion of less than 50%. Therefore, common method bias does not appear to be a concern. For structural equation modelling as well as confirmatory analysis, we utilize AMOS software, version 24. On the other hand, we apply SPSS tool to conduct exploratory factor analysis.

DATA ANALYSIS AND INTERPRETATION

EFA and CFA

A thorough examination was conducted through an Exploratory Factor Analysis (EFA) to explore any possible variations between participants’ viewpoints on the statements. Each component was analysed individually with oblique rotation and the Kaiser Criterion variance extraction rule. The results, displayed in Table 1 show a two-dimensional solution for each component. Multiple-factor items were identified as attractive packages (6 items), ease of access (3 items), preference (7 items), religiosity (2 items), unappealing (5 items), complexity (4 items), awareness (5 items), and optimism (4 items) with a significant factor loading criterion of 0.5. The elements demonstrate acceptable internal consistency, evident by a Cronbach alpha coefficient ranging from 0.79 to 0.95, except for religion which has a low coefficient of Cronbach alpha (0.49). Hence, this factor (religion) has been excluded from further analysis.

Table 1: EFA and reliability results (N=106)

Item	Reasons for choosing a bank		Positive reasons for IB		Negative reasons for IB		IB perceptions	
	Attractive packages	Ease of access	Preference	Religiosity	Unappealing	Complexity	Awareness	Optimism
3b. Low-interest rate.	0.72							
3c. Easy access to a loan.	0.58							
3g. Loan processing time.	0.73							
3h. Loan processing fee.	0.9							

3i. Loan's terms and conditions.	0.86							
3j. Electronic banking.	0.73							
3d. Acquaintances.		0.8						
3e. Staff's cordial.		0.75						
3f. Convenient locations.		0.87						
4b. The lower rate charged.			0.56					
4c. Shorter processing time.			0.89					
4e. Required fewer documents.			0.96					
4f. Availability of ATM machines and branches.			0.78					
4g. Shorter loan processing time.			0.81					
4h. Staff's cooperative behaviours			0.77					
4i. Favourable terms and conditions.			0.67					
4a. Religious beliefs.				0.89				
4j. Recommendation by someone.				0.76				
5a. Do not believe in Islamic banking.					0.72			
5b. Not pure Islamic in practice.					0.9			
5c. Higher charges rate of profit.					0.89			
5f. Fewer branches and ATM machines.					0.87			
5i. Unfavourable terms and conditions.					0.95			

5d. Higher processing and transactions cost.						0.91		
5e. Complex transactions.						0.81		
5g. Loan processing takes a longer time.						0.55		
5h. Uncooperative staff.						0.78		
6a. Variety of Islamic bank products.								0.97
6b. Aware of Islamic banks' Mudarabah scheme.								0.97
6c. Aware of Islamic banks' Musharaka scheme.								0.66
6d. Aware of Islamic banks' finance system.								0.52
6e. Aware of Islamic banks' latest offers.								0.68
6f. Islamic banks will flourish.								0.9
6g. Islamic banks are more ethical.								0.88
6i. Future engagement.								0.68
Cronbach's alpha	0.79	0.84	0.87	0.43	0.95	0.93	0.9	0.83
% Of variance	44.55	16	49	8.4	15.13	59.97	11.57	48.23
Kaiser-Meyer-Olkin	0.81		0.81		0.89		0.82	

All the average variance extracted (AVE) equal to or exceeded the minimum level of 0.50, which suggest that an adequate level of discriminant validity of the constructs has been reached (Fornell & Larcker, 1981). The sample factor means, standard deviation, correlations, and AVE are reported in Table 2.

Table 2: Mean, SD, CR, AVE and correlation.

Variable	Mean	SD	CR	AVE	1	2	3	4	5	6	7
. Attractive packages	2.763	1.050	0.87	0.69	1						

2. Ease of access	2.935	0.945	0.84	0.52	0.530**	1					
3. Preference	2.633	0.940	0.90	0.70	0.342**	0.209*	1				
4. Unappealing	3.260	1.060	0.88	0.53	0.183	0.284*	0.066	1			
5. Complexities	3.048	1.056	0.94	0.71	-0.159	0.011	-0.192	154	1		
6. Awareness	2.940	1.090	0.90	0.82	0.177	0.240*	0.04	0.687**	0.047	1	
7. Optimism	2.970	0.945	0.81	0.52	0.246*	0.196	0.310**	0.563**	0.251*	0.514**	1

Note: SD = Standard deviation, CR = Composite reliability; AVE= Average variance extracted

