

Owner/Managers' External Financing Used and Preference towards Islamic Banking

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Abstract : Economic development and growth are significantly linked to the consistent and sustainable sector of small and medium enterprises (SMEs). Banks are the frontrunners in financing and advising SMEs. The main objective of the study is to assess the tendency of SMEs to use the Islamic bank. Model was developed using quantitative method with a hypothetical-deductive testing approach. Model (N = 364) used primary data on the tendency of SMEs to use Islamic banks gathered from questionnaire. It is found by Mann-Whitney test that the tendency to use Islamic bank varies between those firms which consider formal financing with the ones relying on informal financing with the latter tends more to use Islamic bank. This study can serve academic researchers, policy makers, and developing countries as a model of SMEs' desirability to Islamic banking.

Keywords : formal financing, informal financing, Islamic bank, SMEs

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