The study uses SEM techniques to test the hypotheses to explore interdependence relationships. We use reliable model fit indices such as χ^2 , comparative fit index (CFI), standardized root means square residual (SRMR), root mean square error of approximation (RMSEA), and p of close fit (PCLOSE), which are robust and insensitive to sample size. Model fit statistics of χ^2 , CFI, SRMR, RMSEA, PCLOSE, and degrees of freedom (d.f.), and *p*-statistic are reported in Table 3. Based on the findings of Hair et al. (2013), we can confidently affirm the model’s validity. As a result, we can proceed with examining the potential impacts of the hypothesis. The standardized path coefficient in Table 4 clearly indicates the strength of the relationships between the constructs. Based on the recommendations of Cohen (1988), path coefficients (β) that have absolute values below 0.10 may indicate a “small” effect, while those around 0.30 may indicate a “medium” effect. Coefficients with absolute values of 0.50 or more may suggest “large” effects. The results of the analyses are discussed below.

Table 3: Model fits measures

Measure	Estimate	*Threshold	Interpretation
CMIN (χ^2)	20.406	—	—
d.f.	9	—	—
CMIN/d.f.	2.267	Between 1 and 3	Excellent
CFI	0.935	>0.95	Acceptable
SRMR	0.073	<0.08	Excellent
RMSEA	0.113	<0.06	Terrible
PClose	0.057	>0.05	Excellent

* Hu and Bentler (1999)

Discussion of Results

Table 4 displays the concise and conclusive model of the connections. Initially, we examine how banks’ attractive packages impact SMEs’ choices in selecting an Islamic bank, both positively (reasons for choosing an Islamic banks) and negatively (reasons for not choosing an Islamic banks). According to the path coefficients (β), it is evident that banks’ attractive packages play a crucial role in influencing SMEs’ behavior in choosing (preference: $\beta = 0.322$; *t*_value = 2.896) and not choosing (unappealing: $\beta = 0.045$; *t*_value = 0.396; complexity: $\beta = -0.229$; *t*_value = -1.972) an Islamic bank for financing. Thus, H1a and H1b(ii) are supported; whereas H1b(i) is not supported. This suggests that banks’ attractive packages positively influence banks’ customers to prefer an Islamic bank. In addition, customers find banks’ offerings attractive, they find Islamic banking system not complex. On the other hand, banks’ attractive packages do not change customers perception about unattractiveness of Islamic banks.

Second, we test the hypotheses H2a, H2b(i) and H2b(ii). These hypotheses investigate the effect of banks’

ease of access on positive attributes (selecting an Islamic bank) and negative attributes (not selecting an Islamic bank) of Islamic banks' customers. Our SEM analysis shows that the ease of access to banking facilities reduces customers' perception about the complexity of Islamic banks. Hence hypothesis H2b(i) is accepted ($\beta = 0.260$; $t_value = 2.294$). However, the results do not support favorable (H2a: $\beta = 0.038$; $t_value = 0.342$) and one of the unfavorable hypotheses [(H2b(ii): complexity: $\beta = 0.132$; $t_value = 1.137$)] of Islamic banks. Hence, H2a, and H2b(ii) are rejected.

Table 4 SEM results

Hypothesis	Independent variable	Dependent variable	Estimate (β)	t_value	P_value	Results
H1a	Attractive packages	Preference	0.322	2.896	0.004	<0.01
H1b(i)	Attractive packages	Unappealing	0.045	0.396	0.692	NS
H1b(ii)	Attractive packages	Complexity	-0.229	-1.972	0.049	<0.05
H2a	Ease of access	Preference	0.038	0.342	0.733	NS
H2b(i)	Ease of access	Unappealing	0.260	2.294	0.022	<0.05
H2b(ii)	Ease of access	Complexity	0.132	1.137	0.256	NS
H3a	Unappealing	Awareness	0.691	9.559	***	<0.01
H3b	Complexity	Awareness	-0.060	-0.826	0.409	NS
H4	Preference	Optimism	0.275	3.602	***	<0.01
H5	Unappealing	Optimism	0.375	3.555	***	<0.01
H6	Awareness	Optimism	0.246	2.332	0.020	<0.05

** $p < 0.01$

*** $p < 0.001$

Third, we examine the negative features of Islamic banks on customers awareness. As the results presented in Table 4 show, the impact of unappealing characteristics of Islamic banking products on awareness (H3a: $\beta = 0.691$; $t_value = 9.559$) is significant at 1% level of significance. Hence, H3a is supported. This suggests that Omani SMEs are aware of the unfavorable financing packages of Islamic banks. In other words, business owners are familiar with the terms and conditions of Islamic financing schemes. However, the coefficient of the impact of the complexity of Islamic banking activities on awareness turns negative, implying that the complex nature of Islamic banks reduces the level of customers' awareness; however, the coefficient is statistically not significant ($\beta = -0.060$; $t_value = -0.826$). Therefore, we reject H3b. This implies that the complex characteristics of Islamic banks do not have any significant effect on customers awareness.

Finally, we examine the effect of SMEs' preference (H4), unappealing features (H5), and awareness (H6) of Islamic banking products on customers' optimism about the future of Islamic banking in Oman. Our investigation of the path coefficient shows that positive perceptions of preference ($\beta = 0.275$; $t_value = 3.602$) and awareness ($\beta = 0.246$; $t_value = 2.332$) influence people's optimism about the future of Islamic banking. Consequently, H4 and H6 are accepted. In other words, SMEs which are aware about Islamic banking products and prefer to choose Islamic banks for financing believe that Islamic banks in Oman will thrive in the future. However, the unappealing aspects of Islamic banks affect customers' optimism towards Islamic banks (H5: $\beta = 0.375$; $t_value = 3.555$). This result is little contrary to the common perception; but it can be explained by the fact that those who think Islamic banking is complex may not understand the system adequately. However, they may have a common perception that Islamic banking, being new in Oman, is likely to flourish in the future.

CONCLUSION

Major findings

From our analysis of data using structural equation modeling (SEM), we have the following key findings: first, banks' attractive packages such as favorable terms and conditions on loans and investment, lower processing fees, and time, and easy access to banks including the availability of e-banking facilities are found to positively affect customers preference for a bank. When Islamic banks are equipped with such features, customers feel that the complexity of transactions is less for this type of bank. Second, the unappealing features of banks, such as Islamic banks are not pure Shariah-compliant or charges higher fees, and take longer time for processing transactions etc., keep customers unaware about Islamic banks. Third, those who prefer Islamic banks over conventional banks, and those who are aware about Islamic banks, are very optimistic about the prospects of Islamic banks in Oman. They believe that Islamic banks are likely to thrive in Oman in the future.

Policy implications

Based on the above findings, the research offers some important policy recommendations which are as follows: first, the religion of Oman is Islam. Hence, people who are interested to engage with banks for business transactions prefer Islamic banks. Since Oman is committed to uphold the Islamic culture and values, it must promote Islamic banking. In so doing, regulatory authority can arrange policies conducive for Islamic banks. We should note that the conventional banking system in Oman has a comparatively long history which provides it with rich experience to thrive. In comparison, Islamic banking system in the country is young and needs support from the regulatory authority. Hence, regulatory authority should devise policies conducive for Islamic banks. Second, regardless of Banks's business orientation (conventional or Islamic), customers prefer e-banking platforms. This gives a clear indication that banks in Oman must not lag adopting technology (fintech) in the financial institutions. Omani banks must adopt necessary technology for providing customers with the state-of-the-art services. However, what kind of financial technology is more demanding to the customers is an empirical question which needs further research. Third, customers tend to choose Islamic banks because such banking system reflects their religious belief. Hence, Islamic banks must respect customers belief and expectation by complying with required Shariah norms. To achieve this objective, Islamic banks can appoint reputed Shariah scholars in the Shariah supervisory board, which ensures compliance of a bank with Shariah.

It has been further found through the survey that customers perceive a bright prospect for Islamic banks. However, most customers have pointed out that they are not much aware about the Islamic banking products and services. Hence, Islamic banks should create an awareness among the community about the existence of Islamic banks and their distinct products. In so doing, Islamic banks can arrange marketing campaign in which their distinctive features are significantly highlighted. Since many respondents expressed their willingness to switch to Islamic banks, it may create an opportunity for Sahirah based financial service providers to tap those potential customers. In so doing, Islamic banks may consider increasing bank's technical facilities including installing more ATMs in convenient places, which customers consider an important determinant of choosing a bank.

Future Research Agenda

This research focuses on data collected only from the governorate of Muscat in Oman and limited only to 106 samples. Future research may include more samples from other governorates. This would provide more generalizable results. In addition, data from other segments such as corporate, general customers can provide more insights about the perceptions of corporate or general customers about banks as well as Islamic banks in Oman. Moreover, more countries can be included in the future research to obtain a comparative insight about similarities and differences among and between countries regarding SMEs'

perception about Islamic banks. In partiture, GCC countries which share almost homogenous socio-cultural attributes can cast some important lights about respondents' perception about the future of Islamic banks in the region.

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